National disabilityinsurance Agency

EC15-000324

Bruce Bonyhady AM
Chairman

22 July 2015

The Hon Mal Brough MP
Chair
Parliamentary Joint Standing Committee on the
National Disability Insurance Scheme
Parliament House
CANBERRA ACT 2600

Dear Chair

As you are aware, the National Disability Insurance Agency (NDIA) provided the Committee with a comparative table of the differences between the NDIS trial in the Perth Hills and the My Way trial on 4 June 2015 following the Committee's public hearing there in April 2015.

During Budget Estimates, the Senate Community Affairs Committee asked questions about the differences between the two trials which led to the NDIA being asked to provide a copy of the comparative table to the Senate Committee on notice. To ensure the table is as comprehensive and useful as possible, I asked the NDIA to include some additions that have recently become apparent to me. To avoid any confusion, please see the updated document at Attachment A.

In reading the table, I would like to reiterate the following three key messages in relation to the trial in Western Australia (WA):

Firstly, people with disability, their families and carers are at the centre of the National Disability Insurance Scheme (NDIS) and so what is best for them should determine what happens in WA, not the consequences for government departments or agencies or service providers. There also needs to be a strong evidence base for the decision – this is too big a decision to be rushed. If additional time or data is needed to properly assess the two approaches, this would not hold up expansion of the NDIS in WA, as the current comparative approach could be readily widened.

Secondly, the NDIS is a new way of structuring and delivering disability supports and the principles of insurance, and choice and control must be central to its design and operations. This is reflected in the legislation and necessitates that the Scheme Actuary's role is built into the daily operations, the insurance prudential governance cycle must be implemented effectively and that NDIS governance arrangements are designed to ensure the long term sustainability of the Scheme.

And finally, the NDIS represents a once-in-a-generation opportunity to create a world-class Scheme for all Australians. There must therefore be a deep and ongoing commitment to learning as well as building and an openness to ideas and best practice from all parts of Australia and internationally, and this commitment to best practice must extend beyond the immediate trial period to transition and full Scheme.

National Disability Insurance Agency
GPO Box 700
Canberra ACT 2601

T: (03) 5273 1486
E: bruce.bonyhady@ndis.gov.au

With this in mind, I also thought it would be helpful to provide you with a copy of the Insurance Principles in-confidence to demonstrate the original work the NDIA is undertaking (Attachment B).

Finally, also in-confidence, I have also enclosed the NDIA's Outcomes Framework and Reference Packages material so that the Committee has a complete picture of the body of work underway by the Agency (Attachment C). Please note that these documents are still in the process of being developed and finalised. As a result, there are some minor differences between some of the details in this presentation and the detailed questionnaires in the Outcomes Framework, which I understand have been previously forwarded to you by the Assistant Minister for Social Services, Senator the Hon Mitch Fifield.

I trust that this information will be useful to the Committee.

Yours sincerely

Encl.
Attachment A – NDIS WA My Way and NDIS Perth Hills: Points of Similarity and Difference
Attachment B – NDIS Insurance Principles
Attachment C – Outcomes Framework and Reference Packages material

Attachment A

NDIS WA My Way and NDIS Perth Hills: Points of Similarity and Difference

NDIS My Way Features Unless otherwise stated, information relating to My Way features is derived from statements made by My Way representatives at the Joint Standing Committee public hearing at Midland Town Hall on 9 April 2015 (as recorded in Hansard).	NDIS Perth Hills Features Information relating to Perth Hills features is provided by the Trial Site Manager.
Model – Structural and Operational The My Way model is built on over 20 years' experience of implementing LAC and My Way models in WA. The My Way model has two components: Structural and Operational	Perth Hills trial site Model The Perth Hills model is one of a number of models being trialled around Australia to determine the best features to include in the full Scheme rollout of the NDIS. A number of features were informed by previous approaches used in WA. The approach continues to evolve in response to identified participant, provider, community and mainstream issues and gaps identified during the trial period. The NDIS is an insurance scheme based on insurance principles. This means there is an investment made over a lifetime and this includes capacity building and early intervention as a focus.
Structural Elements – NDIS My Way Prices lie within a pricing band developed in consultation with providers as part of WA state reform prior to the introduction of NDIS.	NDIS Perth Hills – response Interim prices are fixed during the trial period. It is expected that they will transition to market prices as the NDIS matures.
Prices are slightly more generous than those of the NDIS Perth Hills.	Perth Hills prices are based on South Australian prices – it is not possible for the NDIA to comment on the extent to which pricing differs.
Providers are paid quarterly in advance.	Providers make a claim after providing a service and are paid within 24 hours. Participants who self-manage all or part of their plan will be paid one month in advance directly into their bank accounts.

The average package costs are believed to be lower (than the Perth Hills) as participants do not use as many funded services.	Information from the respective Quarter 3 reports show average package costs of $24,508 for My Way compared to $33,657 for the NDIS. Caution is advised on this data as there are differences in the demographics of the Perth Hills and the My Way trial sites which may contribute to cost variations. My Way participants were transitioned with their current July 2014 plans and since review within the NDIS framework additional supports have been provided and the average package cost has increased. Progressive inclusion of in-kind supports is also likely to impact on total costs for some plans.
Around 30 per cent of plans are in the self-managed domain.	The NDIA has a strong focus on capacity building and for many people this involves additional services to assess and provide recommendations for increasing independence and community inclusion. The purpose is to improve outcomes and decrease long term cost. This is a likely contributor to NDIS plans having more funded services in first plans. Quarter 3 data shows self-management and a combination of self and agency management has increased from 26 per cent to 33 per cent
Technical support is provided to people who self-manage.	Participants who wish to self-manage are invited to one or more of a suite of information sessions.
WA’s Individualised Services (WAiS) have developed self-management tools.	Participants who need ongoing support to self-manage can be funded to access accounting and HR advice through their plan. WAiS are a valued source of information. The NDIA is about to release a suite of detailed guides containing information and links to assist self-management.

Operational Elements – NDIS My Way My Way Coordinators: Provide a single point of contact to participants as they develop, implement and review plans.	NDIS Perth Hills – Response Planning and Support Coordinators (PSCs) provide a single point of contact as participants develop, implement and review plans. Depending on participant need, extent of informal supports and personal capacity, the PSC role can be complemented by a range of supports funded within a plan including: • Support Connection and Support Coordination services; • mentoring; and • supports to assist with plan management.
Assist participants to explore informal and community supports before ‘driving them toward funded supports’.	PSCs also assist participants to explore and enhance informal, community and mainstream supports as they develop their plan.
Link participants to community and informal supports, advocate on their behalf and create networks rather than pay individualised services.	For participants who need advocacy and/or linking to community and networks, a support connector or coordinator is funded as part of the plan with emphasis on building the participant’s capacity to develop their own networks over time if possible.
Take as long as participants need to develop a plan – there is generally a longer pre-planning phase and more community linking.	PSCs generally provide between one and three sessions to develop a plan. This has been largely due to the need to meet bilateral targets within a newly developing trial site. In response to this context: Participants are strongly encouraged to attend a pre-planning information session to assist them to prepare for planning and to understand the NDIS. PSCs are able to fund Personal Futures Planning, which provides a longer and in-depth planning process for participants who have complex and changing life circumstances.
Acknowledge that some people do not need ongoing follow-up until meeting at the annual review. Others need ongoing coordination support from My Way Coordinators.	Support Coordination is available for participants who need ongoing support to coordinate the informal, community, mainstream and disability services in their life.
Respect and act on the wishes of people who need or want to access paid supports.	As for My Way.
The ratio of My Way Coordinators to participants is between 1:40 and 1:50.	During the initial phasing there is not a designated ratio for individual PSCs. As the focus shifts from plan development to implementation there is an ongoing connection with the PSC and/or the team Business Support Officer and potentially a funded Support Coordinator.

Allow providers into the planning meetings and stated they have found no evidence of provider self-interest.	As for My Way. Perth Hills also facilitates advocates and previous Local Area Coordinators (LACs) or My Way coordinators to support a participant in the planning meeting.
Review plans annually, however people can seek changes to their plan when there are significant changes in circumstances.	As for My Way.
Note that the following information was provided in public forums: participant goals are developed with My Way Coordinators the participant takes the plan to providers to develop and cost strategies the plan returns to the My Way Coordinator for final approval.	Under the NDIS, the PSC works with the participant to develop goals and strategies (informal, community, mainstream and funded) to determine the extent to which they wish to self-manage and approves the plan. An implementation pack is posted to the participant and a range of plan implementation and self-management information sessions are offered. The participant contacts and selects providers or self-managed supports. Assistance is provided if required. The PSC follows up within two weeks to check progress with plan implementation. If a support connector or coordinator is funded, the PSC meets with the participant and support coordinator to clarify roles and progress monitoring. Participants and other stakeholders receive six-weekly local news updates from the trial site.

Overall effectiveness of NDIS My Way The My Way model is showing greater effectiveness due to: the elements of the model (listed above) – in particular the strong and continual relationship with a My Way Coordinator who links people to informal supports and community NDIS My Way being built: • on a foundation of 20 years' experience of LAC and My Way; • within a state that has already introduced a high degree of individualised funding and approaches; and • within a state with sound provider relationships. Hansard page 11, Dr Chalmers: 'We have put a lot of work into Cockburn-Kwinana over the past 12 months, knowing that this was coming, to the point where we now have 600 individuals who are basically in the scheme even though formally they are not in the scheme. The majority of those people also have well-developed plans.'	NDIS Perth Hills – response Note from the comments made by Dr Chalmers in Hansard that at least one year of preparation was invested in the Cockburn-Kwinana site prior to launching including the development of plans ready to roll into the NDIS. It is understood that a similar amount of intensive lead up occurred in the Lower South West My Way trial site. This is a variable that is important to consider when considering the efficacy of the models – My Way Coordinators had a substantially longer lead up time to connect people to informal supports and community and to develop their plan. The benefit of early contact to develop community supports and offer pre planning sessions has also been very clear from all the Trial Sites and is being built into the Service Delivery Operating Model for full Scheme. While some participants in the Perth Hills trial site had a long history of contact with LACs and a more recent focus on developing plans for most people, these have not been found to have a strong focus on capacity building or the full range of reasonable and necessary supports.
NDIS My Way - Relationship with providers The relationship of NDIS My Way with providers is strong in WA due to the historical context and due to My Way features, for example My Way pays in advance rather than in arrears and service providers have direct access to the Director General of DSC.	NDIS Perth Hills – response The Perth Hills trial site also has a strong relationship with providers. Around 130 providers are registered and more will be confirmed soon. The trial site works closely with peak bodies and advocacy groups including National Disability Services, People with Disability WA, Developmental Disability WA, WA Association of Mental Health and Early Childhood Intervention Association. Regular workshops and information sessions are offered to develop sector capacity and understanding of the NDIS.

NDIS My Way - Decision-making Dr Chalmers inferred that decision-making in relation to the NDIS Perth Hills Trial Site is centralised. He stated – ‘I do not think we would ever welcome a scheme where we were having to defer important decisions to thousands of kilometres away’. ‘Service providers have access to me. Individuals and families have access to me if they want it. So local decision-making at individual plan level, right the way through to more fundamental things that are happening within a community, still rests within our system here. We do not have to defer to the east for micro, middle level or major level issues’.	NDIS Perth Hills – response Trial site Manager, Marita Walker, responded – ‘I welcome the opportunity to say a bit about where decisions are made. In terms of our administration and decision-making about reasonable and necessary supports for individuals here in WA, all of those decisions are delegated here to WA. None is referred elsewhere. So, if there is a decision about someone who is unhappy with the reasonable and necessary decision, that internal review is our responsibility. Of course, if people are still unhappy then the next step is the AAT. For decisions in relation to matters of the scheme as a whole, in terms of pricing, I do not have that delegation. It is a national scheme and there is a national area of responsibility to do that.’
NDIS My Way - Evaluation of NDIS My Way and Perth Hills The WA evaluation of the two trial sites will determine the features of the most appropriate model for WA’s future.	NDIS Perth Hills - response The WA evaluation will be considering the features of the NDIA trial at a particular point in time; however, as trial lessons are learnt both locally and nationally changes are being made to processes and practices. The Service Delivery Operating Model currently being developed by the NDIA will incorporate these lessons. In addition, the implementation of the Information, Linkages and Capacity Building policy currently being finalised for full Scheme will be of benefit to many people who need different or periodic types of support models.

