Taylor Fry

Disability Services Commission

WA NDIS My Way

Financial Sustainability Summary Report

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Alan Greenfield
Fellow of the Institute of Actuaries of Australia

Ash Evans
Fellow of the Institute of Actuaries of Australia
Chartered Enterprise Risk Actuary

Kari Wolanski
M.A. Social Development

Sydney

Level 11, 55 Clarence Street
Sydney NSW 2000

P 02 9249 2900
P 02 9249 2999

Melbourne

Level 6, 52 Collins Street
Melbourne VIC 3000

P 03 9658 2333
P 03 9658 2344

ACN 087 047 809
ABN 29 087 047 809

www.taylorfry.com.au

Taylor Fry Pty Ltd – Consulting Actuaries & Analytics Professionals

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1 FINANCIAL SUSTAINABILITY ASSESSMENT

On 1 July 2014 the Western Australian Government commenced participation in the National Disability Insurance Scheme ("NDIS") via a two-year trial. The trial began in the Lower South West (LSW) region on 1 July 2014. The trial began in Cockburn-Kwinana (CK) region on 1 July 2015. It is managed by the Western Australia Disability Services Commission ("DSC"). The trial period ends on 30 June 2016.

Through the National Partnership Agreement ("NPA") on trial of *My Way* sites, Governments agreed an actuarial approach to assess financial sustainability of the trial, identify any risks to financial sustainability, and to estimate future expenditure.

In accordance with the NPA we have produced our first annual Financial Sustainability Report (the "FSR") on the trial, building on four Quarterly Monitoring Reports to date. In that report, we:

- Assess the **financial sustainability of the trial** to 30 June 2016,
- Adjust **baseline forecasts** for the remainder of the trial period, and in the event of a State-wide rollout of the NDIS ("rollout"), an adjusted baseline forecast beyond 30 June 2016,
- Discuss the DSCs' **risk management arrangements,**
- Identify and consider the mitigation of **risks to the financial sustainability** of the model over the course of the trial, and of a rollout beyond the trial period.

This report includes an abridged version of the FSR and a trial snapshot as at 30 June 2015.

Financial sustainability of the trial

Overall, we are satisfied that the trial is financially sustainable.

Quarterly reporting to date on the LSW trial's first year has shown that expenditure has been lower than anticipated due to fewer participants than expected. We note that the level of support needs of these participants has been generally higher than anticipated, but package costs have nevertheless been lower on average than expected for this level of support needs.

The population covered by the trial triples on the commencement of the CK trial site on 1 July 2015. While the new larger trial site increases uncertainty, experience in LSW suggests that the CK trial is likely to also be financially sustainable over the trial period. Our 2015/16 participant projections for CK are similar to the initial budgeting[1]. We expect that, as in LSW, package costs will be lower than initially expected in CK.

[1] In this report, "initial budgeting" refers to the estimates of participants, average committed costs and payments made prior to the start of the trial. These estimates were made as part of the bilateral agreement with the Commonwealth.

Baseline forecasts

We provide adjusted baseline forecasts of the number of participants, average committed costs, payments and expenses for both LSW and CK. These are intended to provide a benchmark against which to monitor performance in future quarterly actuarial reviews for the remainder of the trial and beyond 30 June 2016 in the event of an extension in the trial regions beyond 30 June 2016.

The adjusted baseline forecasts are based on the Productivity Commission report adapted to the Western Australian environment. The original baseline forecasts were used in the NPA with the Commonwealth. It is important to note that the adjusted and original baseline forecasts:

- Do not reflect differences in the management of the scheme from the intended management in the Productivity Commission report,
- Do not incorporate the favourable experience in LSW up to 30 June 2015,
- Should not be considered actuarial projections of expected performance.

Table 1.1 shows the adjusted baseline forecasts for LSW and CK combined for the trial period and beyond. All monetary amounts have been adjusted to allow for future inflation.

