

## Chapter 4

### Growing the market and service provider readiness

4.1 Growing and fostering a competitive marketplace for disability services is vital to the success of the Scheme. As a market steward, the NDIA has a key role in facilitating the growth and diversity of this marketplace. This includes providing information about the market, setting the infrastructure to support market transactions and supporting the transition to the new system for existing providers. Undertaking market interventions, including price setting, is also critical to market growth and is discussed in Chapter 5.

4.2 Firstly, this chapter provides a brief overview of the disability services market. Secondly, the chapter discusses provider registration requirements under the NDIS the setup of the Quality and Safeguards Commission (the Commission).

4.3 It then examines the actions taken by the NDIA to facilitate provider readiness, including provision of information about the market and the Scheme and the setup of NDIS systems to facilitate market transactions.

4.4 Finally, the chapter explores the challenges experienced by service providers transitioning to a market-based system.

#### Disability support market

4.5 The range of providers is diverse and includes existing disability organisations transitioning from state-based systems, allied health professional groups and individuals, and emerging non-traditional services such as financial intermediaries including those employing new models such as online platforms.<sup>1</sup>

4.6 The number of NDIS registered service providers has been growing every quarter since the Scheme's inception. At 30 June 2018, there were a total of 16 755 registered providers across the country offering a range of supports, which represents a 17 percent increase on the previous quarter. However, only 50 percent of the registered providers were active at 30 June 2018.<sup>2</sup>

4.7 Therapeutic support has the highest number of approved service providers, followed by assistance with household tasks and with travel arrangements.<sup>3</sup>

4.8 Whilst at 30 June 2018 44 percent of service providers were sole traders the market is clearly dominated by large providers.<sup>4</sup> Indeed, at 30 June 2018, 80 to 90 percent of payments made by the NDIA were received by 25 percent of providers.<sup>5</sup>

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1 NDIA, *Submission 52*, p. 3.

2 NDIS, *COAG Disability Reform Council, Quarterly Report 30 June 2018*, p. 17.

3 NDIA, *COAG Disability reform Council Performance Report – National 30 June 2018*, p. 31.

4 NDIS, *COAG Disability Reform Council, Quarterly Report 30 June 2018*, p. 17.

5 NDIA, *COAG Disability reform Council Performance Report – National 30 June 2018*, p. 3.

According to McKinsey & Company, approximately 70 percent of NDIS payments are to providers that cater to 100 or more participants each.<sup>6</sup>

4.9 At 30 June 2018, \$8.2 billion had been paid to providers and participants since the introduction of the Scheme in 2013.<sup>7</sup> Payments went from \$86.2 million in 2013-14 to over \$4.9 billion in 2017-18.

### **Provider registration and the establishment of the Quality and Safeguards Commission**

4.10 Prior to the NDIS, the Australian, state and territory governments were responsible for provider registration, regulation and quality assurance in their jurisdictions, and for the programs they funded.

4.11 In December 2016, the Disability Reform Council (DRC) endorsed the NDIS Quality and Safeguarding Framework (the Framework). The Framework establishes nationally consistent protections for participants. It is designed to help participants and providers resolve issues quickly, and strengthen the capability of participants, the workforce, and providers to participate in the NDIS market.<sup>8</sup>

4.12 Until the framework is implemented in their jurisdiction, state and territory governments will continue to maintain their current quality and safeguarding arrangements, such as those for managing complaints and feedback.<sup>9</sup>

### ***NDIS Quality and Safeguards Commission***

4.13 The Australian Government established the Quality and Safeguards Commission (the Commission) to implement the framework. As an independent body it will regulate the NDIS market and be responsible for registration, complaints, incidents, restrictive practice oversight, investigation and enforcement, worker screening.<sup>10</sup>

4.14 In December 2017, Mr Graeme Head was appointed as the inaugural Commissioner to lead the Commission. The Australian Government, in its 2017-18 Budget, committed \$209 million to fund the establishment and operations of the Commission over four years.<sup>11</sup>

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6 McKinsey & Company, *Independent Pricing Review NDIA –Final report*, February 2018, p. 20.