National Disability Insurance Scheme

Insurance Principles and Financial Sustainability Manual

Version 3, January 2015

Introductory comments by the Chair

Introduction

Comments from the chair regarding the commitment to Insurance Principles and Prudential Governance of the NDIS

Contents

1 Concepts of insurance principles and sustainability for the NDIS

1.1 Introduction

The NDIS Act provides that the objects of the Act are to be achieved by "adopting an insurance-based approach, informed by actuarial analysis" (subsection 3(2)(b)), and the NDIS 2013-2016 Strategic Plan has as its 2nd Goal: "The NDIS is financially sustainable and is governed using insurance principles".

The purpose of this paper is to provide guidance to the NDIA Board in this regard.

This paper is intended to facilitate agreement by the Board about what it means to "adopt an insurance-based approach, informed by actuarial analysis", so as to provide the best opportunity for the NDIS to be "financially sustainable and governed using insurance principles". It will provide the Board with a framework and a toolkit intended to enable it to monitor the extent to which the NDIA is, indeed, adopting an insurance-based approach, and to report on financial sustainability.

This paper will also assist the Board to define what is meant by "financially sustainable", over the short, medium and long term using a process of continual learning, recalibration and improvement.

1.2 Relevant associated reports

The notions of insurance principles and financial sustainability must also be considered within the overall strategic plan of the NDIS and its risk management framework. These documents can be accessed at the following links:

Include links to the Strategic Plan, the Risk Management Framework and the Risk Tolerance paper.

1.3 Structure of this manual

The paper is structured as follows:

1. brief discussion of the relationship between insurance and the NDIS
2. more detailed focus on the basic activity of the NDIS – in insurance terms, this activity can crudely be thought of as "a control cycle approach to claims management and outcomes"
3. description and discussion of relevant metrics that should be available to the Board to support its oversight of the Agency, and to indicate "sustainability", and
4. statement of "insurance principles" for consideration by the Board.

The attachments to this paper will provide the toolkit required to implement an insurance-based approach in governing the NDIS, informed by actuarial analysis.

1.4 Insurance and the NDIS

It is worth looking at the relationship between insurance and the NDIS from three perspectives:

a. financial claim cost dynamics

b. financial risk management, and

c. participant outcomes.

1.4.1 Financial claim cost dynamics

1.4.1.1 Insurance

In an insurance system, the unit of management is a “claim” under a contract of insurance, on the occurrence of a rare and usually costly event. Any valid claim must be satisfied - usually by a lump sum payment. The insurer guarantees that valid claims will be satisfied regardless of the size or number of claims that emerge or the ‘budget’ that the insurer might have in mind or might have collected in premium revenue.

Insurers therefore face significant financial risks which must be managed. For example, it is not open to an insurer to deny a claim or to only partially satisfy a claim on the basis that the cost is more than it was expecting to pay.

More generally, an insurer cannot know the cost of the claims it will have to pay in the year ahead with certainty. It can only estimate this cost in advance.

Insurers go to great lengths to try to estimate the cost of claims in advance.

1.4.1.2 Traditional disability support systems

In disability support the “unit of management” is any person with a disability, but there is no contract of insurance. Historically, state disability support programs have resulted in unmet disability support need because they have been underfunded to meet the support needs of all people who might require support. These disability systems have been able to deny support, or only partially satisfy disability support needs, on the basis that the cost is more than can be afforded under their (annual capped) budget.

As a result, state disability systems have enjoyed certainty over their costs. Thus, their costs are simply limited to the budget that they have been provided with. There has been little need, if any, for disability systems to seek to estimate the costs that they would incur if they sought to meet all need. That is, there has been little need for state disability systems to try to estimate the level of aggregate demand for disability support services.

However, compared to insurance, many “units of management” are unfulfilled or only partially fulfilled. This has led to significant social and economic cost.

1.4.1.3 NDIS

In the NDIS the unit of management is any person with a disability as with traditional disability support systems. However, unlike traditional disability support systems the NDIS Act commits, for the first time, to the provision of reasonable and necessary supports, including early intervention supports, to all eligible participants (NDIS Act, Section 3(1)(d)). Eligible participants of the NDIS are defined in sections 21 to 25, and a set of conditions that must be satisfied in order for a support to be deemed “reasonable and necessary” is provided in section 34. It is also intended that the available funding will “..assist people with a disability to participate in economic and social life. (Section 8).

The NDIS shares certain components with both traditional disability support systems and also insurance. Importantly, unlike traditional disability systems, it is not open to the NDIA to refuse to fund reasonable and necessary supports for a participant who has been found to be eligible on the basis that the ‘budget has been exhausted’. The NDIS, therefore, faces significant financial risks in the same way that an insurer does and these risks must be managed. Indeed, the NDIS Act explicitly requires the Agency to manage the financial risk that goes with a regime under which any valid claim has to be satisfied.

However the NDIS is still concerned with people rather than claims, and outcomes as well as financial result.

1.4.2 Financial risk management

The discussion above highlights that, like an insurer, the NDIA has to manage the financial risk that goes with the commitment to satisfy any valid claim for reasonable and necessary support, regardless of the number or size of claims that might emerge.

It is interesting to consider the tools available to insurers to manage these risks and then to compare them with the tools available to the NDIS.

Table 1 below considers a number of financial risk management tools available to insurers.

TABLE 1 FINANCIAL RISK MANAGEMENT TOOLKIT

Financial risk management toolkit		
Tool	**Insurer**	**NDIS**
Set premiums	An insurer can set premiums which include allowance to cover the expected cost of claims plus the costs of administration plus a margin for risk/profit. That is, an insurer exercises a degree of control over the amount of funding that it has available to pay claims, using actuarial analysis of past years' claims experience.	The NDIA does not determine its own funding envelope. Rather, it relies on PAYG funding from contributing governments. It will be important that the funding arrangements contain mechanisms which deal with the inevitable uncertainty that goes with an uncapped entitlement system. Although the NDIA does not determine the funding envelope it will be essential that it contributes to the funding envelope decisions, using actuarial analysis of the best available data on reasonable and necessary support need.
Policy wordings	An insurer will sell tightly worded policies. These policies are intended to set out as unambiguously as possible the circumstances in which an insurer will and won't satisfy a claim and the amounts that it will and won't pay.	The NDIS Act sets out the eligibility criteria for participants. It also specifies that the NDIS will fund 'reasonable and necessary' supports that are not best funded by another system (e.g. health system). Together, these provide a broad parallel to an insurer policy wording.
Reinsurance arrangements	An insurer may hedge some of its financial risk exposures by purchasing reinsurance. Statutory government insurance schemes are less likely to purchase reinsurance, given the existence of their implied government guarantee.	It will not be open to the NDIA to purchase reinsurance.
Underwriting	An insurer will typically decide whether or not to accept a proposal for insurance. That is, it is typically open to an insurer to refuse to accept (or to conditionally accept) a proposal from someone for insurance. For some insurances (e.g. CTP and other statutory insurances) this is not an option for a participating insurer. In these circumstances the insurer must accept anybody for insurance.	This financial risk management tool will not be available to the NDIS. The NDIS will be more like a statutory government accident compensation insurer in this respect. However, as in accident compensation, activities similar to underwriting may be necessary in defining those participants and supports which are best funded by another system.

Financial risk management toolkit		
Tool	**Insurer**	**NDIS**
Reserving	An insurer is required to set aside money to pay for claims that have not yet been finalised. Some insurance claims (e.g. accident compensation claims) can take many years to finalise. As a result, the necessary reserves can be a significant multiple of annual claims payments. To assist with management of the associated financial risk, insurers are required to 'reserve conservatively'. That is, enough money has to be set aside to ensure substantially more than a break-even chance that the insurer will be able to meet the cost of the underlying claims – effectively a risk margin (or buffer) is included in the reserve.	The NDIS will be generally cashflow funded. As a result there will be no or only a limited capacity to set aside reserves. However, to the extent that the NDIA is able (i.e. has enough money) to set aside reserves, then this could be a useful financial risk management tool. A cash reserve would help to deal with the volatility in the annual expenditure. It would also help contributing governments (particularly the Commonwealth government) by providing a degree of certainty over their future contribution obligations. Moreover, although the NDIS will not hold significant 'reserves ', it will be an essential tool for NDIS governance to project and monitor the expected future expenditure of current participants, a requirement of the Scheme Actuary.
Capital	An insurer is required to carry free capital reserves (over and above the reserves that it has set aside for unpaid claims) in case it needs more money to pay claims than it allowed for in its premium calculations and in its claims reserves. For statutory government insurance, this capital is notionally provided by the State.	The Commonwealth, in effect, acts as the capital provider for the NDIS under the bilateral agreements. In this respect the NDIS is similar to statutory government insurers. If more money is needed than what has been committed by contributing governments, the Commonwealth is required to meet any shortfall.
Claims management	An insurer will be careful not to accept invalid claims and to only pay as much as it is obliged to under the policy. Insurers will, however, take a 'risk management' and 'injury management' approach to claims management. This means that insurers will seek to minimise the likelihood of claims occurring and will also try to achieve the best outcome for claims, particularly in long-term portfolios such as workers compensation.	This is key for the NDIS. First, it must ensure that it only admits eligible participants. Within the trial period and lead up to full scheme participant phasing will also be important as a management tool. Second, the processes and decisions around individual packages represent the single most important financial risk management effort that the NDIS will undertake. Related to this, the NDIS must take a risk management approach to claims management. This will involve a combination of early intervention, equitable resource allocation and planning for positive and sustainable outcomes and independence.

Financial risk management toolkit		
Tool	**Insurer**	**NDIS**
Long-term view	Through the combination of reserving and claims management, insurers are taking a forward view of the sustainability of their portfolio. Both short-term and long-term investment and management is expected to provide a sustainable insurance entity.	Unlike traditional disability support systems, and more like insurers, NDIS must take a forward view of sustainability. Investment in participants and their social and economic participation and independence will support the long-term sustainability of the NDIS. More generally it will be important for the NDIS to concentrate on the long term impact of its spending and other decisions rather more than the short term impacts of its spending and other decisions.
Control cycle approach	Analysis of the emerging claims data facilitates each of: - re-estimation of the premiums that need to be charged; - reconsideration of the adequacy of policy wordings; - reconsideration of the reinsurance arrangements, claims reserve levels, and capital requirements; and - review and improvements to the claims management processes.	Analysis of the emerging claims data (participant experience data) facilitates each of: - ongoing re-estimation of the future cost of reasonable and necessary support need; - comparison of the estimated cost with the available funding envelope; - consideration of the need for cash flow volatility reserves; - reconsideration of eligibility and entitlements of the scheme; and - review and improvements to the claims management processes.
Sophisticated IT systems, data capture processes, actuarial analysis	Without these ingredients, the control cycle approach cannot be implemented effectively.	Without these ingredients, the control cycle approach cannot be implemented effectively.

Table 2 sets out the main activities that an insurer undertakes, and a “tick the box” of whether or not the NDIS needs to undertake the same activity.

