

NDIS Green Paper 4: Demand, Supply & the NDIS—A Matter of Words?

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Context:

This Green Paper contributes to the broader discussion surrounding the rollout and management of the NDIS within the Australian Disability Services System. It supports the Not-for-profits UWA White Paper “Six Years and Counting: The NDIS and the Australian Disability Services System”² and seeks to build on our own and others’ research activities to contribute to the creation of an Australian Disability Services System which is efficient and effective, as well as a sustainable and resilient.

Summary:

This paper is intended to be a very brief snapshot describing the discussion surrounding demand and supply and the NDIS. We contend that the use of descriptions of activities that are normally used to describe market activities represents a threat to outcomes of the Scheme because it misrepresents the relationship between consumers, suppliers and the NDIS. This situation in turn drives funding rationing policy suggesting that suppliers will respond to economic signals in the interest of consumers while suggesting that those consumers have economic power that they do not have—when the NDIA actually sets the decision framework. It is clear that the NDIA funds suppliers to provide supports and services to consumers who need those supports in order to live their lives and that the usual factors considered in markets economics, such as demand, supply and preference, do not apply. Additionally, in circumstances where the expectation is that they will apply, there is great risk that consumers will bear the brunt of negative outcomes, including that of not receiving services and supports.

Findings:

The quasi-market structure of the NDIS does not function as a real market, while the description of the supply-side is at variance with how the current pricing and policy framework impacts the provision of disability services and supports. Therefore, in order to achieve equitable, efficient and effective supply of disability services and supports, there remains a need for the collaborative development of an industry plan within a governance framework that allows for local resource allocation decision making in the context of a national policy framework. This is in line with the original White Paper findings.

Paper:

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² See: <http://www.research.uwa.edu.au/not-for-profits-uwa#ndis-disability-services>

The use of market economics rhetoric (e.g. “price” instead of “funding” or “procurement”; “demand” instead of “need”; “market” instead of “system”) and the lack of a direct relationship between the funder and the supplier are all hall marks of Quasi-Market economic structures. Quasi-Market economic structures are used by governments to change the behaviour of suppliers of needed supports and services by describing the rationing of resources and the processes of delivery in market economic terms. The idea is, if we describe these processes as if they were markets, we will see suppliers respond to this rhetoric by becoming more client-centric, efficient and effective in the same way as we think suppliers in real markets do. Of course, we are not necessarily sure that the real markets return these benefits. However, the use of this description method does introduce significant risk that supply of much needed services will be jeopardised to the detriment of consumers who ultimately bear the systemic risk.

Descriptions of demand and supply processes in market economics—that is, where a market exists—have the following key characteristics:

- Purchasers and suppliers are able to make decisions about whether or not they prioritise a certain service or support above others or even use their resources to make unrelated supply/purchase decisions. They might make/purchase other things; or even save and not make/purchase at all;
- Purchasers and suppliers generally consider their options above by reference to the price—they preference the purchase/pricing option that will deliver them the greatest benefit as they calculate it. Purchasers are concerned with:
 - Quality
 - Quantity
 - Timing
 - Alternative options

While suppliers are concerned with:

- Profitability
- Opportunity Cost

If no option presents that meets their individual criteria, they may prefer to save;

- The “efficient price” is the price offered and accepted by the supplier and purchaser respectively—if the price were lower more purchasers would want the service (but fewer suppliers would want to supply it); if the price were higher less purchasers would want the service (but more suppliers would want to supply it)—it is the efficient price because it is the price level that achieves the most efficient allocation of resources in terms of consumer preferences. This is why the market model is considered to deliver “consumer sovereignty”—the aggregated consumer demand is said to drive production; and
- If an efficient price cannot be arrived at through the market model, the market is said to fail. If the good or service is not able to be produced at a sufficient profit for suppliers, they will move their capital to other markets, while consumers will go without.
- When a market fails, governments might not care. For instance, at some point in the future the tobacco industry is likely to fail as consumers smoke less and it is unlikely that governments will choose to use public funds to support that industry. However, where competition and other elements make markets fail, and government sees these markets to be important for economic, strategic and/or political reasons, they may choose to use public funds to support them. This was the case with the Motor Vehicle Industry for many years.