7 NDIA, *COAG Disability reform Council Performance Report – National 30 June 2018*, p. 3.

8 Department of Social Services (DSS), *NDIS Quality and Safeguarding Framework*, December 2016, p. 4.

9 DSS, *NDIS Quality and Safeguarding Framework*, December 2016, pp. 7–8.

10 Department of Social Services, *Summary of the NDIS Quality and Safeguarding Framework*, January 2017, p. 1.

11 Minister for the Department of Social Services, The Hon Dan Tehan MP, *Penrith home for NDIS Quality and Safeguards Commission*, Media Release, 4 June 2018, <https://ministers.dss.gov.au/media-releases/3181> (accessed 24 August 2018)

4.15 The Commission started operating in NSW and SA on 1 July 2018. It will start operating from 1 July 2019 in Victoria, Queensland, Tasmania, ACT and NT. The Commission will provide national consistency, with operations starting in Western Australia, from 1 July 2020.<sup>12</sup>

4.16 As states and territories will transition to the national regulator at different times, existing national providers will be required to comply with both existing and new registration requirements, retain registration with the NDIA, and commence the registration process with the Commission.<sup>13</sup>

#### *Additional costs and administration*

4.17 Overall, submitters are of the view that registration requirements during transition are onerous and a significant barrier to market growth.<sup>14</sup>

4.18 For example, the Office of the Public Advocate NT argued that rigorous accreditation requirements have already deterred some mainstream providers from entering the market.<sup>15</sup>

4.19 Speech Pathology Australia reported that members 'frequently described the registration process as onerous, confusing and with conflicting information'.<sup>16</sup>

4.20 The committee also heard that providers are uncertain about what the new quality and safeguarding arrangements mean for them and what their compliance requirements are during transition.<sup>17</sup>

4.21 According to the NDIA, the Agency is working with the DSS and the DHS to manage the complexity of dual registration systems during the transition.<sup>18</sup>

4.22 Some submitters argued that current Scheme pricing does not address the significant differences in compliance costs across the different jurisdictions. For example:

In comparing current requirements across NSW and Victoria, the cost of compliance costs in Victoria is significantly higher. [...]However the NDIS

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12 NDIS Quality and Safeguards Commission, *Start dates*, <https://www.ndiscommission.gov.au/about/start-dates> (accessed 24 August 2018)

13 NDIA, *Submission 52*, p. 22.

14 See for example: Victorian Aboriginal Community Controlled Health Organisation, *Submission 66*, p. 7; MJD Foundation, *Submission 6*, p. 10; The Ella Centre, *Submission 18*, p. 5; Speech Pathology Australia, *Submission 19*, p. 6; Dietitians Association of Australia, *Submission 28*, p. 6.

15 Office of the Public Advocate NT, *Submission 76*, p. 5.

16 Speech Pathology Australia, *Submission 19*, p. 7.

17 For example: ASPECT, *Submission 27*, p. 4; RIDBC, *Submission 33*, p. 7; Buzza, *Submission 37*, pp. 11–12; NDIA, *Submission 52*, p. 22; Office of the Public Advocate SA, *Submission 57*, p. 6; Noah's Ark, *Submission 70*, p. 11.

18 NDIA, *Submission 52*, p. 22.

prices in Victoria and NSW are the same and do not factor in the different costs for different jurisdictions.<sup>19</sup>

4.23 However, stakeholders argued that additional measures should be introduced to assist providers during transition.<sup>20</sup> For example, the Office of the Public Advocate NT was supportive of business development grants being made available to assist organisations determine what accreditation is required.<sup>21</sup>

### ***Two tiered market***

4.24 As described in Chapter 2, participants who self-manage their funding or use a plan management provider, are able to source supports from both registered and unregistered providers. However, if a participant's plan is managed by the NDIA, their supports can only be sourced from registered NDIS providers.<sup>22</sup>

4.25 National Disability Services (NDS) argued that this establishes a two-tiered market, with one being more regulated than the other and bearing higher compliance costs.<sup>23</sup>

4.26 NDS pointed out that, unlike their registered counterparts, unregistered providers are allowed to employ workers without a national worker screening clearance, are not audited against quality standards, and will not be required to report serious incidents to the Commission.<sup>24</sup>

4.27 NDS was concerned that a significant proportion of participants could be exposed to unregulated environments:

Over time, the NDIS will see more people with disability being supported in unsupervised environments and in situations where it is more difficult to control outcomes. NDS opposes the arrangement that allows self-managing participants to employ the services of unregistered providers.<sup>25</sup>

4.28 NDS argued that all providers should be registered and that regulation and reporting requirements should be proportionate to risk.<sup>26</sup>

4.29 ASPECT and Noah's Ark raised similar concerns and encouraged the NDIA to address the inequities of a two-tiered approach.<sup>27</sup>

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19 See for example: Queenslanders with Disability Network, *Submission 48*, p. 13; ASPECT, *Submission 27*, p. 4.