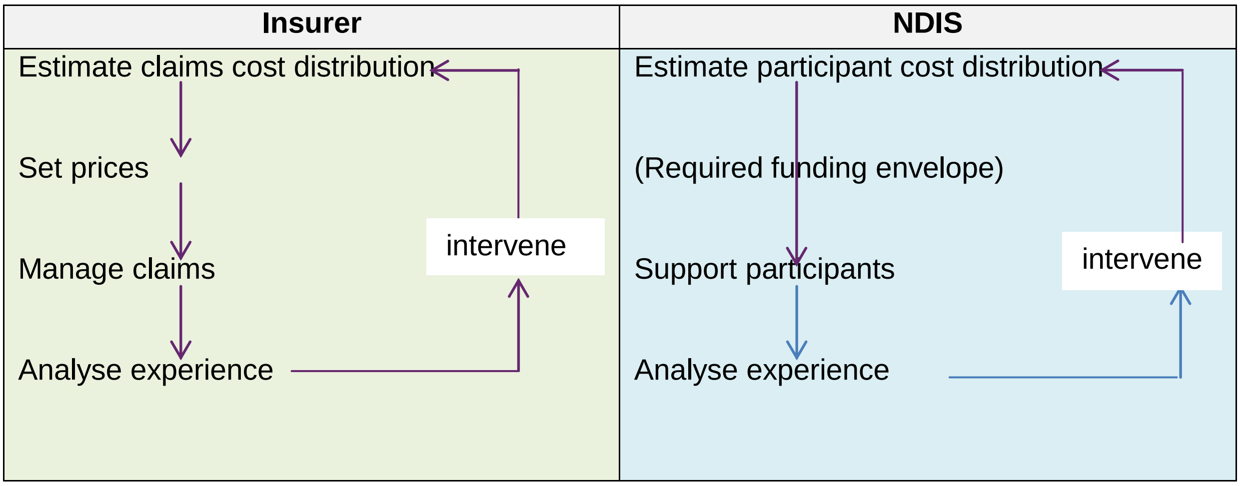
TABLE 2 INSURANCE FINANCIAL RISK MANAGEMENT ACTIVITIES

Insurer	NDIS
Develop insurance policies. In order to sell insurance, an insurer must first develop a policy document. This document sets out the circumstances under which an insurer will pay a claim and circumstances under which it won’t. It will also set out limits on the amounts that will be paid.	Contained in legislation, rules and guidelines
Estimate a claims cost distribution – how many and how big.	Yes, and NDIS is likely to have a far longer distribution
Develop a set of insurance premiums. An insurer will seek to set premiums that (in aggregate) cover the estimated cost of claims plus an allowance for expenses and profit and a premium schedule that will be competitive in the marketplace (assuming that it wants the business!)	No - but required to estimate reasonable and necessary support need to inform scheme funding decisions as well as the Agency’s resource allocation decisions
May establish a reinsurance program. An insurer may hedge some of its risk by purchasing reinsurance. In effect, the insurer is insuring some of the risk it has accepted.	No - like many government accident compensation schemes
Sell insurance policies and invest the premiums paid. Manage this asset portfolio.	No
Manage claims as they emerge. This goes to: – Working with policyholders to try to minimise claim frequency – Deciding whether or not a claim is valid (testing eligibility) – Determining the estimated amount of the claim – Working with the claimant to try to reduce the cost of the claim and improve the outcome for the claimant – Finalising the claim	Yes
Analyse the sales, claims and expense experience to determine whether profit targets have been met or whether interventions are needed (e.g. re-estimate the claims cost distribution, re-set prices, improve underwriting processes, improve claims management processes, etc.)	Claims and expense components
Analyse the outcome experience (e.g. claim frequency, return to work rates) to determine whether risk management and injury management outcome targets have been met	Yes
Set claims reserves	Notional only
Start again	Yes

Both insurers and the NDIS will adopt a control cycle operational basis. For an insurer, the control cycle approach provides feedback and therefore continuous improvement mainly to its pricing, reserving and risk/injury management systems. For the NDIS the control cycle approach provides feedback and therefore continuous improvement to its resource allocation and participant support and planning systems, to the scheme funding decisions undertaken by Governments, and to the statutory reporting requirements of the Scheme Actuary.

The diagram below compares the control cycle approach that an insurer adopts with that of the NDIS.

FIGURE 1 THE INSURANCE CONTROL CYCLE



1.4.3 Participant outcomes

A recurring theme of difference in the above comparisons of financial risk management in insurers versus the NDIS has been the nature of outcome definition. A continuum exists from private commercial insurers through statutory accident compensation schemes and onto the NDIS, with the focus on participant outcomes as an important indicator increasing along the continuum.

For example short term property insurance, like domestic home contents or motor vehicle property damage, is very focused on the efficiency and speed of claim settlement in financial terms. The claim frequency is very predictable and the claim size is relatively small. Personal injury insurance such as occurs in workers compensation or transport accident compensation also has a large majority of short-term claims for minor injury which quickly return to work or their previous status. However, in this case there is a small minority of major injuries which will take far longer to manage, and the risk that some minor injuries could become extended claims through mismanagement or other factors. Hence, in personal injury insurance there is an increasing focus on claimant outcome, injury management and psychosocial and vocational rehabilitation - these are important financial risk management activities.

In the case of the NDIS, these participant outcomes are critical components of the sustainability of the system. There is potentially a tension between financial management and participant outcomes management in cases where the participant or his/her advocate or provider argue for support which may be questionable under the “reasonable and necessary” definition. This tension is less likely to emerge where the participant experience is well-managed and leads to a mutually agreeable outcome.

Hence in the NDIS, participant outcome is a critical component of the control cycle operational framework.

1.5 Control cycle approach to participant management in the NDIS

The discussion earlier noted, somewhat crudely, that of all the activities that an insurer undertakes, claims management is perhaps the most relevant to the NDIS. But as discussed above, 'claims management' in the NDIS involves far more than claims management in a typical private insurance context. It is more like the more advanced statutory injury management insurers - NDIS participants are participants for life. They are not simply a claim to be optimised and finalised. Furthermore, while cost efficiency will be of prime importance to an insurer it will not be the sole focus of the NDIS. Rather, good participant outcomes will be an ongoing objective and, so, finding the right balance between participant outcomes and cost will be critical.

Similarly, the NDIA will need to foster an innovative and efficient disability support sector as part of its overall claims management agenda. Moreover, it will be essential that the NDIS adopts a control cycle approach to claims (participant) monitoring and outcome management.

This section explores what it means to take a control cycle approach to claims management, or participant support.

To start with, the paper will consider the risks associated with claims management in the NDIS.

1.5.1 Claims management risks

First, the application and administration of the rules of the NDIS will inevitably involve a number of subjective judgements around the level of reasonable and necessary support in any individual case. The unavoidably subjective nature of this process brings with it a high level of risk, including financial risk. This financial risk is underlined when it is borne in mind that, across the whole NDIS Tier 3 population, the value of reasonable and necessary supports could range from a few thousand dollars for some participants to hundreds of thousands of dollars for other participants. Without consistent and reasonably objective formulae for determining the amount of support to be provided for any given participant, it is clear that the level of financial risk associated with individual support package decisions is high.

Second, this risk is further exaggerated because NDIS 'claims' are long-tail in nature. As noted above, an NDIS participant is a participant for life. Therefore, claims management involves a whole time series of subjective judgements around the size of the support package to be provided in any single case, likely over many years.

Third, there is a risk that money spent to fund supports may not deliver good participant outcomes, regardless of how much is spent. That is, there is a risk that the supports might not be well targeted.

A control cycle approach to claims management seeks to manage these risks.

1.5.2 Financial sustainability

The NDIA is required, under the NDIS Act, to *"..manage, and to advise and report on, the financial sustainability of the NDIS.*." (Section 118 (1)(b)).

1.5.2.1 Financial sustainability of an insurer

First, consider the commercial insurance context.

For an insurer, financial sustainability is often taken to be largely about the balance sheet. APRA requires commercial insurers to have an adequate balance sheet (and many statutory compensation schemes voluntarily subject themselves to APRA-like financial 'discipline'). For a commercial insurer, balance sheet adequacy implies the consideration of a number of important financial sustainability factors, particularly where there are premium payers involved:

- **competition**: an insurer with an underfunded balance sheet will soon go out of business in a competitive marketplace, unless shareholders are willing to tip in extra money. This is because an insurer who tries to charge additional premium to claw back a gap in its balance sheet will find its business going elsewhere as a result of competitive pricing pressures from those insurers who don't have the funding hole. APRA's preference is not to rely on shareholder goodwill but rather to demand an adequately funded balance sheet in the first place. This is less of an issue in statutory accident compensation, where monopoly government insurers can sustain temporary under-funded balance sheets on the basis of a "government guarantee"

- **matching**: if claim expenses are funded as they are incurred and if premiums are charged in line with the risk being accepted, then the balance sheet will be properly funded. In this sense, balance sheet adequacy is a consequence of correct pricing and risk attribution. However, for completeness, it should be noted that an adequate balance sheet does not imply that each risk has been correctly priced – rather only that risk has been correctly priced in aggregate. Similarly, an adequate balance sheet does not cause correct risk pricing, rather it's a symptom of correct risk pricing in aggregate over time.

- **run-off**: an insurer can stop accepting new business and run-off its existing book if and only if its balance sheet is adequate. This is not really to do with ongoing financial sustainability, but rather financial sustainability in respect of the promises that have already been made.

- **discipline**: it has been said that the capitalisation effects (that is, the balance sheet effects) associated with changes in long run experience assumptions can rapidly and effectively focus the attention of long tail insurers like accident compensation schemes. And, as a sharp focus on financial matters is likely to be an essential ingredient of financial sustainability, this provides a further impetus for a balance sheet type approach.

For all of these reasons financial sustainability in the commercial insurance context and often in the accident compensation context is viewed, at least in part, through a balance sheet prism.

1.5.2.2 Financial sustainability of insurance applied to the NDIS

Now turn to the NDIS.

Given the requirement to adopt an insurance-based approach, and given that a balance-sheet focus is typically the prism through which a commercial insurer might consider financial sustainability, there is, at first blush, an argument that this model should be applied to the NDIS. However, a balance sheet focus might not be the most appropriate or most helpful way for the NDIA to try to assess and manage financial sustainability - or may be only part of a suite of measures which may change as the NDIS evolves over time.

First, the NDIS is and will remain funded (at least largely) on a cashflow basis. There is perhaps a possibility of a small pool of funds at some time but essentially the funding basis will continue to be PAYG. That is, the annual contributions are intended to meet the cash claims expense and not the accruing long-term future claims expenditure.

So this means that the matching and run-off considerations mentioned earlier are not directly relevant to the NDIS in financial solvency terms. Of course the notion of “run off” for the NDIS will always be a consideration in as much as there will always be a population of people with disability with significant support needs - if the NDIS were terminated, it would need to be replaced by something else.

Second, the NDIS does not operate in a competitive market, and therefore the competition benefits of an adequate balance sheet are non-existent and so not relevant in the context of a “premium marketplace”.

Third, because there are no assets, the best that could be done would be to construct a notional balance sheet – while a very artificial device, the value of retaining at least some balance sheet approach lies in embedding the “discipline” value of balance sheets in commercial and statutory insurance. In effect, a notional balance sheet would provide a running intergenerational report with respect to the NDIS future expenditure (required to be reported by the Scheme Actuary). The major problems with this approach would be the size of the liability - in the hundreds of billions of dollars for the full scheme, and so of questionable direct relevance - and the initial uncertainty of the emerging cost of reasonable and necessary support and hence required funding envelopes. This latter point could lead to initial volatility in the balance sheet caused more by the lack of a credible baseline then by actual variability in experience.

Fourthly, for the NDIS it is impossible to separate “accounting” financial sustainability from the broader outcomes and functions required of the scheme and the NDIA. These requirements distinguish the NDIS from commercial insurance operations. As we have seen in traditional disability systems, meeting a cash target does not translate to a financially sustainable scheme over the medium or long-term. Further metrics are required.

Taking all of this together, a one-dimensional financial focus appears unlikely to provide the only metric to indicate financial sustainability for the NDIS. Moreover even within the financial dimension, a balance sheet approach is likely to pose significant difficulties for scheme reporting, particularly in the early years of the scheme.

Another indicator of financial sustainability in the accident compensation context is premium stability. Rising premiums reflect rising claims costs and are taken to be an indicator that something is wrong, often suggesting the need to reduce benefits. On the other side of the equation, inadequate benefits in accident compensation may threaten scheme sustainability, and are always a major issue for debate in scheme reform. These concepts may be more useful for the NDIS in considering the balance between costs and outcomes.

1.5.2.3 Financial sustainability concepts for the NDIS

Under the NDIS Act, the NDIA has the following function (s118(1)(b)):

> "*to manage, and to advise and report on, the financial sustainability of the National Disability Insurance Scheme including by:*
>
> *(i) regularly making and assessing estimates of the current and future expenditure of the National Disability Insurance Scheme; and*
>
> *(ii) identifying and managing risks and issues relevant to the financial sustainability of the National Disability Insurance Scheme; and*
>
> *(iii) considering actuarial advice, including advice from the scheme actuary and the reviewing actuary;"*

In addition, the remainder of s118(1) legislates a range of other functions for the NDIA regarding matters such as:

- independence, social and economic participation and choice and control for people with a disability;
- the provision of high quality and innovative supports;
- the development and enhancement of the disability sector;
- the development of community awareness of disability and the social contributors the disability;
- undertaking research into disability, disability supports and social contributors to disability.