Table 1.1 Adjusted baseline projections, including beyond trial period

Year ended 30 June	Participants	Average committed cost	Payments	Operating expenses
	As at 30 June	$, as at 30 June	$ million	$ million
2015[1]	1,030	36,023	27	3.5
2016	3,605	36,761	103	12.7
2017	4,181	36,118	142	15.3
2018	4,284	37,502	156	15.3
2019	4,390	38,931	166	13.2
2020	4,497	40,415	176	11.8
2021	4,602	41,957	187	10.9
2022	4,705	43,618	199	10.5
2023	4,807	45,348	212	11.1
2024	4,910	47,148	225	11.8
2025	5,013	49,020	239	12.6
2026	5,116	50,964	253	13.3

1. Figures at 30 June 2015 include the LSW trial site only.

Table 1.2 compares the baseline forecast for LSW to the actual experience. This illustrates our assessment of the low level of risk to financial sustainability. All participants, average committed costs and the percentage of participants that have active plans are projected below the adjusted baseline. Consequently, payments are 45% of the projected amounts up to 30 June 2015.

Table 1.2 LSW performance as at 30 June 2015 – Actual versus Baseline

	Actual[1]	Original baseline		Adjusted baseline	
		Forecast	Ratio	Forecast	Ratio
Participants	765	1,404	54%	1,030	74%
Average committed cost ($)	26,137	36,711	71%	38,143[2]	69%
Percentage of participants with active plans	88%	100%	88%	100%	88%
Payments, YTD ($M)	12.0[3]	30.1	42%	26.5	45%

1. For comparability to baseline forecasts, all Actual figures **exclude** participants over the age of 65. Consequently, figures differ slightly from the Quarterly Actuarial Review – June 2015.
2. For comparability to Actual, the projected average committed costs are weighted by the *actual* number of active plans. Consequently, these differ from the projected committed costs in Table 1.1 as those projections are weighted by the *projected* number of participants.
3. Actual payments exclude in-kind costs, whereas these are included in the baseline forecasts. These are expected to add approximately 12-15% to payments.

Risk management arrangements

DSC administers risk management at a level commensurate with trial maturity, by:

- Reporting regularly on trial performance,
- Keeping an active register of risks,
- Regularly considering diagnostics and commentary on performance and emerging trends in the trial provided by DSC's actuaries and responding to advice,
- Addressing issues raised in our report: "Review of Decision-making Tools, Processes and Data Collection" (our "previous advice" or the "review report") prior to trial commencement,
- Conducting internal analysis of expected costs and emerging experience.

We recommend that DSC add an internal monthly monitoring dashboard to its performance monitoring. This will improve the visibility of trial performance and the speed of recognition of emerging risks.

Assessment of risks to financial sustainability

We identify the following sources of potential risk to trial financial sustainability:

- **Cost drivers** are the elements of the trial that directly generate cost,
- **Cost controls** are the process and tools in place to manage costs at the front line,
- **Cost monitoring** is the accurate, responsive and transparent information of cost drivers delivered to management.

We identify potential risks to financial sustainability under each of these three categories, consider the level of risk that they may cause, and assess the impact if they were to eventuate. We provide an assessment of the threat to financial sustainability and recommendations for each risk over the course of the trial and in the event of a rollout.

We identify 23 sources of risk to financial sustainability. By and large, either DSC is currently mitigating these risks, or the nature of the risks does not lend themselves to mitigation. Current mitigation strategies are described in the relevant sections of this report.

The largest financial risk to the financial sustainability of the trial, and for a potential extension or rollout, is that initial projections of participants and costs were too low relative to the actual number of eligible participants and their actual support needs. This risk cannot be actively mitigated. However, DSC has systems in place to monitor this risk closely by monitoring access, support needs of participants, and package costs. To date, there is no evidence in the trial sites that the initial projections were too low. Overall, **there is a very low risk of an underestimation of initial projections threatening the financial sustainability of the trial.**

Recommendations to mitigate risks to financial sustainability

DSC has appropriate mitigation in place for the known risks that can be mitigated. In addition to this risk mitigation already in place, we recommend that DSC:

- Compare eligibility assessment practice between MWCs to assess consistency, and with an appropriate NDIS trial site to assess comparability – particularly for participants with psychosocial disability or who qualify for early intervention,
- Isolate instances of respite for families and carers and related cost in the data warehouse so it can be monitored,
- Analyse correlations between the needs matrix and child/adult surveys,
- Obtain or construct a new reference package to ensure plan costs are aligned with participants' support needs as well as the assumptions for the funding envelope,
- Continue to collect data relevant to the lifetime costs estimator – including participant attrition and mortality – to be able to calibrate a WA specific lifetime cost estimator in due course,
- Revisit the design of the data platform to improve DSC's agility in a rollout.