20 See for example: Office of the Public Advocate NT, *Submission 76*, p. 5; Mental Health Council of Tasmania, *Submission 61*, p. 7.

21 Office of the Public Advocate NT, *Submission 76*, p. 5.

22 NDIS, *Operational Guidelines – Planning*, <https://www.ndis.gov.au/operational-guideline/planning/managing-funding-supports.html> (accessed 22 August 2018).

23 National Disability Services, *Submission 26*, p. 10.

24 National Disability Services, *Submission 26*, p. 10.

25 National Disability Services, *Submission 26*, p. 10.

26 National Disability Services, *Submission 26*, p. 10.

27 ASPECT, *Submission 27*, p. 4 and Noah's Ark, *Submission 70*, p. 11.

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### *Committee view*

4.30 The committee is supportive of the establishment of the Commission as an independent body, which will provide consistency, resolve problems and promote safety and quality services at a national level.

4.31 The committee is concerned that during transition, providers have to comply with different registration requirements. The committee agrees with submitters that this contributes to additional administrative burden and costs. This likely has a negative impact on the growth of the market. However, the committee recognises that these issues are of a transitional nature and will be resolved as the Commission expands its operations to all jurisdictions by July 2020.

4.32 The committee is concerned that service providers seem unclear about the registration process and compliance requirements.

### **Recommendation 12**

**4.33 The committee recommends the NDIA and the Commission ensure that consistent and clear information is provided about the registration process with the Commission to service providers ahead and during rollout in each jurisdiction.**

#### *Unregistered NDIS providers*

4.34 The committee understands that the NDIS Code of Conduct applies to all NDIS providers, whether registered or not, and to all people employed or otherwise engaged by NDIS providers. However, the committee is concerned that some self-managed participants may not be aware of the Code of Conduct and how to make use of it when employing workers.

4.35 The Commission and the NDIA encourage the employees of unregistered providers to apply for an NDIS Worker Screening Check and participants to make use of the NDIS worker screening process for unregistered workers they engage. However, the NDIS Worker Screening Check is not compulsory. Given the NDIA Board's commitment to 30 percent of participants self-managing their plans by 2020, this may lead to an increased number of unregistered workers working in the sector without having undertaken an NDIS Worker Screening Check. The committee sees potential risks for self-managed participants.

4.36 The committee is concerned that the Scheme may lack sufficient safeguards in the area of self-managed participants. However, the committee believes it is too early to make an assessment of the new arrangements. The committee agrees with the Productivity Commission that there is a need to regularly monitor and review the regulations and quality assurance arrangements.<sup>28</sup>

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28 Productivity Commission, *National Disability Insurance Scheme (NDIS) Costs, Study Report*, October 2017, p. 426.

### **Recommendation 13**

**4.37 The committee recommends the Productivity Commission examine the effectiveness of the NDIS Quality Safeguarding Framework and the Quality and Safeguards Commission as part of the next review into NDIS costs in 2023.**

#### **Supporting service provider readiness**

4.38 Supporting provider readiness through the provision of relevant and accurate information about the market and the Scheme, and through the establishment of appropriate business operating systems, is vital to enable market growth. The NDIA, as the lead market steward, is responsible for these activities.

#### *Provision of market information to providers*

4.39 The NDIA has developed a range of publications to provide market information to existing and prospective providers.

#### *Market Position Statement series*

4.40 The Victorian Government, in line with the recommendations from the Productivity Commission, is of the view that the NDIA should collect and share disaggregated, tailored and forward-looking market data to assist providers to respond to market demand.<sup>29</sup>

4.41 Between March 2016 and January 2017, the NDIA developed and published a series of Market Position Statements (MPS) to inform market stakeholders, including current and prospective providers of supports and services of the opportunities that NDIS will create in coming years.<sup>30</sup>

4.42 The NDIA published one MPS for each jurisdiction except Western Australia, which joined the Scheme in December 2017.

4.43 David Bowen, the CEO of the NDIA at the time of the publication of the MPS series said:

Each MPS is intended to be as practical as possible for current and prospective providers, incorporating the information most useful for commercial decision making. To achieve this, the NDIA is committed to sharing data about the market as it becomes available.<sup>31</sup>

4.44 To date, no additional market data or updated MPS have been published by the NDIA since January 2017.

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29 Victorian Government, *Submission 90*, p. 4.