Failure to successfully undertake these functions is likely to put pressure, including financial pressure, on the scheme.

Therefore at one level, the NDIS will have satisfied its functions and the NDIS will be sustainable (including financially sustainable) provided that both participants (people with disability) and financial contributors (Governments/taxpayers) continue to believe that it is worthwhile.

The financial dimension to this is likely to involve:

- participants believe that they are getting enough money to buy enough high-quality goods and services to allow them reasonable access to life opportunities, and
- contributors think the cost is affordable, under control, represents value for money and therefore remain willing to contribute what is needed.

Three points are worth noting:

- First, both of these conditions are necessary but neither condition is sufficient in its own right to provide a sustainable NDIS. Only when both conditions are met together is sustainability unanimously agreed.
- Second, these conditions concern perceptions. And, notably, they concern the perceptions of people outside the Agency.
- Thirdly, particularly when there is conflict between these two perceptions (which could well be the default position), the financial sustainability argument will need to be supported and justified by independent outcome metrics and analysis, including future projections of “reasonable and necessary support need”.

This last point is particularly supported by the above legislation requirements relating to financial sustainability, which use language such as “assess”, “estimate”, “identify and manage”, and “actuarial advice” - and other parts of the Act, which require the NDIS to provide “reasonable and necessary” support to eligible participants.

Return, momentarily, to the accident compensation scheme context. Historically, accident compensation schemes have been reviewed when either (i) premium rates have been on the increase or have been considered too high, or (ii) there is a view that the outcomes of injured workers or motorists are being compromised by overly restrictive benefits. In this regard, there is no absolute value (for premiums) which means they are considered too high or too low. Rather, it is about perception, supported by evidence. That is, at least one set of stakeholders has perceived costs or outcomes to be unsustainable and demanded action.

In the context of competitive commercial insurance or statutory accident compensation these discussions are assisted by, respectively, the marketplace or premium levels in other jurisdictions which allow benchmarking. For the NDIS no such marketplace or benchmarks exist in Australia, and so the level of funding and metrics of outcomes need to be considered using other parameters to be developed and agreed.

Moreover, if financial sustainability is, indeed, a function of the perceptions of people outside the Agency, then it follows that, since the Agency cannot control the perceptions of others, it cannot guarantee financial sustainability. And, indeed, the Agency is not required to guarantee financial sustainability, rather to manage it and report on it.

Taking the discussion above together, it is suggested that the management of financial sustainability is likely to involve the support and management of perceptions and attitudes. That is, in seeking to manage financial sustainability, the Agency should be seeking to influence the perceptions of both participants and contributors (including broader community attitudes), through evidence of independence, outcomes and social participation, and both the immediate and longer term financial outlook of the scheme.

In other words, if the hypothesis above is reasonable, the Agency, as part of its financial sustainability management effort, will be responsible for simultaneously seeking to maximise the likelihood that:

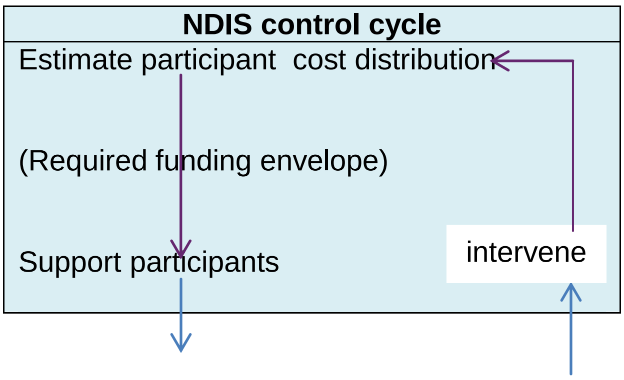
- the scheme is successful on the balance of objective measures and projections of economic and social participation and independence, and on participants' views that they are getting enough money to buy enough high-quality goods and services to allow them reasonable access to life opportunities - that is, reasonable and necessary support; and
- contributors think that the cost is and will continue to be affordable, under control, represents value for money and, therefore, remain willing to contribute.

This, indeed, could form the basis of the NDIA's financial sustainability mission statement.

1.5.3 The claims management control cycle in the NDIS

Against that background, it is now possible to explore what is involved in taking a control cycle approach to claims management in the NDIS.

Earlier, the control cycle approach for the NDIS was summarised in the following diagram.



Analyse experience

This section seeks to unpack that simple diagram.

1.5.3.1 Estimate participant cost distribution

This step involves preparing estimates of:

i. the distribution of package costs among the Tier 3 population

ii. the distribution of medium and long term cost among the Tier 3 population, and

iii. the distribution of medium and long-term cost among new entrants to the Tier 3 population.

The idea is to try to disaggregate the Tier 3 population into homogeneous subgroups where each person in a subgroup is expected to have a similar a priori package cost (although there will inevitably be a distribution within each subgroup) but where, at the same time, the subgroups are big enough to have some statistical credibility.

The Productivity Commission (PC) developed a number of subgroups in order to do its initial costings: 48 so-called daily needs subgroups (24 adult subgroups and 24 children subgroups), 8 so-called self-management subgroups, 8 so-called early intervention subgroups and 4 psychiatric disability subgroups. Further work has been done on so-called “reference groups” by the Scheme Actuary, building on this initial calibration.

In due course, the categorisation to be used for the scheme proper will be more sophisticated than the high level approach (necessarily) taken to date and is likely to involve subgrouping by at least:

- disability type
- age, and
- severity of disability, as determined by diagnostic classification and level of functional support need.

As evidence emerges, further refinement within reference groups may reflect differences in:

- geographical location
- residential arrangements
- availability of informal support, and

- other predictors of support need yet to be determined (such as “independence”, or “distance from an ordinary life”).

The objective will be to achieve a resource allocation framework which (i) provides relative equity between participants based on the above characteristics, and (ii) provides a level of support which sits within a sustainable funding envelope. In turn the NDIS Act requirement for the NDIS to provide reasonable and necessary support will need this to be estimated by the Scheme Actuary and meet an agreed outcome framework.

1.5.3.2 Required funding envelope

While the NDIA does not set the funding envelope, there is a strong argument that the emerging aggregate annual cost of reasonable and necessary support, as estimated by the Scheme Actuary, should form the basis for this funding envelope, together with certain additional costs of the NDIS focusing on participant outcomes and support, discussed below[1]. The total cost of reasonable and necessary support can be determined by the estimated participant cost distribution and the estimated number of participants in each subgroup.

It will be a component of the control cycle approach to iteratively refine the estimate of both of these parameters.

1.5.3.3 Support participants

This involves:

- determining eligibility
- initial support package determination using reference package tool indications
- planning and final support decision taking into account: individual support needs, availability of informal support
- assisting with coordination of and access to supports
- monitoring expenditure (support usage)
- monitoring participant outcomes (social, economic, independence)
- monitoring inhibitors to successful outcomes, including community support and the availability and use of mainstream services, and
- tweaking /adjusting the support package in light of that (micro-level) monitoring.

[1] Refer to the section below headed “Tier 2 and additional components of cost”

1.5.3.4 Analyse experience and review as necessary

While reviews will be made to individual participant support packages as a result of monitoring (that same) participant experience, actuarial analysis of the whole scheme's emerging experience will provide management with a 'helicopter view' of scheme progress. The aim will be to identify and understand the reasons for:

- pockets of superior outcome performance with a view to sharing lessons learnt with the rest of the scheme
- pockets of substandard outcome performance with a view to taking remedial (claims management) action where necessary
- movements in either direction across the boundary of Tier 2/Tier 3, which could influence the ultimate size of the eligible target population
- the relationship between global outcome performance for people with a disability across all dimensions, the scheme outcome framework, and the Scheme Actuary's estimate of aggregate "reasonable and necessary" cost and future expenditure; and to
- inform the NDIA's communications with stakeholders, and
- recalibrate expectations around the target population size and characteristics, package cost distributions, participant outcomes and scheme performance (ie re-estimate the claims cost distribution)

1.5.3.5 Re-estimate global "reasonable and necessary support need"

The scheme actuary will use all of this experience to generate a financial sustainability report containing the aggregate estimate and future projections of reasonable and necessary support need, and its volatility, which should inform required forward funding envelopes.

1.5.3.6 Tier 2 and Additional Components of Cost

In keeping with the requirement for early intervention, it is sound financial management practice for the NDIS to invest in activities which will minimise the long-term cost of the scheme. This is also in keeping with the NDIS 2013-2016 Strategic Plan.

Therefore in addition to the individual package costs of Tier 3 participants, the NDIA will be required to fund other components of its functions, including those of providing:

- independence, social and economic participation and choice and control for people with a disability;
- the provision of high quality and innovative supports;

- the development and enhancement of the disability sector;
- the development of community awareness of disability and the social contributors the disability;
- undertaking research into disability, disability supports and social contributors to disability.

These functions imply an investment in broader enhancement of community disability awareness and the social and economic outcomes of people with disability. They also require NDIA to undertake research and to support the development of the disability sector and the supports it provides.

Investment in community and mainstream support and infrastructure for the Tier 2 population of people with a disability not currently requiring an individual support package within Tier 3 provides an additional risk management approach to protecting the more costly Tier 3 individual support packages.

Finally, the operational budget of the NDIA must also be accounted for within the overall funding envelope and is a critical component of the financial sustainability objective.

2 Monitoring and Reporting on Financial Sustainability

The above discussion provides the building blocks for a Board consideration of the concept of "financial sustainability", and the processes and metrics which should be available to the Board to facilitate its monitoring, management and reporting. In particular, it is suggested that financial sustainability can be achieved only if all of the functions of the NDIA are successfully implemented.

2.1 Definition of "financial sustainability"

It is proposed that ***Financial Sustainability*** in the NDIS be defined as a state where:

- the scheme is successful on the balance of objective measures and projections of economic and social participation and independence, and on participants' views that they are getting enough money to buy enough goods and services to allow them reasonable access to life opportunities - that is, reasonable and necessary support.; and
- contributors think that the cost is and will continue to be affordable, under control, represents value for money and, therefore, remain willing to contribute.

2.2 Monitoring financial sustainability - the Prudential governance framework

In order for the Board to meet its obligations under s118 (1)(b) of the NDIS Act, it is proposed that financial sustainability as defined above is monitored and reported using the following **Prudential Governance Framework.** Each component of this framework requires specific operational support, and these are articulated in the attachment to this paper, together with linkages to the NDIS 2013-2016 Strategic Plan**:**

1. The NDIA will have access to a *person centred longitudinal database* of all NDIS participants, and where necessary supplementary linked data sources, containing sufficient information to:

i. provide NDIA operational staff with real-time comprehensive data and information on participant utilisation, cost of supports and participant outcomes, and

ii. provide the necessary information for the Scheme Actuary to develop reports on quarterly experience, future expenditure and financial sustainability (as defined above).

2. In addition to the emerging experience contained on the NDIA longitudinal database, and in order to support the development of capacity and expertise across the network of NDIA, scheme participants and their support networks, the NDIA will invest in *early investment*, *research, innovation and the development of social capital* across Tiers 2 and 3 of the NDIS.

3. Using its longitudinal database and other necessary data sources and research outcomes, the NDIA will develop an *actuarial monitoring framework* appropriate to the description and estimation of participation of Tier 2 and Tier 3 target populations, support utilisation and cost, and continuous evaluation of Tier 2 and Tier 3 participant outcomes in terms of economic and social participation and independence.

4. The NDIA and its Scheme Actuary will develop a hierarchical needs-based *resource allocation framework* to provide each NDIS participant with a package of individual support appropriate to that person's particular current and expected future support needs, and within the framework of aggregate reasonable and necessary support.

5. NDIA operational staff and contracted providers including local area coordinators, disability support organisations and support providers will endeavour to assist scheme participants to aspire to and achieve the *most positive outcomes* in terms of future economic and social participation and independence, within a reasonable and necessary resource allocation appropriate to each participant.