We understand that DSC is already pursuing some of these recommendations.

2 TRIAL SNAPSHOT AT 30 JUNE 2015

To complement the financial sustainability assessment, we provide a snapshot of the trial as at 30 June 2015. These figures provide details of the trial profile and performance.

Participation

Figure 2.1 Participants by eligibility

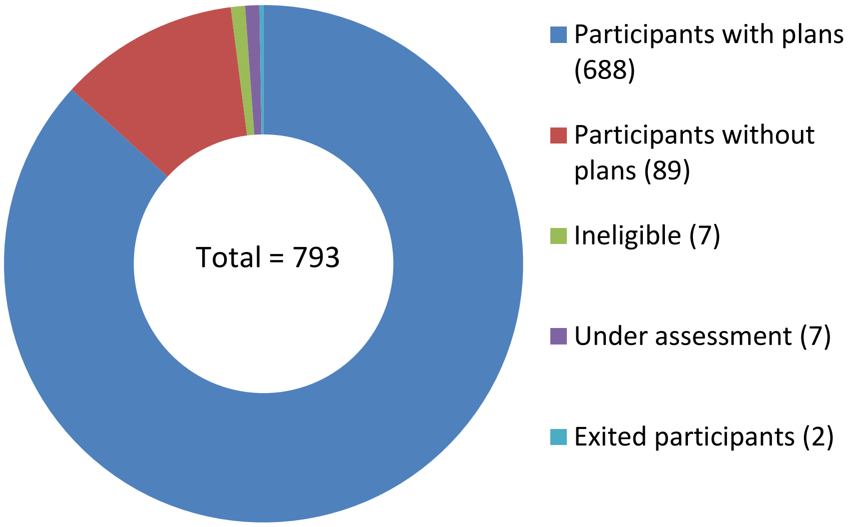
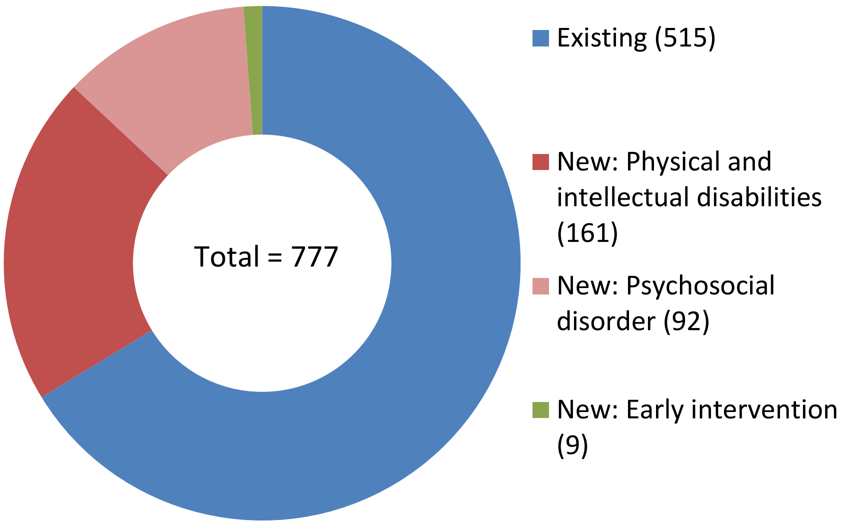