30 NDIS, *Market position statements*, <https://www.ndis.gov.au/market-position-statements.html> (accessed 21 August 2018)

31 NDIS, *Market Position Statement Australian Capital Territory with Southern New South Wales region*, September 2016, p. 2.

### *Market Insights series*

4.45 The NDIA is developing a series of Market Insights, which aim to provide concise information on specific submarkets. To date, the only Market Insights which has been published is on Assistive Technology.<sup>32</sup>

4.46 Published in November 2017, the Market Insights on Assistive Technology is a five pages booklet which provides information designed to help providers understand consumer demand for AT in the NDIS and identify potential opportunities for business growth across geographic regions and product groups.<sup>33</sup>

4.47 According to the NDIS website, 'the Market Insight on Specialist Disability Accommodation will be available soon'.<sup>34</sup>

### *Quarterly reports and other sources of information.*

4.48 The quarterly reports and dashboards provide information about participants and providers in each jurisdiction and funding or provision of supports by the NDIA in each jurisdiction.

4.49 However, these reports do not provide data at a regional level because the NDIA registers providers by state or territory.<sup>35</sup>

4.50 The NDIA also publishes a monthly Provider e-newsletter, which keeps the sector informed about developments and engagement opportunities.<sup>36</sup>

4.51 As discussed in Chapter 1, the Quality and Safeguards Commission will collect, analyse and advise on a range of market information and identify trends and changes in the NDIS market. It is, however, unclear how this information will be made available to providers. The Commission's website says it will release more information about this aspect of its remit in the future.<sup>37</sup>

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32 NDIS, *Market insights*, <https://www.ndis.gov.au/providers/market-information-useful-links/market-insights.html> (accessed 23 August 2018)

33 NDIS, *Market Insights Assistive Technology*, 1 November 2017, <https://www.ndis.gov.au/medias/documents/market-insight-at/Market-Insights-Assistive-Tech.pdf> (accessed 27 August 2017)

34 NDIS, *Market insights*, <https://www.ndis.gov.au/providers/market-information-useful-links/market-insights.html> (accessed 23 August 2018)

35 NDIA, Answer to Question on Notice, *Service providers registered in the Goldfields-Esperance Area*, Reference No: SQ18-000081, 18 April 2018.

36 NDIS, *Market insights*, <https://www.ndis.gov.au/providers/market-information-useful-links/market-insights.html> (accessed 23 August 2018)

37 NDIS Quality and Safeguards Commission, *Commission role in NDIS market oversight*, <https://www.ndiscommission.gov.au/providers/commission-role-ndis-market-oversight> (accessed 27 August 2018)

### ***Provision of information to prospective providers about the NDIS***

4.52 The NDIA says it has conducted 'comprehensive community readiness campaigns ahead of area rollouts to inform members of the community, providers and potential providers about the NDIS'.<sup>38</sup> This includes organising face-to-face provider information sessions and webinars.<sup>39</sup>

4.53 The NDIS website is a key source of information for service providers. A recent survey of service providers operating in the ACT and NEMA regions revealed that 41 percent of respondents identified the NDIS website as the major source of information about the NDIS reform.<sup>40</sup>

4.54 The website has a dedicated section for providers. This includes the Provider Toolkit, which was redeveloped and launched in November 2017 to assist providers to learn about and work with the NDIS. It provides information on how to register, connect with participants, work with participants, invoice and receive payment and meet reporting requirements.<sup>41</sup>

#### *Levels of communication from the NDIA ahead of rollout*

4.55 In April 2018, the committee held two public hearings in Western Australia where the NDIS is scheduled to be rolled out from 1 October 2018.<sup>42</sup> The committee heard that service providers found there had been too little information and engagement from the NDIA to prepare for the transition.

4.56 For example, Ms Caterina Prodonovitch, CEO of the Regional Chambers of Commerce and Industry (WA), reported that service providers have not been receiving timely and appropriate information from the NDIA ahead of the rollout:

From the service providers' point of view, there are quite a few issues, but the overriding one has been the very poor communication from NDIS.<sup>43</sup>

4.57 Similarly, the CEO of Enable WA, a large service provider, also told the committee that it was difficult to engage with the NDIA and access relevant information.<sup>44</sup>

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38 NDIA, *Submission 52*, p. 3.