There are many aspects and counter theories to this description which is presented in a condensed form. We do not purport to describe the market model of economics fully here at all but, rather, try to demonstrate the key decision drivers that are sought to be replicated in Quasi-Markets.

Figure 1, below, is a diagram of the traditional demand and supply curve. As can be seen, the higher the price, the more suppliers want to supply and the less that consumers wish to purchase. It is expected that these preferences include a calculation of all of the elements of decision making described above.

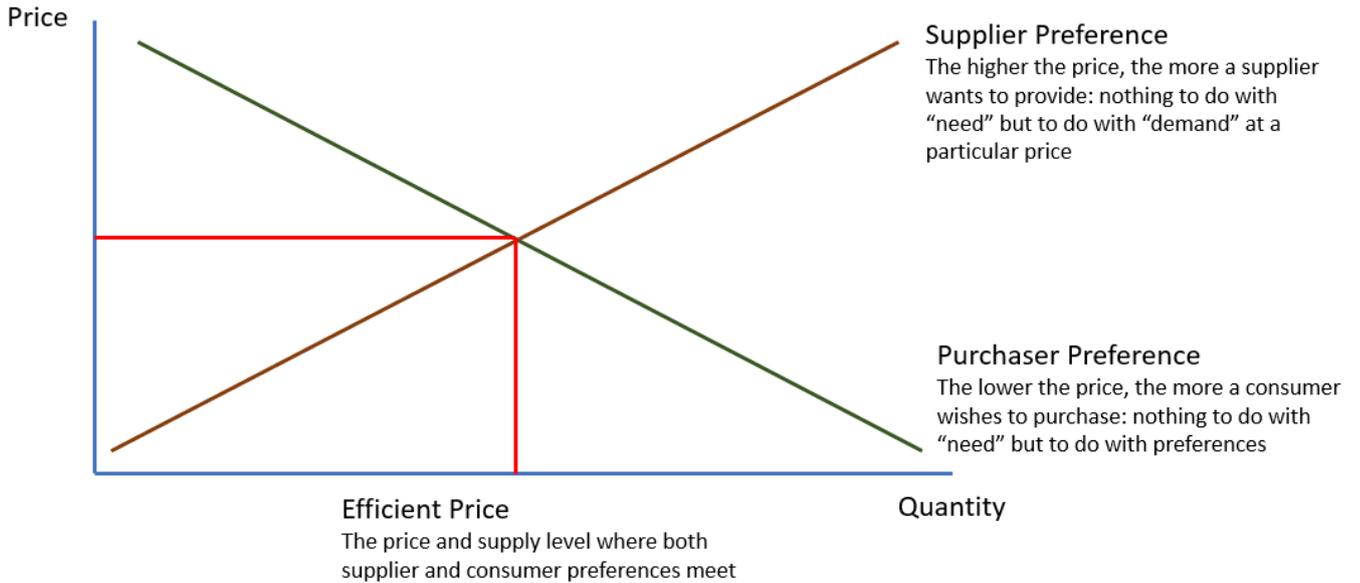


Figure 1: Traditional Demand & Supply Diagram

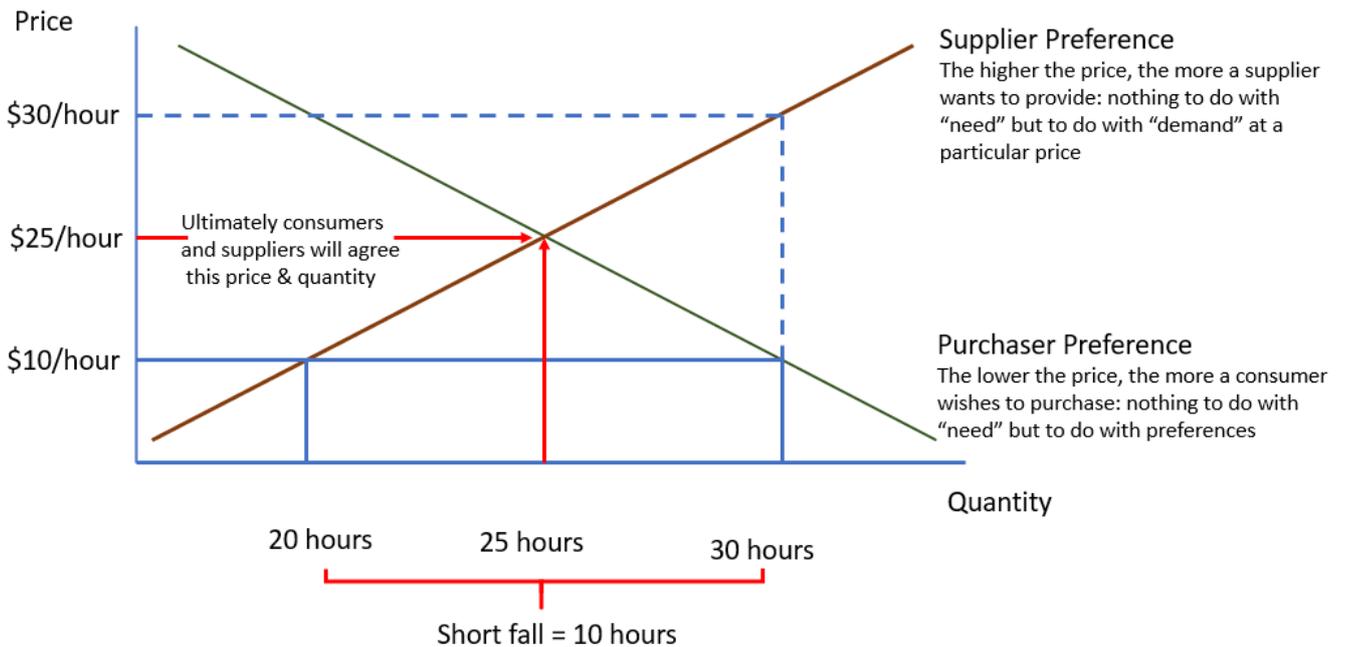


Figure 2: Example Demand & Supply: Changes in Price

Figure 2 is an

enhancement of this diagram demonstrating the short falls in service delivery where the price set is inappropriate. Let’s say this curve represents the market for accounting services. In this example, people are willing to buy 30 hours of service when the price is \$10/hour. At this rate in a market, providers are only prepared to provide 20 hours of service and so 10 hours go unprovided. This does not matter as the services required are not of such importance that consumers will pay a higher price and suppliers do not need to sell that many hours. Indeed, suppliers cut their cloth by hiring the staff required and purchasing other inputs in the context of the profit they are seeking.

In reality, the efficient price is somewhere around \$25. This is the point where suppliers and consumers effectively agree on the quantity, quality and timing of services at a price that meets both their decision needs. Other options, including just saving, prevent further production and consumption of this good. Over time then, it is expected that the price and quantity exchanged will move to this combination. It is these two sets of decisions that a monopsonist³ purchaser like the NDIS effectively makes by setting the price and quantity.

Further, it is worth noting that, in relation to human services such as disability supports, the consumers simply have to live with the unmet demand. If we are talking about chocolates, premium motor car brands or high-end fashion, this is not such an issue. If we are talking about the extent to which you are able to live your life as fully as possible, application of this idea becomes a critical area for consideration and examination.