6. On the advice of the Scheme Actuary’s interpretation and valuation of emerging monitoring experience as presented in the financial sustainability report, the NDIA Board will annually report the *estimated annual cost of support* for NDIS participants, the expected future trends in the estimated cost, the projected long-term financial outcomes of the scheme and the inherent uncertainty and volatility in those estimates.

7. Based on these assessments, the NDIA Board will annually *assess and report on scheme financial sustainability* based on:

i. participant outcomes in terms of economic and social participation and independence, and participant perception that they are getting enough money to purchase enough goods and services; and

ii. affordability, value for money, and willingness of contributors to continue support as defined by the available funding envelope.

8. On the basis of this assessment, where necessary the NDIA Board will *manage scheme sustainability* using actions which may include process redesign or improvement, realignment of support expectations, community support and development or proposals for legislative change with respect to support entitlements, scope of available supports or the eligible population.

9. The insurance control cycle will then require recalibration expectations and database requirements and return to steps 1 and 2 of this cycle.

The practical requirements and application of each of these nine steps is discussed in chapters 3 to 11 of this manual.

2.3 Insurance principles of the NDIS

In turn, this framework suggests the following *Insurance Principles*, which provides alignment with the NDIS 2013-2016 Strategic Plan:

1. The aggregate annual funding requirement will be estimated by the Scheme Actuary's analysis of reasonable and necessary support need, including a buffer for cash flow volatility and uncertainty. The aggregate funding requirement will comprise equitable resource allocation at an individual and subgroup level, and will be continually tested against emerging experience. This will require a comprehensive longitudinal database.

2. The NDIS will focus on lifetime value for scheme participants, and will seek to maximise opportunities for independence, and social & economic participation with the most cost-effective allocation of resources. This will align the objectives of the NDIS with those of participants and their families.

3. The NDIS will invest in research and innovation to support its long term approach and objective of social and economic participation, and independence and self-management, for participants.

4. The NDIS will support the development of community capability and social capital so as to provide an efficient, outcomes-focused operational framework and local area coordination and a support sector which provides a high quality service and respects participant social and economic participation and independence.

The NDIS insurance principles will be governed by the NDIA Board within a prudential framework to assess, monitor, report and manage scheme sustainability.

3 Longitudinal database (PGF1)

The requirement for an adequate longitudinal system of plan management and reporting, and data capture on participants' support utilisation, costs and outcomes is a fundamental part of the first NDIS insurance principle, and is articulated in Step 1 of the NDIS Prudential governance framework:

> *The NDIA will have access to <u>a person centred longitudinal database</u> of all NDIS participants, and where necessary supplementary linked data sources, containing sufficient information to:*
>
> - *provide NDIA operational staff with real-time comprehensive data and information on participant utilisation, cost of supports and participants outcomes; and*
> - *provide the necessary information for the Scheme Actuary to develop reports on quarterly experience, future expenditure and financial sustainability*

<u>Current status:</u>

The current Seibel ICT platform is not fit for purpose to satisfy the reporting and management requirements of the NDIA. An ICT strategy is in the process of development under the direction of the Chief Financial Officer, and a consultant has been engaged to assist in this development and the building of specifications and requirements for an appropriate ICT system.

A board sub-committee has been established to engage with these developments and includes NDIA Board representation, together with appropriate expertise from NDIA operations, design, governance, communications and the Scheme Actuary.

Significant investment will be required to satisfy the NDIA requirements, as envisaged in the original government commitment and funding envelope. A second pass business case is under development to secure adequate funding for the appropriate system.

Concurrently with this funding application, an intensive business review engagement provide a codesign process defining requirements of the appropriate ICT system.

The current objective is for a fit for purpose ICT system to be in place for the beginning of full scheme roll out on 1 July 2016.

In the meantime, this step of the prudential governance framework is being achieved to the best practical intent by the manual linking of a number of disparate databases across function and across time.

4 Research, Innovation and Early Investment (PGF2)

Investment in research, innovation and early investment comprises NDIS insurance principle 3, recognising a fundamental investment opportunity and future cost benefit in unlocking the potential of people with a disability. In addition, NDIS insurance principle 4 supports the development of community capability and social capital. These principles are captured in Step 2 of the NDIS Prudential governance framework:

> *In addition to the emerging experience contained on the NDIA longitudinal database, and in order to support the development of capacity and expertise across the network of NDIA, scheme participants and their support networks, the NDIA will invest in <u>early investment, research, innovation and the development of social capital</u> across Tiers 2 and 3 of the NDIS*
>
> <u>Current status:</u>
>
> A funding allocation is available through the Sector Development Fund to support research and innovation. A number of grants from the SDF were commenced prior to the establishment of the NDIA Board.
>
> The NDIA Board has established a subcommittee to work with management in developing a strategy for application of SDF funds, and a number of proposals have been put forward to the Board. In the context of monitoring financial sustainability, one particular proposal is for the development of a Centre for Actuarial and Economic Research and Evaluation in Disability. This centre would have at its core a focus on understanding the underlying investment potential and financial outcomes of the NDIS.
>
> The proposals are currently under consideration.
>
> Moreover, a critical plank in the NDIA recommendations for full scheme roll out is the development of a strong "Tier 2", however this emerges in practice. This strategy may emerge as an additional cohort of the NDIS participants receiving support through bulk purchasing of programs rather than individual support packages. This strategy will allow the further development of community based social capital development and innovation.

5 Actuarial monitoring framework (PGF3)

Insurance principle 1 of the NDIS calls for "...continual testing against emerging experience..."., and this requirement is captured in prudential governance framework 3:

> *Using its longitudinal database and other necessary data sources and research outcomes, the NDIA will develop an actuarial monitoring framework appropriate to the description and estimation of participation of Tier 2 and Tier 3 target populations, support utilisation and cost, and continuous evaluation of Tier 2 and Tier 3 participant outcomes in terms of economic and social participation and independence.*

Current status:

The Scheme Actuary provides quarterly reports to the Board, as required by the Rules for the Scheme Actuary to *"..produce a report estimating future expenditure of the NDIS, comparing the experience of the NDIS with the projections in the previous annual financial sustainability report or more recent projections, making use, where appropriate, of information produced by the systems, processes and tools mentioned in section 4, and commenting on any changes in the projections."*

The quarterly monitoring report allows the Scheme Actuary and the Board to monitor the progress of critical components of scheme performance across trial sites, and provides a building block to the annual actuarial valuation and financial sustainability report.

In addition, dashboards have been introduced to (a) assist management on a weekly basis in monitoring operational performance and to provide more regular updates on scheme performance, and (b) produce a monthly summary of service provider activity. Work on a dashboard which summarises and benchmarks planners is also underway.

These reports provide information on scheme participant intake and planning compared to expected target populations, and support utilisation and cost. An estimate of the Tier 2 population is currently in progress.

Reporting is constrained by the available data and infrastructure of the current Seibel ICT system, and the need for further progress on other items of the prudential governance framework (particularly 4. Resource allocation, and 5. Outcomes framework).

Include here a link to the latest weekly and monthly dashboards, and quarterly monitoring report.

6 Resource allocation framework (PGF4)

NDIS insurance principle 1 also prescribes "..equitable resource allocation at an individual and subgroup level..". The robustness of resource allocation within an insurance model is one of the most important planks of financial sustainability. It is described in more detail in Chapter 1.5.3.1 of this manual, and is captured in prudential governance framework 4:

> *The NDIA and its Scheme Actuary will develop a hierarchical needs-based resource allocation framework to provide each NDIS participant with a package of individual support appropriate to that person's particular current and expected future support needs, and within the framework of aggregate reasonable and necessary support*
>
> Current status:
>
> The NDIA has been operating without any link between the estimate of individual participant support need (i.e. support packages) and an equitable resource allocation process; this introduces significant financial risk into the scheme.
>
> The Scheme Actuary is working to establish objective benchmarks using a set of objective diagnostic parameters of disability severity, and the World Health Organisation Disability Assessment Schedule 2.0 (WHODAS) classification of functional need.
>
> These benchmarks have been used to revise the reference package framework, and to embed this framework into the assessment and planning process. Their current status is as follows:
>
> *Severity indicators:*
>
> A project was undertaken to assess the feasibility of developing a classification system providing the Scheme Actuary with an objective indicator of the primary relative diagnostic severity of participants entering the NDIS.
>
> It is not anticipated that the diagnostic severity score would directly determine the size or nature of individual participants' packages of support, but rather provide a further benchmark for the use of the Scheme Actuary in determining the definitions of appropriate reference groups and reference packages across scheme participants. The focus of the project was the main disabilities of participants currently in the scheme – namely, intellectual disability (including down syndrome), autism, developmental delay, global developmental delay, cerebral palsy, multiple sclerosis, stroke, hearing and vision loss.
>
> Expert groups were convened for each of these disabilities (noting that intellectual disability, developmental delay and global developmental delay were combined) to provide input into possible indicators, and appropriate amounts of support for each level within the severity indicator.

Further considerations in choosing indicators included cost, time taken to administer the tool, whether the participant is likely to already have the assessment, whether the participant could self-administer the assessment, or whether the NDIA delegate could easily use the tool.

The draft severity indicators are listed in the table below.

Disability Type	**Severity Indicator**
Aquired Brain Injury	The Care and Needs Scale (CANS)
Autism	Vineland II
	Diagnostic and Statistical Manual of Mental Disorders (DSM-5) – Autism Spectrum Disorder
Cerebral palsy	Gross Motor Functional Classification Scale (GMFCS)
	Communication Function Classification Score (CFCS)
	Manual Ability Classification System (MACS)
Intellectual disability	Vineland II
Developmental delay	Diagnostic and Statistical Manual of Mental Disorders (DSM-5) – Intellectual disability
Global developmental delay	IQ test
Down syndrome	
Hearing impairment	Functional impact of hearing loss (developed by an expert panel for this project)
	Hearing Loss (Measured in decibels)
Multiple sclerosis	Disease Steps
	Expanded Disability Status Scale
Spinal injury	Level of lesion
	ASIA score (Level of completeness)
Stroke	Modified Rankin Scale
Vision impairment	Visual acuity level
	Visual field loss
	Functional Impact of vision loss (developed by an expert panel for this project)

Data has been obtained on the distribution of the severity indicators across the relevant disabilities (that is, the number of people at each level within the indicator). This information, along with the information on the amount of support estimated by the expert groups at each level of severity, and the expected participant distribution, was used to estimate the reference package values.

The Siebel solution for the reference packages will be implemented on 12 December 2014 through Enterprise Release 27. It is anticipated that the new reference packages process will ‘go live’ from January 2015.

Continuous learning will be the focus of the reference packages project. The Siebel solution for this project allows for flexibility in the severity indicators captured, as well as the implied package costs. It is recognised that there are some limitations to the assessment tools selected. The reference packages will be monitored and the effectiveness of the chosen tools assessed and updated where required. Additional research will also be undertaken.

A limitation of the work undertaken to date on reference packages is that a measure of “distance from an ordinary life” is missing. The outcomes framework which is being developed (and discussed below) will be used to develop a measure to use in the reference packages (and hence resource allocation).

Further work is also required on severity indicators for mental health. This project is currently being scoped.

WHODAS 2.0:

A project has been undertaken to assess the utility of the WHODAS 2.0 classification system in providing the Scheme Actuary with an early indicator of the relative functional support need of participants entering the NDIS. It is envisaged that the WHODAS 2.0 will be collected from participants if a severity indicator is not available.

As with the severity indicators, it is not anticipated that the diagnostic severity score would directly determine the size or nature of individual participants' packages of support, but rather provide a further benchmark for the use of the Scheme Actuary in determining the definitions of appropriate reference groups and reference packages across scheme participants.