39 Ms Marita Walker, Regional Manager, Western Australia, NDIA, *Committee Hansard*, 18 April 2018, p. 20.

40 Malbon E., Alexander D., Carey G. et al., *Adapting to a marketised system: Network analysis of a personalisation scheme in early implementation*, Health Soc Care Community, 2018, p. 4.

41 NDIS, *Welcome to the Provider Toolkit*, <https://providertoolkit.ndis.gov.au/> (accessed 21 August 2018)

42 Public hearings were held on 17 April 2018 in Perth and 18 April 2018 in Kalgoorlie.

43 Ms Caterina Prodonovitch, CEO, Regional Chambers of Commerce and Industry (WA), *Committee Hansard*, 17 April 2018, p. 8.

44 See for example: Mr Robert Holmes, CEO, Enable WA, *Committee Hansard*, 17 April 2018, p. 26.

4.58 Similarly Mrs Lee Jacobsen, Chair of the Regional Development Australia Goldfields-Esperance, told the committee that the NDIA has not been providing information to providers ahead of the rollout in the Goldfields and that the only place to get assistance as a service provider was located in Perth, some 640 kilometres away.<sup>45</sup>

4.59 At the hearing, the NDIA responded to this claim by saying it was planning to undertake targeted information sessions for providers in the Goldfields Esperance region in coming months.<sup>46</sup>

4.60 At the time of writing, it appears that only a 90 minute service provider information session has been held for the whole Goldfield-Esperance region in Kalgoorlie on 5 September 2018, less than a month before the Scheme becomes available in the whole region.<sup>47</sup>

### ***NDIS infrastructure to facilitate market transactions***

4.61 To facilitate transactions between participants and providers, the NDIA has implemented the MyPlace Portal. This online portal allows providers to view and manage their services with a participant. This includes:

- making payment requests for services provided to participants;
- managing and viewing the details of agreements entered into with participants;
- viewing registration details; and
- instant messaging with participants.<sup>48</sup>

### ***NDIS IT and portal***

4.62 Many submitters reported that the NDIA IT system is complex and that they had many issues with the portal. Portal issues include billing errors and service booking delays.<sup>49</sup>

4.63 For example, a small service provider explained that delays caused by the portal being down or showing errors is resulting in cash flow issues and threatening the sustainability of its business.<sup>50</sup>

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45 Mrs Lee Jacobsen, Chair, Regional Development Australia Goldfields, *Committee Hansard*, 18 April 2018, p. 3.

46 Ms Marita Walker, Regional Manager, Western Australia, NDIA, *Committee Hansard*, 18 April 2018, p. 16.

47 NDIS, *Events in Western Australia*, <https://www.ndis.gov.au/news/events/wa.html> (accessed 28 August 2018)

48 NDIS, *Provider Toolkit – Frequently Asked Questions*, <https://providertoolkit.ndis.gov.au/frequently-asked-questions> (accessed 27 August 2018)

49 See for example: Sunnyfield, *Submission 1*, p. 1; Catholic Social Services Australia, *Submission 11*, Attachment 1, p. 3; DARE Disability Support, *Submission 15*, p. 4; Thorndale Foundation, *Submission 16*, p. 2; Buzza, *Submission 37*, p. 37.

4.64 Sunnyfield explained that 'to resolve each NDIA portal error, it requires a manual corrective adjustment form to the NDIA, which can take approximately 30 minutes per error'.<sup>51</sup>

4.65 The Australian Physiotherapy Association remains concerned about the problems with payment systems, including delayed and lump-sum payments, which it makes challenging to reconcile payments and add administrative and transaction costs.<sup>52</sup>

### ***Committee view***

#### *Provision of information about the market*

4.66 The committee notes the range of initiatives undertaken by the NDIA to provide information about the market. The committee is of the view that more detailed information about the market is required and should be provided regularly until the market reaches maturity. Indeed, the MPS series should be regularly updated and the committee urges the NDIA to accelerate the development and publication of the MPS for Western Australia.

### **Recommendation 14**

**4.67 The committee recommends the NDIA publish yearly updated Market Position Statements for each jurisdiction.**

### **Recommendation 15**

**4.68 The committee recommends the NDIA urgently develop and publish a Market Position Statement for Western Australia.**

4.69 The committee believes that market information be urgently made available on sectors or regions that are particularly underdeveloped and unlikely to meet expected demands. The committee believes that the development and publication of the Market Insight series needs to be accelerated. The committee notes that the Commission will collect and analyse data on market trends. This data will be a useful source of information for the production of this type information.