Indeed, it is where services and supports are needed to be supplied because the community has come to agree that such is necessary for those people who rely on services and supports to live their lives that the market model fails. It fails because there is not sufficient profit for suppliers to divert

Supplier Preference

The higher the price, the more a supplier wants to provide: nothing to do with “need” but to do with “demand” at a particular price

Purchaser Preference

In human services the demand curve is vertical because people cannot choose not to have reasonable and necessary services. In other words, the demand level remains the same regardless of price

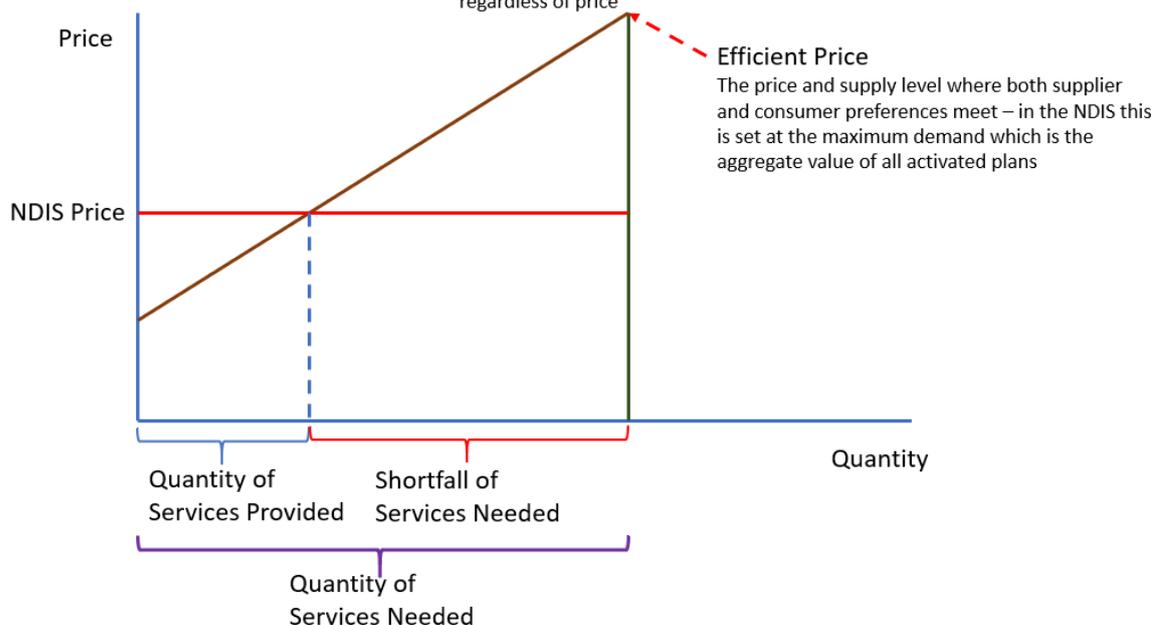


Figure 3: Example Human Services Demand & Supply – Inelastic Demand

³ A monopsonist being the controlling buyer in a market with many different suppliers.

their capital to deliver these services and/or because the price needing to be charged is not affordable to those requiring them. *Figure 3*, above, may help to demonstrate this idea.

In *Figure 3*, the demand curve representing the preference for this service is vertical. It is so because people who need this service are unable to do without it. Their decision to consume it does not depend on price and/or other options—they need it to live their lives. In this scenario, demand is met where the price established is at a level where suppliers can afford to provide services in the quantity expressed as the aggregate of all activated plans. As such, there is a shortfall expressed here as being the difference between what the consumer can afford and what the supplier is prepared to supply.

However, it is the NDIS who makes the crucial pricing, quantity and quality decision. It also creates the service delivery framework which impacts the capacity of suppliers to continue to meet demand due to an inability to operate in all service delivery types and to invest to ensure an ongoing fit-for-purpose structure and capacity⁴.