Through this project the WHODAS 2.0 scale has been used to estimate the relative support need of 186 NDIS participants using a stratified sampling approach. The Scheme Actuary's analysis of the data collected suggests the following draft conclusions:

> These findings provide some support for the proposed use of WHODAS 2.0 in guiding the development of reference packages. In addition, there are other practical reasons for recommending its collection. First, WHODAS 2.0 is a valid, reliable, population-normed instrument developed by the WHO and based on the ICF. It provides a consistent measure of functioning that is independent of disability type, and there is an increasing volume of studies applying it to different populations. Second, collection of WHODAS 2.0 will supplement the work that has been done to develop severity indicators for use with reference packages. These indicators will only be collected for major disability types for which widely-used and accepted instruments are available, such as autism, intellectual disability, cerebral palsy, spinal cord injury and stroke. Reference packages based on WHODAS 2.0 can be used where disability-specific instruments are not available. In addition, concurrent collection of WHODAS 2.0 even for disability types with their own severity indicators will enable the consistency of reference packages based on the two sources to be evaluated. A third reason for collecting WHODAS 2.0 is that the Agency's own tool, the Support Needs Assessment Tool (SNAT) is newly developed and consequently has no population norms. Finally, there is no cost for using the WHODAS 2.0 questionnaires (although a User Agreement with the WHO needs to be signed), and it is easy to administer. From a wider perspective, analysis of WHODAS 2.0 score data for NDIS participants will make a valuable contribution to disability research in Australia.
>
> With regard to timing of collection, as a first step we recommend that the survey be administered at the time of access. Further work will be done to determine whether longitudinal collection would be worthwhile.

One practical limitation of WHODAS 2.0 is that it has been developed for use only in adult populations. According to the WHO website[2], a children and youth version is "not yet available, but has been initiated in light of the growing importance of child and youth populations worldwide, and the need to assess functioning and disability in children and youth is becoming more prominent".

[2] http://www.who.int/classifications/icf/whodasii/en/index6.html

7 Outcomes framework (PGF5)

NDIS insurance principle 2, 3 and 4 talk about "participant objectives", "social and economic participation" and also an "outcomes focused operational framework". It will be critical to financial sustainability to monitor and report on participant and scheme outcomes. Prudential governance framework number five prescribes:

NDIA operational staff and contracted providers including local area coordinators, disability support organisations and support providers will endeavour to assist scheme participants to aspire to and achieve the <u>most positive outcomes</u> in terms of future economic and social participation and independence, within a reasonable and necessary resource allocation appropriate to each participant

<u>Current status:</u>

The current NDIA data platform does not contain adequate outcome indicators to achieve the functions required.

The NDIS needs an Outcomes Measurement Framework to:

- Fulfil its obligations under legislation and other policy documents
- Monitor and identify factors that contribute to achievement of outcomes
- Benchmark against the experience of people without disability and against other OECD countries.

The completed outcomes framework will form part of this attachment.

Outcomes project update:

The project to develop an outcomes framework was envisaged in two phases:

- Phase 1 – May to July 2014: review national and international frameworks and experience and propose an approach and high level Individual Outcomes Measurement Framework
- Phase 2 – July to December 2014: consult with stakeholders, finalise the framework and develop an implementation plan.

A draft framework was developed in collaboration with Belinda Epstein-Frisch AM, and feedback was sort from a variety of experts and stakeholders, including the Independent Advisory Council and the NDIA executive. Domains, questions and indicators were developed for different age groups. The specific age groups are:

- children from birth to school entry
- children from school entry to age 15

- young adults aged 16 to 24
- adults aged 25 to 55
- adults aged over 55.

The adult frameworks consist of eight participant domains and five family domains. The participant domains are:

- Choice and control
- Daily activities
- Relationships
- Home
- Health and wellbeing
- Lifelong learning
- Work
- Social, community and civic participation

The family domains are:

- Families have the support they need to care
- Families know their rights and advocate effectively for their family member with disability
- Families are able to gain access to desired services, programs, and activities in their community
- Families have succession plans
- Parents enjoy health and wellbeing

These domains are different for children aged 0-6 years. Specifically the domains for young children are:

- Children gain functional, developmental and coping skills that are appropriate to their ability and circumstances
- Children show evidence of self-determination in their everyday lives
- Children participate meaningfully in family life
- Children participate meaningfully in community life
- Specialist services assist children to be included in families and community.

The family domains for young children are:

- Families understand their children’s strengths, abilities and special needs.
- Families know their rights and advocate effectively for their children.
- Families help their children develop and learn.
- Families feel well supported.
- Families are able to gain access to desired services, programs, and activities in their community.
- Parents enjoy health and wellbeing.

The family domain remains the same for children aged 6-14 years - however, the participant domains change:

- Children grow in independence
- Children are welcomed and educated in their local school
- Children form friendships with peers and have positive relationships with their family
- Children are genuinely included in local social and recreational activities.

The participant domains remain the same as the adult domains for participants aged 16-24, and the family domains remain the same as the younger age groups.

An Easy English version and pictorial version of the questionnaire has been developed with the assistance of Inclusion Australia.

Cultural appropriateness of the questions for Indigenous and CALD participants is also being investigated.

The questionnaire is currently being piloted in the Hunter, Barwon and Tasmania trial sites. A stratified sample has been chosen for this pilot. The pilot will assist with refining questions and provide initial baseline data.

The outcomes framework will be implemented in March 2015 in conjunction with the IT release.

8 Annual actuarial valuation (PGF6)

On the advice of the Scheme Actuary's interpretation and valuation of emerging monitoring experience as presented in the financial sustainability report, the NDIA Board will annually report the estimated annual cost of support for NDIS participants, the expected future trends in the estimated cost, the projected long-term financial outcomes of the scheme and the inherent uncertainty and volatility in those estimates

Current status:

The Scheme Actuary produced the first annual financial sustainability report using the emerging experience of the first 12 months of the NDIS trials in September 2014. There is still significant uncertainty in this assessment due to the limited scheme experience.

The distributions underlying this assessment in terms of individual support package, gender, disability type and age were included in the actuary's revised estimate.

This work was reviewed by the Australian Government Actuary as peer review actuary.

The summary of the annual financial sustainability report is attached to the NDIA annual report.

9 Annual financial sustainability report (PGF7)

Based on these assessments, the NDIA Board will annually assess and report on scheme financial sustainability based on:

- *participant outcomes in terms of economic and social participation and independence, and participant perception that they are getting enough money to purchase enough goods and services; and*
- *affordability, value for money, and willingness of contributors to continue support as defined by the available funding envelope.*

Current status:

The Scheme Actuary will use revised annual cost estimates to assess the scheme's ability to deliver reasonable and necessary supports within the available funding envelope.

Because of the youth of the NDIS scheme, and the constraints outlined above in terms of available data on participant outcomes and equitable resource allocation it is unlikely that any long-term statement could be claimed in terms of the scheme's *Financial Sustainability* as defined in the paper which includes this attachment.

However useful information is available in the 2013/14 annual financial sustainability report regarding the aggregate of individual support packages committed compared to the available funding envelope, and participant satisfaction in the scheme to date.

10 NDIA Board active management (PGF8)

On the basis of this assessment, where necessary the NDIA Board will manage scheme sustainability using actions which may include process redesign or improvement, realignment of support expectations, or proposals for legislative change with respect to support entitlements, scope of available supports or the eligible population.

Current status:

The NDIA Board is required to consider the findings of the Financial Sustainability report produced by the Scheme Actuary.

2014 was the first such report.

11 Recalibration of expectations (PGF9)

The insurance control cycle will then require recalibration expectations and database requirements and return to steps 1 and 2 of this cycle.

<u>Current status:</u>

The projections and expectations of the Scheme Actuary, particularly within the quarterly monitoring report and the weekly dashboards, will be revised to take account of the new baseline and expectations.

It would be expected that these revised expectations would form the basis for the scheme monitoring and reporting over the next 12 months. This would normally require a reconsideration of the reporting framework and parameters considered by stakeholders.

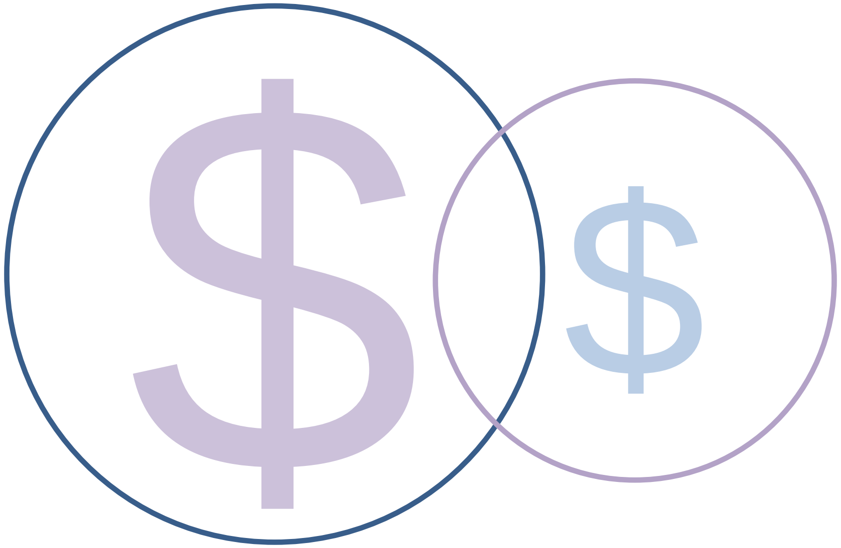
References packages & the outcomes framework

May 2015

Agenda

- NDIS and financial sustainability
- Data collection
- Reference packages
- Outcomes framework

Financial sustainability



Definition

Financial sustainability

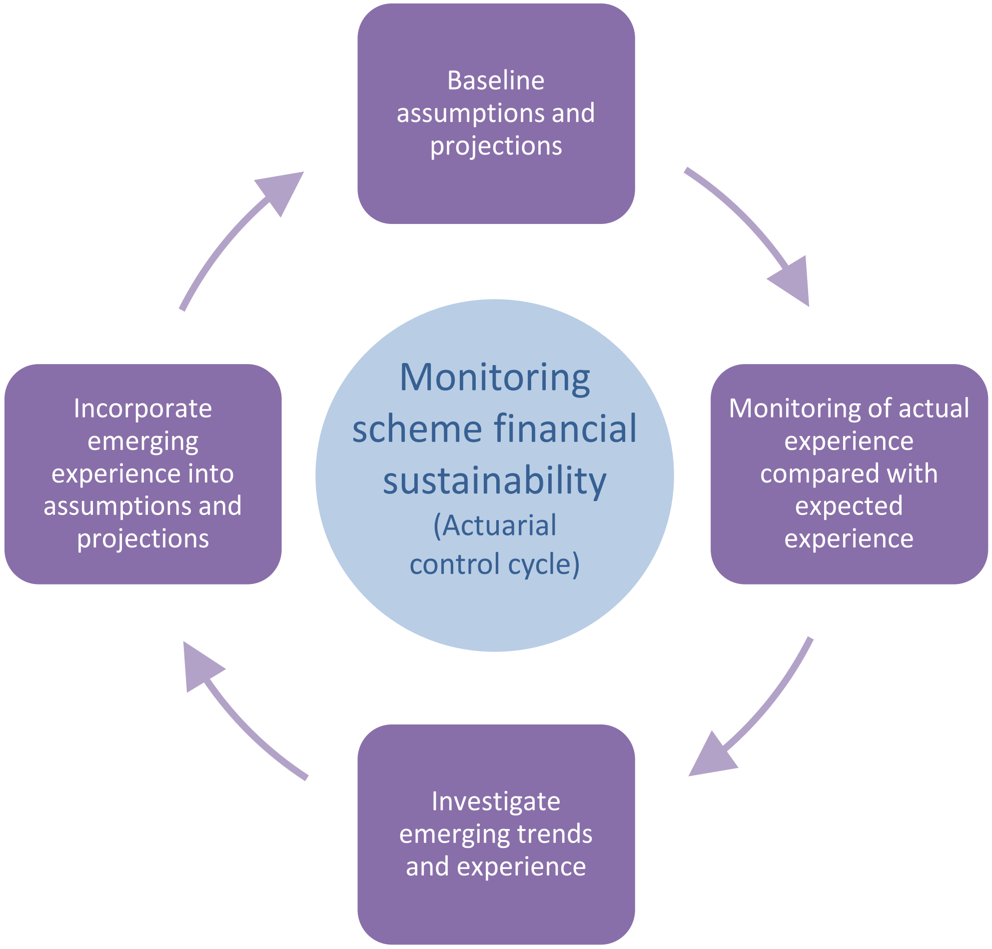
Can be defined as a state where:

- The scheme is successful on the balance of objective measures and projections of economic and social participation and independence, and on participants' views that they are getting enough money to buy enough goods and services to allow them reasonable access to life opportunities – that is, reasonable and necessary supports; and
- contributing governments think that the cost is and will continue to be affordable, is under control, represents value for money and, therefore, remain willing to contribute.