### **Recommendation 16**

**4.70 The committee recommends the NDIA accelerate the publication of further Market Insights on specific submarkets and regions.**

#### *Provision of information about the Scheme to providers*

4.71 The committee acknowledges the work of the NDIA in providing information about the Scheme through a range of platforms. The committee is of the view that face-to-face engagement activities with providers are important in order to increase provider readiness and grow the marketplace. However, based on the evidence

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50 Buzza, *Submission 37*, p. 14.

51 Sunnyfield, *Submission 1*, p. 2.

52 Australian Physiotherapy Association, *Submission 20*, p. 6.

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received by the committee in Western Australia, it appears that the level of engagement with service providers has been, in some instances, inadequate if not tokenistic, and has come far too late. The committee urges the NDIA to immediately commence engagement and provider readiness activities in all locations where the NDIS is not yet available.

4.72 The committee notes that the NDIS website is a key source of information for service providers. The committee believes that implementing Recommendation 6 of this report around improving the design, navigation, quality and accessibility of the NDIS website will assist existing and prospective service providers seeking information about the NDIS and its operating systems.

### **Recommendation 17**

**4.73 The committee recommends the NDIA commence engagement and provider readiness activities by January 2019 in all locations where the NDIS will start on 1 July 2019.**

#### *ICT systems*

4.74 Having reliable and fit-for-purpose ICT infrastructure and systems to facilitate efficient market transactions between participants and service providers are paramount. Since its establishment in September 2016, the committee has heard on many occasions that the NDIS ICT systems and the portal in particular were a source of issues for both participants and service providers. As a result, the committee is currently conducting an inquiry into the NDIS ICT systems and their impact on the implementation of the NDIS. The committee will report on this matter in the near future.

### **Transition to a market-based system**

4.75 The transition to the NDIS is challenging for many existing service providers. McKinsey & Company, which was engaged by the NDIA Board to undertake an Independent Pricing Review (IPR) of the NDIS, reported that challenges for existing providers identified during the review included adapting from block funding to unit funding, shifting to a consumer-driven service environment, moving from payment in advance to payment in arrears, and complying with the new Quality and Safeguards Framework.<sup>53</sup>

#### *Costs of transitioning to the NDIS*

4.76 For existing providers, the transition from block funding to a market-based system means that they need to change the way they operate and provide disability support. This requires significant investment in new infrastructure, human resources, marketing and other areas.<sup>54</sup>

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53 McKinsey & Company, *Independent Pricing Review NDIA –Final report*, February 2018.

54 National Disability Services, *State of the disability sector report 2017*, 2017, p. 16.

4.77 Indeed, inquiry participants reported that the costs of transitioning to the NDIS business model were significant and that not all organisations had the resources and capacity to do it.<sup>55</sup>

4.78 Ms Patricia Staines from the Aboriginal and Torres Strait Islander Corporation for Women in Townsville talked about the lack of operational capacity and cash flow to adapt to a new operating model:

The lack of capacity in the community-based organisations in terms of cash flow and that operational capacity—those organisations have been in a funding model for generations and, all of a sudden, we're expected to develop a business model [...] and change thinking within an organisation creates a huge cost.<sup>56</sup>

4.79 According to Professor David Gilchrist there is no capacity within organisations to invest in the necessary infrastructure to be as efficient as they can in the context of the rollout.<sup>57</sup> The cost of change to the NDIS for organisations is actually significant:

[...] there are infrastructure changes and they have to change their workforce and management structures—all those sorts of things. There is also the additional cost of growth: they are not just being asked to change from this model to that model—round peg, square peg—they are being asked to do so and absorb a 30 or 40 per cent increase in demand at the same time.<sup>58</sup>

4.80 Ms Caterina Prodonovich, from the Regional Chambers of Commerce and Industry (WA), also highlighted that the cost of changing business models involves investing in new infrastructure, including new IT and internal systems.<sup>59</sup>

#### *Cost of moving to fee-for-services*

4.81 Inquiry participants mentioned the shift to billing and payments in arrears as a major challenge.<sup>60</sup> For example, Mental Illness Fellowship of Australia told the

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55 See for example: MJD Foundation, *Submission 6*, p. 1; Speech Pathology Australia, *Submission 19*, p. 6; Professor David Gilchrist, Private capacity, *Committee Hansard*, 17 April 2018, p. 13; Ms Caterina Prodonovich, CEO, Regional Chambers of Commerce and Industry (WA), *Committee Hansard*, 17 April 2018, p. 8.