As such, regardless of the terms used to describe them, the key economic attributes of disability services are:

- While we talk as if there is a single market, in fact there are many supports and services being supplied within the NDIS price list with many attributes, levels of need, and geographic and cultural restrictions that impact the capacity of suppliers to provide them and consumers to utilise them—we must consider individual services and supports, offered in individual locations and apply the most culturally and clinically appropriate response in order to meet need. In other words, a one-size-fits-all economic model will not work;
- Consumers need the services and supports for day-to-day living—if they are not supplied, people will have adverse short-, medium- and or long-term outcomes which, in some cases, may include death—they cannot elect not to have the services or to reduce the service quantity or quality. This is why the services are termed “reasonable and necessary” in the NDIS legislation rather than “wants and desires”—they are necessary and will not cover all of the supports and services needed to enhance the lives of people with disability;
- Government must pay for the services because consumers cannot pay a price for them that allows suppliers to respond—this is especially the case for people with disability who are likely to be economically vulnerable and who are recognised to have a higher cost of living compared to people without disability;
- The fact that government pays for the services and sets the rules places it in the role of a “monopsonist”. Where a monopolist is the only seller of a service, a monopsonist is the only buyer, giving it power to set either prices or quantity. This is not to say it is a bad thing, as it is often a necessity; however, we need to develop policy and practice recognising this reality. In the case of disability services, the government is a very powerful monopsonist as it sets the funding levels (via a price), describes the services available (via a price list and planning process) and subsequently assesses quality (via the NDIS Quality and Safeguards Commission). Thus, the government decides the entire economic structure leaving

⁴ See: Gilchrist, D. J., and D. Etheridge, (2020), *The Not-for-profit Balance Sheet: A Resource for Directors and CEOs*, A Report for the Not-for-profit Sector Banking Team at the Commonwealth Bank of Australia Ltd, Sydney. Available at: <https://www.research.uwa.edu.au/not-for-profits-uwa#nfp-finances>

consumers and suppliers unable to make the traditional market economic decisions described above;

- Given that these traditional decisions cannot be made by consumers and suppliers, and given that the government pays for these services, it is right and proper that the use of tax payers funds should be as efficient and as effective as possible—it is not in anyone’s interests to waste tax payers money and, critically and appropriately, the NDIA is charged with ensuring this is the case with respect to disability services. The NDIA works hard to ensure the provision of services meet the “reasonable and necessary” criteria and that money is not wasted;
- To achieve efficiency, the delivery attributes of services and supports must be planned, they cannot be left to market-style decision making when consumers and suppliers do not have market power. The monopsonist either simply leaves the risk with the consumer and the decision to participate with the provider (partly explaining the significant underutilisation of NDIS funding that has occurred year-on-year since inception) and uses their position as a monopsonist to save money in the short-term. Needless to say, the long-term prospects for people with disability under this arrangement are not good.
- The alternative is to accept that the long-term prospects for the delivery of disability services in Australia are enhanced greatly by acknowledging and acting on the fact that:
 - Consumer choice and control can only be achieved where consumers actually have power to exercise choice and control;
 - “Sustainability” means the continuing ability of suppliers to provide the right quantity, quality and timing of services that are required by consumers;
 - Reducing risk to service users requires the development of sustainability in service provision via positive, collaborative action rather than leaving things to the market—especially when that market does not exist;
 - Achieving sustainability in the supply of services requires the development of effective data assets that help us to understand the comprehensive cost of service delivery and investment required to ensure the supply-side remains fit-for-purpose in the long-term⁵; and
 - For consumer choice and control to be enabled, decisions pertaining to the application of resources need to be made at the service delivery level. The closer to service delivery decisions are made, the more fit-for-purpose those services are going to be. This is especially so when we consider the impact of cultural, geographical, clinical and other location/disability type-specific elements

Therefore, the conception of the NDIS service delivery framework as a market-based economic model is not supportable. The market is not making the decisions necessary to achieve delivery of the quantity and quality of services required, the NDIA is.

To manage the disability services system in Australia efficiently and effectively, the development of a collaborative industry plan is critical to ensuring a local decision making framework in the context of a national governance policy framework can support true choice and control for those relying on disability services to live their lives.

⁵See our first green paper in relation to the area of data assets: Gilchrist, D. J., P. A. Knight & T. Emery, 2020, “Green Paper 1: Data Assets, Efficiency and the NDIS”, A Report of Not-for-profits UWA, Perth, Australia. It can be found at: <https://www.research.uwa.edu.au/not-for-profits-uwa#research>