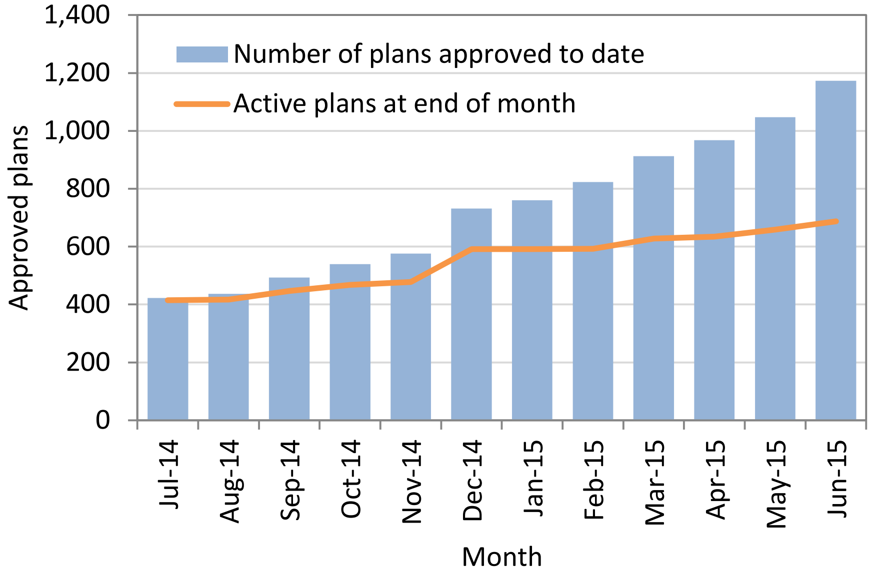
Figure 2.2 Current participants by access type[1,2]



1. "Existing" participants are those that transferred from the previous My Way trial. All of these participants have physical or intellectual disabilities.
2. The number of participants differs from Table 1.2 because this figure includes 12 participants aged over 65 receiving continuity of care.

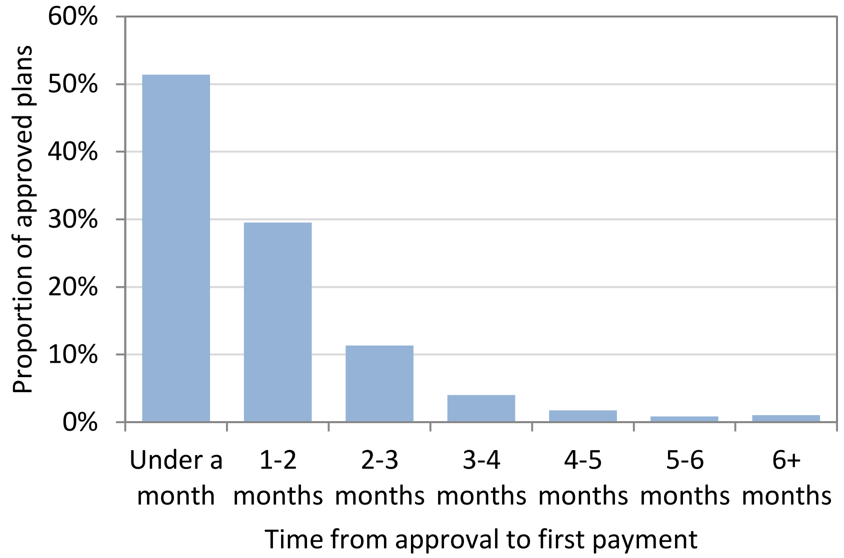
Planning

Figure 2.3 Approved plans[1]