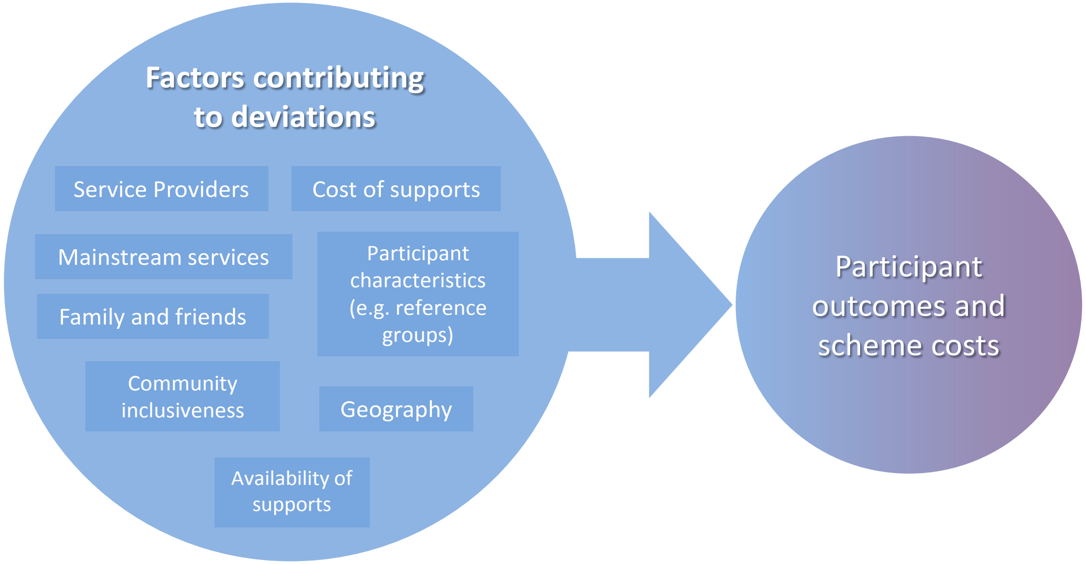
Monitoring and managing financial sustainability

Actual control cycle

- Continuous monitoring
- Continuous evaluation of participant outcomes and costs

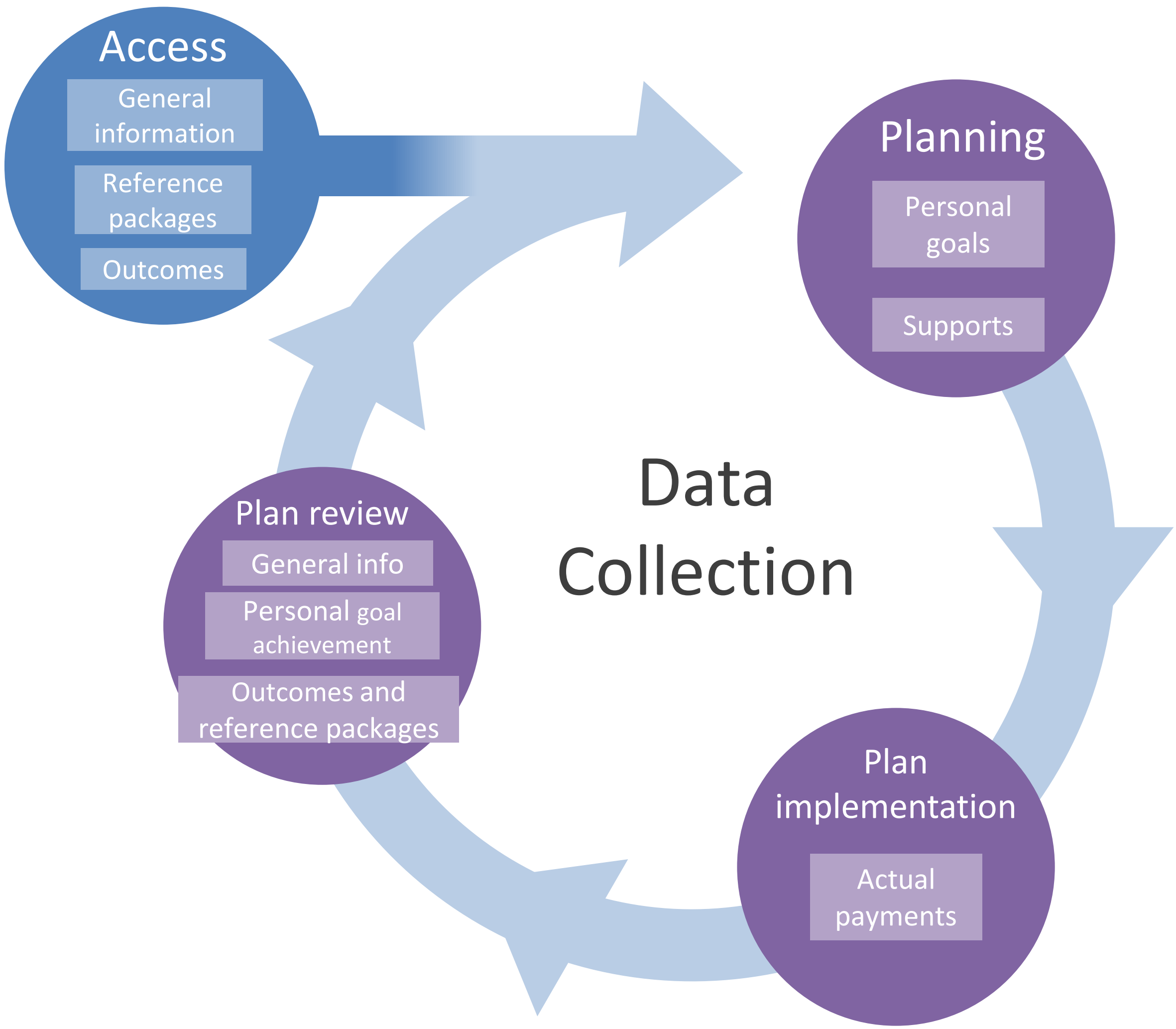


Monitoring and managing financial sustainability



- Collect data on the number of participants, the characteristics of these participants , the outcomes for these participants, and the cost of supports provided to participants
- Identify drivers of good and bad outcomes – benefits to participants, their families and the community

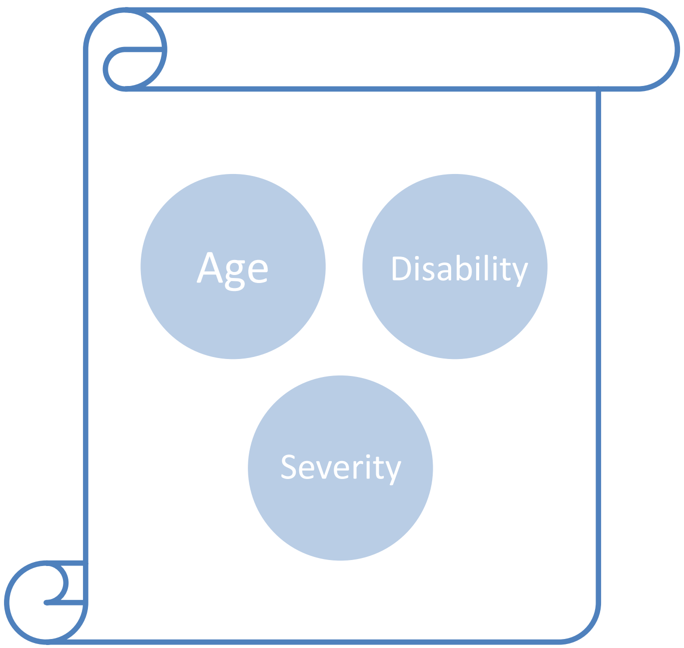
Data Collection



Data Collection

- Data collected at access, planning, plan implementation and plan review
- Minimise burden on staff and participants
- Data provides feedback on performance which can be used to better support our participants, provide feedback to staff, and monitor and manage financial sustainability

Reference packages



Background

- 419,500 people across Australia, at a total cost of $14.7 billion (2013/14 figures)
- Split into cohorts based on age, health condition, and level of functional support need
- Reference packages:
  - provide an expected annual funding level for participants with similar support needs and characteristics
  - a link between resource allocation to individual participants and the overall funding envelope
  - a crucial role in scheme monitoring

Methodology

Steps in the process:

1. Identification of the most prevalent conditions of NDIS participants

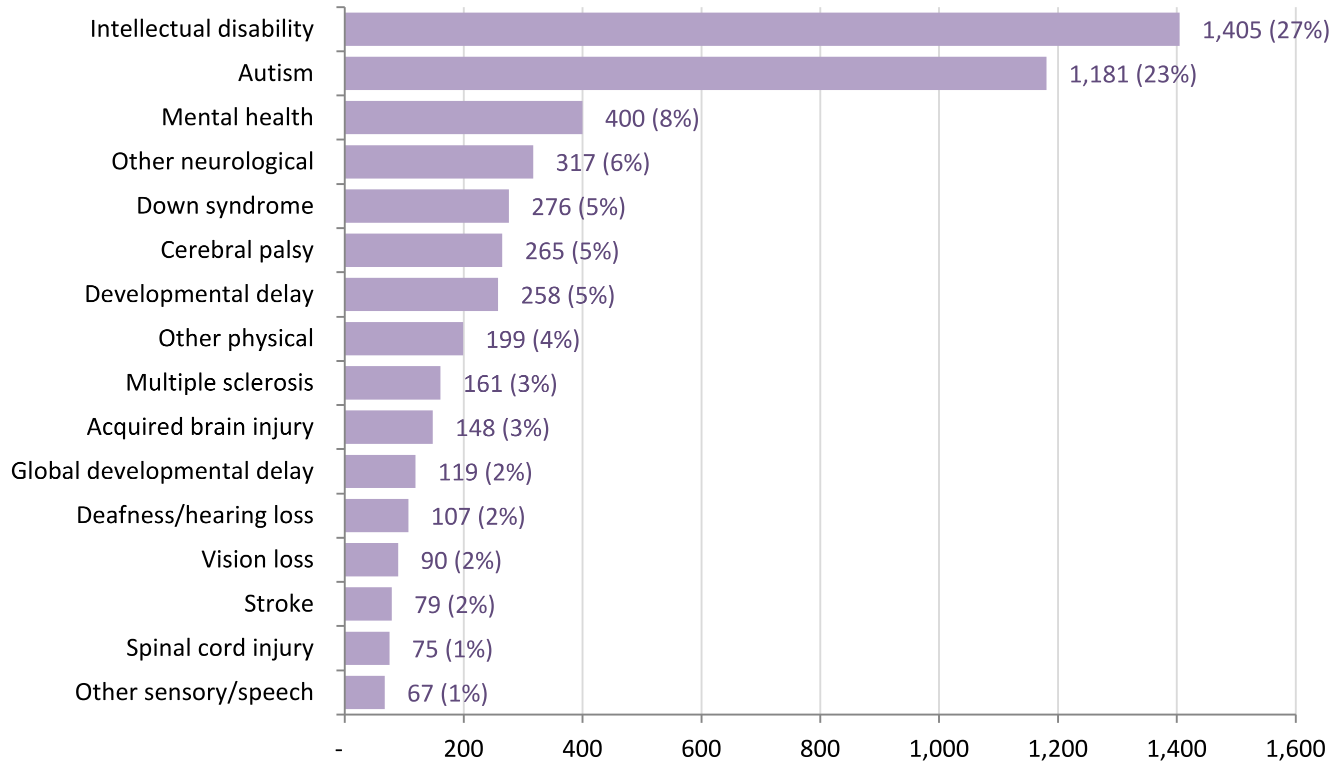
2. Consultation with experts to identify clinically accepted and widely utilised severity indicators for each of the disability types identified in Step 1

3. Development of sample plans corresponding to different severity levels for each disability type, taking account of age.

4. Assess whether the reference packages are in line with the overall funding envelope

5. Develop Siebel solution and finalise implementation procedures.

Most common disabilities



Above is a list of the common disabilities of NDIS participants, listed in order of number of people. This is based on participants who entered the scheme in 2013/14 in the Hunter and Barwon trial sites.