56 Ms Patricia Staines, NDIS Support Coordinator, Townsville, Aboriginal and Torres Strait Islander Corporation for Women, *Committee Hansard*, 15 March 2018, p. 20.

57 Professor David Gilchrist, Private capacity, *Committee Hansard*, 17 April 2018, p. 13.

58 Ms Penny Knight, National Performance Benchmark Project, University of Western Australia, *Committee Hansard*, 17 April 2018, p. 14.

59 Ms Caterina Prodonovich, CEO, Regional Chambers of Commerce and Industry (WA), *Committee Hansard*, 17 April 2018, p. 8.

60 See for example: Mental Health Council of Tasmania, *Submission 60*, p. 2; One Door, *Submission 13*, p. 3; Ms Caterina Prodonovich, CEO, Regional Chambers of Commerce and Industry (WA), *Committee Hansard*, 17 April 2018, p. 8; Professor David Gilchrist, Private capacity, *Committee Hansard*, 17 April 2018, p. 13.

committee that this has resulted in cash flow challenges for not-for-profit organisations with typically only have small cash reserves.<sup>61</sup>

4.82 Professor David Gilchrist explained to the committee the change and its impact on cash flow for organisations:

Under the previous funding system, as the committee is probably aware, funding was provided in advance and therefore cash flow and other costs of operations were mitigated through that process; whereas, under the NDIS and the NDIS structure, money, or cash flow, is provided after the event, in which case there is a cash flow working capital requirement of these organisations.<sup>62</sup>

4.83 The Regional Chambers of Commerce and Industry (WA) also reported that businesses are concerned about the effect of payments in arrears on the sustainability of their operations.<sup>63</sup>

4.84 Occupational Therapy Australia (OTA) raised concerns about the financial risks for providers.<sup>64</sup> Similarly, the Victorian Government noted that the new model has increased financial risk for providers:

Under the new fee-for-service delivery model providers bear increased financial risk, for example for non-payment and late payment, an in turn may have a greater need for cash reserves.<sup>65</sup>

#### *Administrative burden*

4.85 Catholic Social Services Australia (CSSA) argued that the high unfunded costs of meeting NDIA terms of business is one of the challenges faced by the providers transitioning to the NDIS.<sup>66</sup>

4.86 Similarly, other submitters reported that the current administrative burden created by NDIS inefficiencies is creating additional costs to providers.<sup>67</sup>

4.87 For example, Mr Cris Massis, Chair of Allied Health Professions Australia, is of the view that 'the Scheme has far more onerous bureaucratic requirements than other schemes, resulting in significant unpaid time for providers'.<sup>68</sup>

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61 Mental Illness Fellowship of Australia, *Submission 39*, p. 3.

62 Professor David Gilchrist, Private capacity, *Committee Hansard*, 17 April 2018, p. 13.

63 Ms Caterina Prodonovich, CEO, Regional Chambers of Commerce and Industry (WA), *Committee Hansard*, 17 April 2018, p. 8.

64 Occupational Therapy Australia, *Submission 46*, p. 11.

65 Victorian Government, *Submission 90*, p. 8.

66 Catholic Social Services Australia, *Submission 11*, p. 1.

67 See for example: DARE Disability Support, *Submission 15*, p. 5; Speech Pathology Australia, *Submission 19*, p. 6; Ms Patricia Staines, NDIS Support Coordinator, Townsville, Aboriginal and Torres Strait Islander Corporation for Women, *Committee Hansard*, 15 March 2018, p. 20.

68 Mr Cris Massis, Chair, Allied Health Professions Australia, *Committee Hansard*, 14 June 2018, p. 33.

4.88 Mr Phil Calvert believes that the administrative burden experienced by providers can be resolved significantly through improvement of NDIS internal structures:

Improvements in processing quotes, in resolving plan reviews and in consistent messaging will all contribute to greater efficiency. Our physios strongly feel the economic burden of poorly designed systems and processes and the associated duplication of effort.<sup>69</sup>

4.89 Mr Calvert reported a case of a physiotherapist who now has to spend an additional \$67 000 in administration wages to specifically deal with the NDIS.<sup>70</sup>

4.90 Similarly, in the IPR final report, McKinsey & Company said that 'providers raised challenges relating to additional overhead costs associated with operating in the NDIS, which they believe are partly attributable to NDIA processes and systems'.<sup>71</sup>