1. Number of plans approved to date includes completed plan reviews.

Figure 2.4 Time from approval to first payment



Committed funding for active plans

Figure 2.5 Committed funding by primary disability

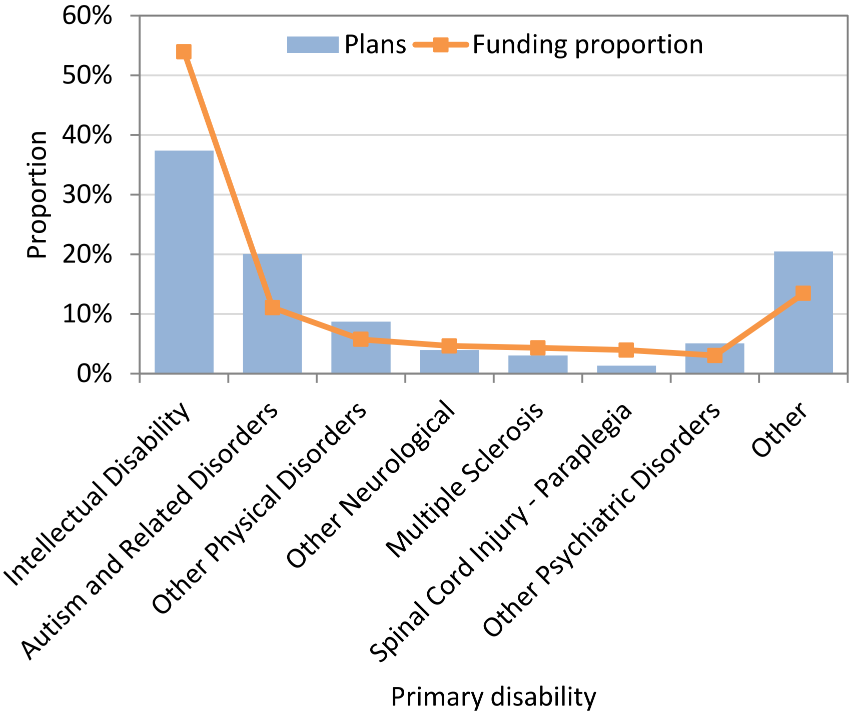


Figure 2.6 Committed funding by age group

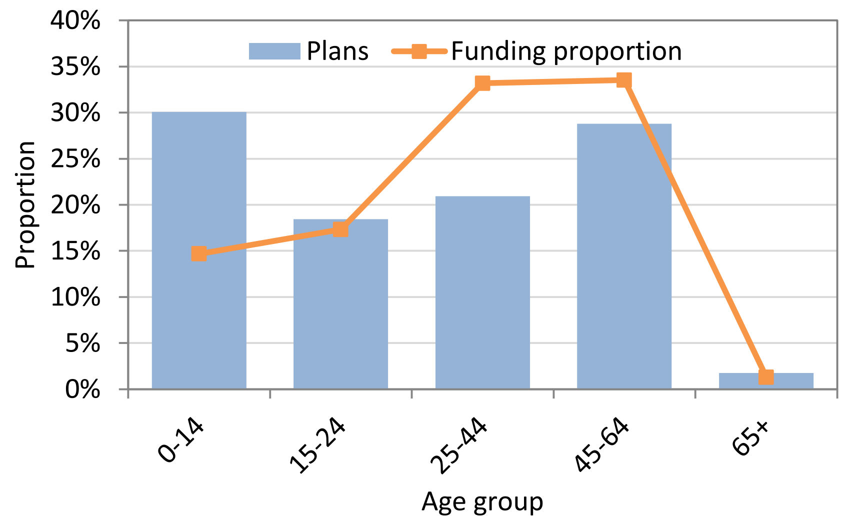
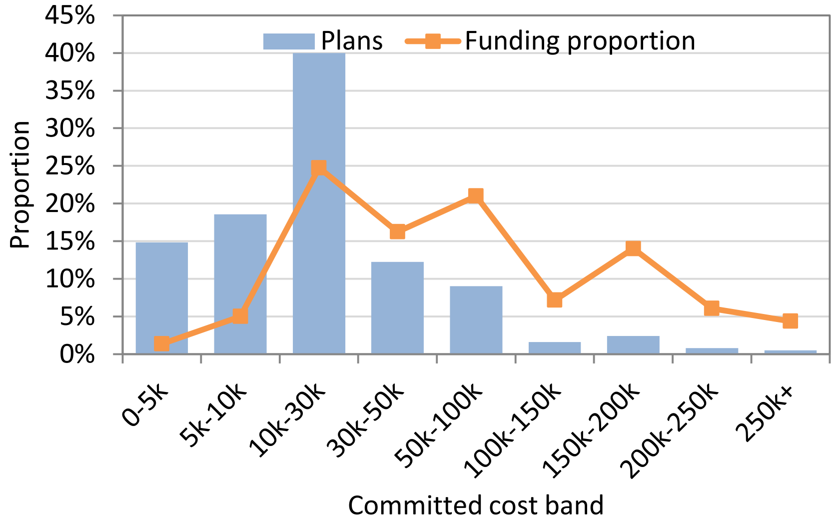


