

NDIS: Enabling Change

Addressing Excess Demand in the New Disability Services Market

Background:

Following a report by the Productivity Commission in 2011, the National Disability Insurance Scheme (NDIS) was introduced. The trial phase began in 2013, and the scheme is being rolled out from 2016, with an estimated 460 000 Australians to receive funding by 2019/20.¹ Previously, funding for disability support services was given from government agencies to providers, with people receiving the services effectively passengers. The scheme was considered inefficient and inequitable.

The NDIS involves a dramatic change to the sector as participants now receive government funding directly and can choose which providers they will go to for services. Greater choice and control for participants has the potential to significantly increase the welfare of Australians with a disability. It also introduces competition into the market for disability support services, hopefully encouraging providers to innovate and improve their services to attract participants.

Price controls are in use because the markets for services are in a sense new and developing. Providers cannot charge above the amounts listed in the NDIS Price guide for their services.² Hence, there is now effectively a price ceiling in the market.

Issue (Potential Reduction in Service Quality):

Disability Services Market (Appendix A).

A price ceiling has the potential to create excess demand if prices are set below the theoretical 'efficient' market price. This theory is supported by findings that participants with approved plans are unable to access services, and that insufficient attention has been paid to the supply side of the market.³

¹ Warr et al. *Choice, Control and the NDIS*, University of Melbourne, p41.

² NDIA 2018. NDIS Price Guide.

³ Windholz, E. 2014, *Four lessons the NDIS must heed to avoid a 'pink batts' disaster*, The Conversation;

Due to this excess demand and cap on prices, new providers may look to provide services at a lower cost. Innovation may be encouraged, however with firms facing uncertainty as to their levels of future demand, and a rapid transition, the option to cut back on services or look to provide them at a lower cost may be more practical.

The conditions for higher skilled disability support workers may not be as appealing with firms unable to pay them a sufficient wage. Additionally, there is a major challenge for a skilled workforce to expand enough to meet increases in demand. A recent report into the state of the disability workforce found that ‘around 60 per cent of disability service providers had moderate to extreme difficulty recruiting disability support workers.’⁴

Thus, there is a serious risk that the quality of services in the sector will fall.

Policy (Skilled Worker Grant):

Investment in training courses for workers can help to improve quality of service. Grants for providers who employ workers who have undergone a relevant training course would allow providers to take on more skilled workers to meet increased demand. The grant ought to be given to providers in two cases:

- If a worker completes the training course while employed by the provider
- If a provider employs a worker who has completed the training course within the past 12 months, and no other provider has received a grant due to that worker

This targets the incentives of workers, who are more likely to gain employment in the sector following a training course, and providers, who may still employ skilled workers as they face uncertainty and look to meet increased demand.

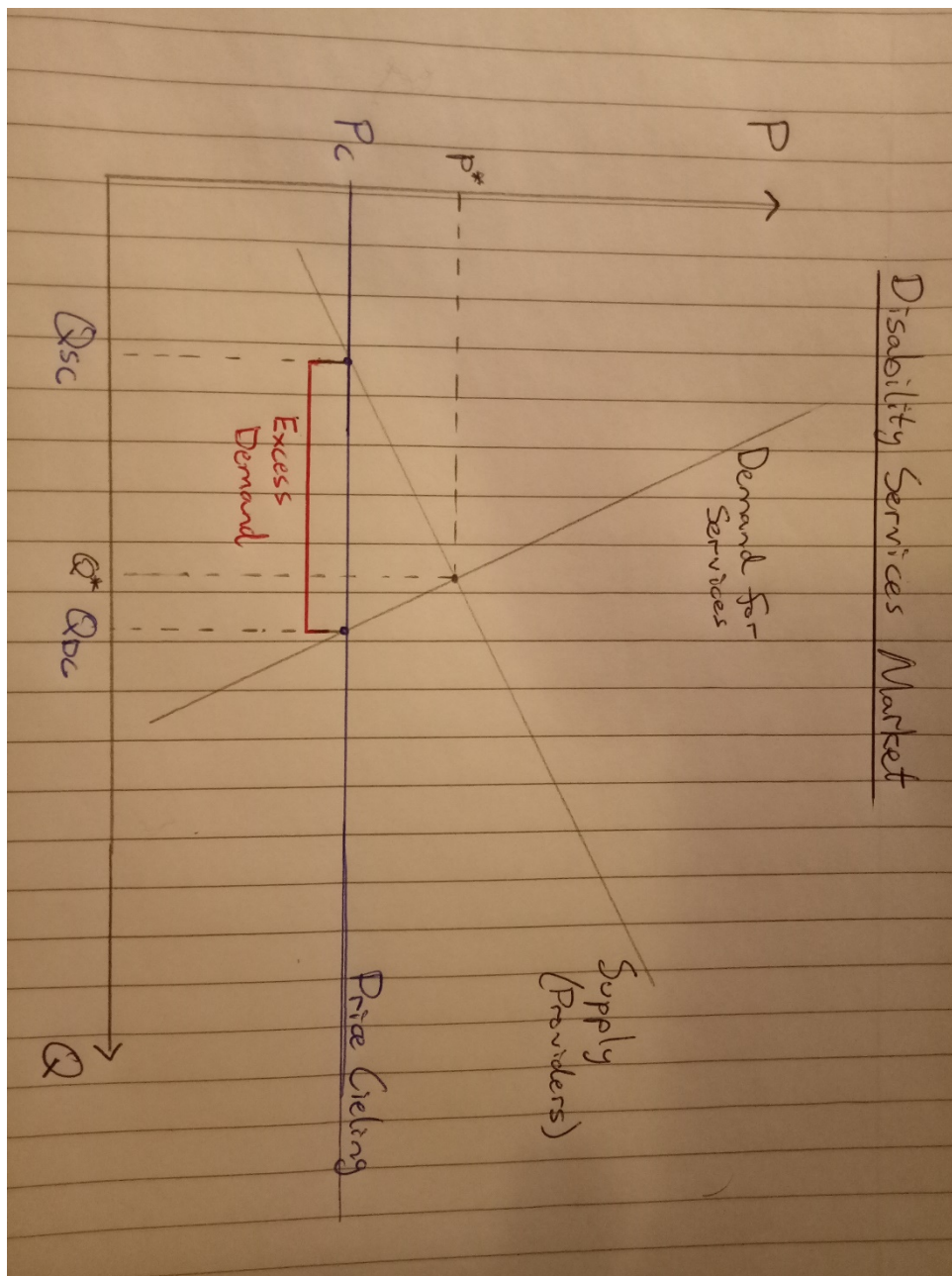
Furthermore, if we consider a trade-off between providing funding to providers (increased certainty) and funding to participants (increased choice), providing all funding to participants may be considered a corner solution (Appendix B). Whilst providing all funding to providers in a welfare-based scheme as previously was clearly inefficient, it may be that with opportunities for providers, or advocacy groups, to receive a small amount of funding, the

⁴ National Disability Services (NDS) 2017, *State of the Disability Sector Report 2017*, p45.

marginal benefit of that funding might be greater than additional funding to participants at this point.

The success of the NDIS depends on quality services. It appears that more investment in human capital in the sector is necessary to increase productivity and enable firms to cope with increased demand for services.

Appendix A1



Appendix A2