#### *Lack of investment*

4.91 Sunnyfield reported that 'very little investment has been made by government to harness the disability sector knowledge and to develop the essential commercial expertise, organisational business systems, and capacity for organisations to deliver the NDIS'.<sup>72</sup>

4.92 Other inquiry participants are of the view that existing service providers should be offered business mentoring and support to transition to a market-based system.<sup>73</sup>

4.93 However, according to the NDIA, 'providers can attract some funding or assistance to support their transition to the NDIS, through grant programs from the Australian, state and territory governments'.<sup>74</sup>

4.94 For example, the Victorian Aboriginal Community Controlled Health Organisation (VACCHO) has received funding from the Victorian Government's Transition Support Package to support Victorian ACCOs to transition from block grant funding to the NDIS individualised funding model.<sup>75</sup>

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69 Mr Phil Calvert, President, Australian Physiotherapy Association, *Committee Hansard*, 14 June 2018, p. 34.

70 Mr Phil Calvert, President, Australian Physiotherapy Association, *Committee Hansard*, 14 June 2018, p. 38.

71 McKinsey & Company, *Independent Pricing Review NDIA –Final report*, February 2018, p. 16.

72 Sunnyfield, *Submission 1*, p. 4.

73 See for example: One Door, *Submission 13*, p. 3; Mental Illness Fellowship of Australia, *Submission 39*, p. 3; Victorian Autism Specific Early Learning and Care Centre, *Submission 51*, p. 1

74 NDIA, *Submission 52*, p. 4.

75 Victorian Aboriginal Community Controlled Health Organisation, *Submission 66*, p. 2.

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### *Committee view*

4.95 The transition to the NDIS is massive structural change for the disability sector. With the transition to the NDIS, service providers are expected to change business practices, shifting from a model where organisations were mostly block-funded and paid in advance to a fee-for-service model where organisations are paid in arrears on a price regulated unit cost basis. Organisations have to invest in new infrastructure and systems to meet the requirements of the new operating model. Additionally, organisations are expected to grow to meet the increased demand in services. As a submitter pointed out to the committee, when sectors such as the motor industry or the tertiary education sector, have been subjected to extensive transitional changes, it has generally been well supported by publicly funded industry adjustment programs combined with planned change process.<sup>76</sup> However, it appears that this is far from the case when it comes to the disability sector transitioning to the NDIS. Indeed, the committee have consistently heard that service providers are struggling to make the necessary changes to operate under the NDIS. In short, service providers critically lack capacity, expertise, cash reserves and infrastructure to make a successful transition and operate in the new NDIS environment. Furthermore, to date, it appears that the growth in new providers is far too slow and patchy to mitigate current and projected supply gaps.

4.96 The committee is of the view that the NDIA as a market steward has lacked forward planning and not adequately facilitated access to support and assistance for existing and prospective service providers to operate in the NDIS environment. The committee understands that the Sector Development Fund (SDF) and Boosting the Local Care Workforce Program have provided some small grants to service providers to assist with the transition to the NDIS. However, the committee has heard no evidence about the adequacy of these programs or of any noticeable impact it has had on the sector.

4.97 The committee is of the view that a disability transition industry plan with a transition assistance fund program need to be urgently developed and established. The program should aim at supporting existing service providers to transition to the NDIS and to grow their operations to respond to increased demand. Importantly, the program should also aim at attracting and supporting new businesses entering the disability market. The program should provide assistance with business training and mentoring activities, infrastructure investments, workforce recruitment and training as well as seed funding grants for start-ups and new businesses entering the market. The committee recommends a whole of government approach to develop the fund assistance program. This will ensure that the expertise of all relevant departments such as the Department of Jobs and Small Business are utilised in the development and implementation of the disability transition assistance fund.

4.98 The committee also heard that the additional costs of administration associated with the NDIS are not factored in the NDIS pricing. This is contributing to

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76 Mr Gordon Trewern, CEO, Nulsen Disability Services, *Committee Hansard*, 17 April 2018, p. 22.

service providers struggling to operate in the NDIS environment. The committee is of the view that the NDIA should consider how to better reflect in its pricing of supports the additional administration costs associated with operating in the NDIS environment at the next NDIS pricing review.

**Recommendation 18**

**4.99 The committee recommends the DSS lead a whole-of-government approach to establish a Disability Sector Transition Assistance Fund to support existing and prospective service providers to operate in the NDIS environment.**