Figure 2.7 Committed funding by cost band



Committed funding by active strategies

Figure 2.8 Committed funding by funding type

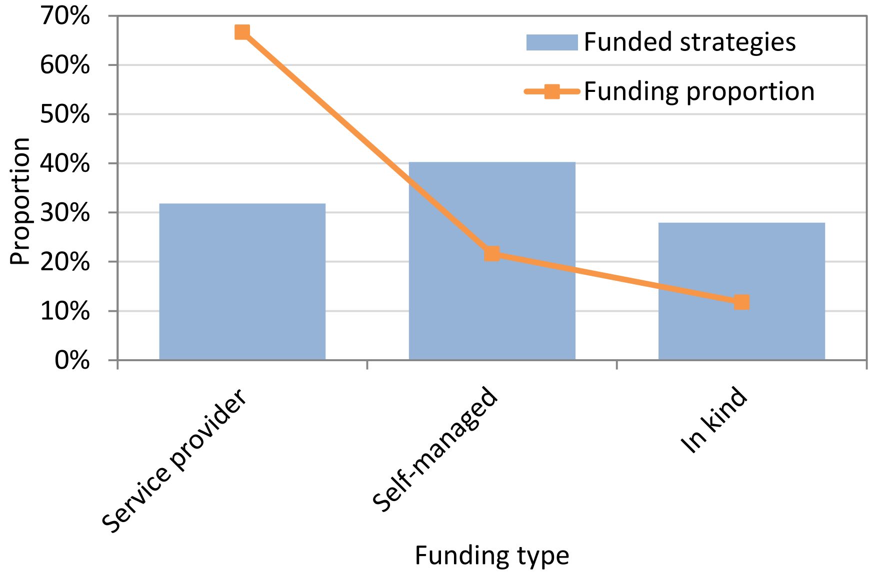
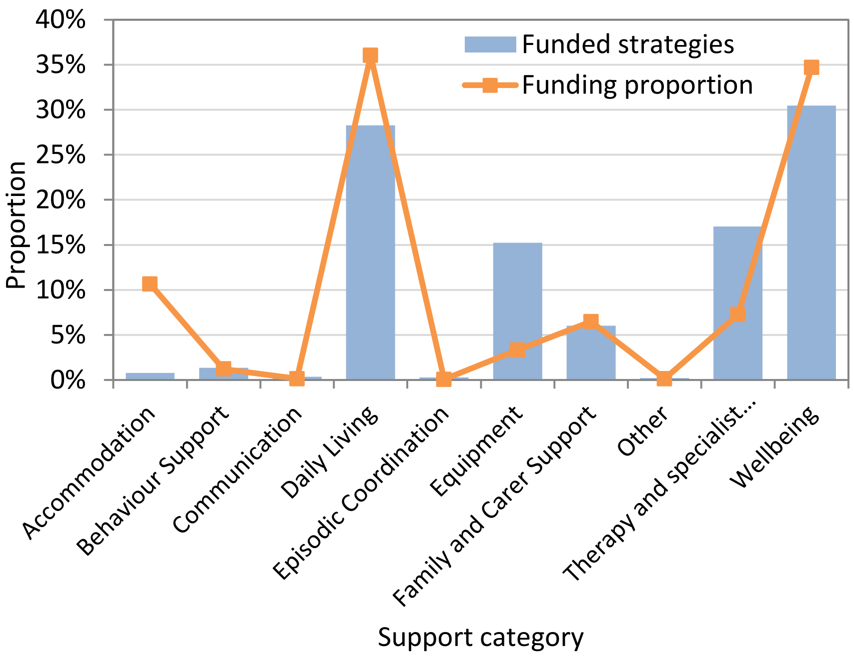
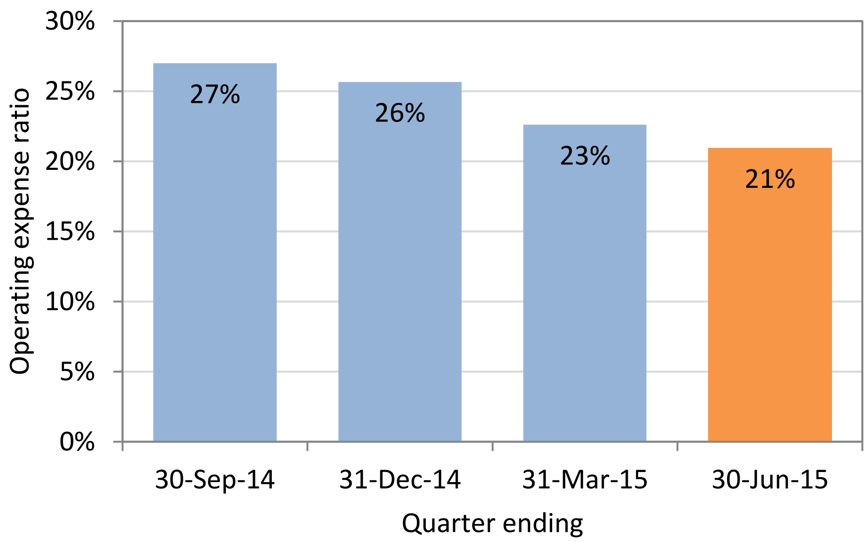