Severity indicators

Considerations:

- ease of collection, including time required to undertake the assessment
- cost
- whether the tool was validated and reliable
- whether population data were available for assistance with modelling.

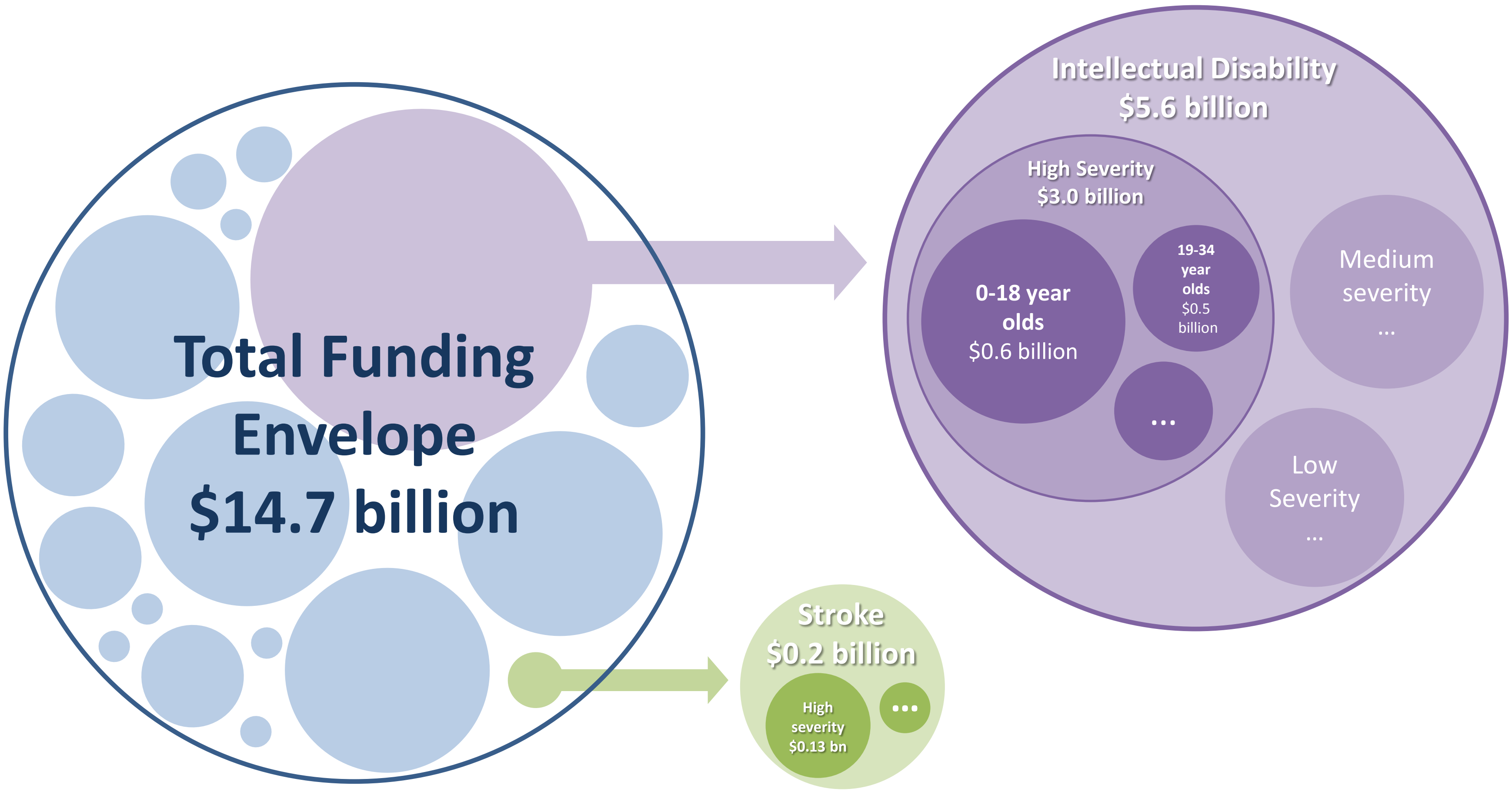
All tools have their strengths and weaknesses

Severity indicators – starting point

Disability Type	Severity Indicator
Aquired Brain Injury	The Care and Needs Scale (CANS)
Autism	Vineland II Diagnostic and Statistical Manual of Mental Disorders (DSM-5) – Autism Spectrum Disorder
Cerebral palsy	Gross Motor Functional Classification Scale (GMFCS) Communication Function Classification Score (CFCS) Manual Ability Classification System (MACS)
Intellectual disability Developmental delay Global developmental delay Down syndrome	Vineland II Diagnostic and Statistical Manual of Mental Disorders (DSM-5) – Intellectual disability IQ test
Hearing impairment	Functional impact of hearing loss (developed by an expert panel for this project) Hearing Loss (Measured in decibels)
Multiple sclerosis	Disease Steps Expanded Disability Status Scale
Spinal injury	Level of lesion ASIA score (Level of completeness)
Stroke	Modified Rankin Scale
Vision impairment	Visual acuity level Visual field loss Functional Impact of vision loss (developed by an expert panel for this project)

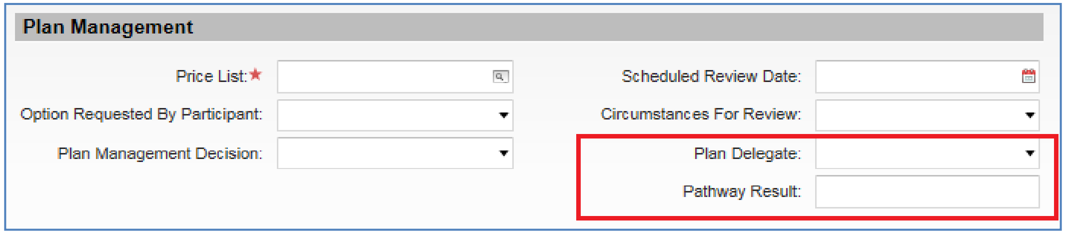
WHODAS 2.0 will be used where a severity indicator is not available

Modelling of reference packages



Using reference packages

- The key purpose of reference packages is to allow the actuarial team to undertake detailed monitoring of scheme performance and identify cost drivers, by comparing actual experience with expected experience
- The reference packages will also assist the actuarial team will estimating full scheme costs
- Reference packages do not determine access to the NDIS, nor do they determine the amount of funding each individual receives. The amount of funding each individual receives is determined by considering each individual's circumstances and goals.



- Reference packages do assist with internal financial delegation – where plans differ substantially from the reference package amount, senior planners, and directors will review the plan.

Limitations of reference packages

Severity indicators are only a starting point:

- Further consultation is required
- Initial experience of trial sites used to refine and improve continuous learning

A variable on distance from an ordinary life will be developed

- Many factors drive the need for support including living arrangements, employment, and level of social inclusion
- Link to outcomes framework

Mental health indicators are being developed

Outcomes framework

Background

Legislation

- support the independence and social and economic participation of people with disability
- enable people with disability to exercise choice and control in the pursuit of their goals and the planning and delivery of their supports
- maximise independent lifestyles and full inclusion in the community
- facilitate greater community inclusion of people with disability

Other documents:

- Strategic plan
- UN Convention on the Rights of People with a Disability
- National Disability Strategy

Guiding principles and benchmarking

Guiding principles:

- Meaningful - widely accepted as important measures of progress
- Informative - able to indicate what is working to improve outcomes and what is not
- Feasible to collect and report - avoid over-surveying participants and undue burden on staff.

Benchmarking:

- Aspirations of an ordinary life – a life that every Australian should be able to aspire to
- Tracking outcomes over time
- Tracking the gap between all Australians and people with a disability
- Tracking the gap between Australia and other OECD countries

Review of frameworks

The key frameworks considered were:

- Council on Quality and Leadership: Personal Outcome Measures® (CQL POM) (US)
- National Core Indicators (NCI) (US)
- Fulfilling Potential (UK)
- Life Opportunities Survey (LOS) (UK)
- Adult Social Care Outcomes Framework (ASCOF) (UK)
- Frameworks emerging from Personally Controlled Budget approaches (UK)
- National Disability Survey (Republic of Ireland)
- The Intellectual Disability Supplement to the Irish Longitudinal Study of Ageing (IDS-TILDA) (Republic of Ireland)
- The University of Toronto Quality of Life Profile (QLP) (Canada)
- Ministry of Social Development “Investing in Services for Outcomes” (New Zealand)
- Transport Accident Commission (TAC) (Australia)
- National Disability Services (NDS) framework (Australia).

Proposed NDIS framework


Children from birth to school entry


Children from school entry to age 14


Young people aged 15 to 24


Adults aged 25 to 55


Older adults aged over 55.

Outcome statements for children aged 0-6 years (or school entry):

1. Children gain functional, developmental and coping skills that are appropriate to their ability and circumstances
2. Children show evidence of self-determination in their everyday lives
3. Children participate meaningfully in family life
4. Children participate meaningfully in community life
5. Specialist services assist children to be included in families and community.

Outcome statements for families of children with disability aged 0-6 years:

1. Families understand their children's strengths, abilities and special needs.
2. Families know their rights and advocate effectively for their children.
3. Families help their children develop and learn.
4. Families feel well supported.
5. Families are able to gain access to desired services, programs, and activities in their community.
6. Parents enjoy health and wellbeing.

National disabilityinsurance Agency

Outcome statements for children aged 6 (or school entry) - 15 yrs:

1. Children grow in independence
2. Children are welcomed and educated in their local school
3. Children form friendships with peers and have positive relationships with their family
4. Children are genuinely included in local social and recreational activities

Adults

The adult frameworks consist of eight participant domains and five family domains.

The participant domains are:

1. Choice and control
2. Daily activities
3. Relationships
4. Home
5. Health and wellbeing
6. Lifelong learning
7. Work
8. Social, community and civic participation

Adults

The adult frameworks consist of eight participant domains and five family domains.

The family domains are:

1. Families have the support they need to care
2. Families know their rights and advocate effectively for their family member with disability
3. Families are able to gain access to desired services, programs, and activities in their community
4. Families have succession plans
5. Parents enjoy health and wellbeing.

National disabilityinsurance Agency

Young Adults (16-24 years)

For young adults aged 16 to 24 years, the questions are based on the adult framework, with some changes to explore:

1. Evidence of planning for the future
2. Increased independence
3. Decision making
4. Increased friendship outside the family.

Older Adults (56 years or older)

For older adults (aged 56 years and older), the questions are based on the adult framework, with some changes to explore issues related to preparing for retirement

Proposed NDIS framework

Proposed Indicators

Proposed indicators for the adult framework are shown below:

Domain	Indicator
Choice and control	% who choose what they do each day
	% who choose who they live with
	% who choose where they live
	% who are satisfied with the level of decision making they have in their lives
Daily living	% who perform tasks of daily living as independently as possible
Relationships	% who have someone outside their home to call on for practical assistance
	% who have someone outside their home to call on for emotional assistance
	% who have someone outside their home to call on in a time of crisis
	% who often feel lonely
Home	% who have control over supports in their home
	% who describe their current home as unsuitable
	% who believe their home will not be suitable in 5 years' time
	% for whom affordable housing is a barrier to living in a suitable home
	% who feel safe in their own home
Health	% who say their health is poor
	% who feel negatively about their life
	% who have had a health screen in the last 12 months

Proposed NDIS framework

Proposed Indicators

Domain	Indicator
Lifelong learning	% who participate in mainstream education and training
	% who were prevented to doing a course they wanted to do
Work	% who are in open employment
	% who are not in open employment and can see a pathway to open employment
	% who would like more work
Social, community and civic participation	% who volunteer
	% involved in a community group in the last 12 months
	% who feel like they belong to a community group
	% of eligible voters who vote
	% who feel able to have a say on community issues that are important to them
Family	% of families believe they have the support they need to care for the person with disability
	% of families who report they are able to advocate effectively for their family member with disability
	% of families who report they are able to gain access to desired services, programs and activities in their community
	% who have succession plans
	% of families who report their health as poor
	% who feel negatively about their life
	% who feel more confident about the future of their family member with disability under the NDIS