Figure 2.9 Committed funding by support category



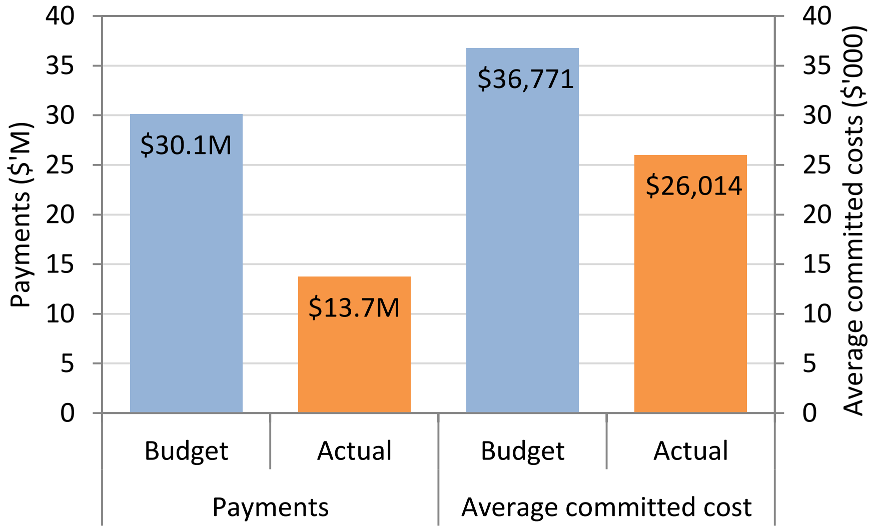
Financial performance

Figure 2.10 Cumulative operating expense ratio[1]



1. The operating expense ratio is administration costs divided by total payments made. Total payments made includes $1,529,598 for the approximate discharge of in-kind payments based on a prorate allocation of each participant's in-kind committed costs in the twelve months to 30 June 2015.

Figure 2.11 Comparison to budget[1,2]



1. The actual payments differ from Table 1.2 because the figure includes an approximate allocation of in-kind committed costs.
2. Also, the payments and average committed costs differ from Table 1.2 because these figures includes 12 participants aged over 65 receiving continuity of care.

3 RELIANCES AND LIMITATIONS

This report is an abridged version of the FSR and therefore all the reliances and limitations of that report are relevant here.

In developing the recommendations in this report Taylor Fry has relied upon historical data and other quantitative and qualitative information supplied by DSC, without audit or independent verification. Particularly, risk management assessment and recommendations are reliant on full and accurate disclosure of all pertinent information by DSC to Taylor Fry. The accuracy of our results and advice is dependent upon the accuracy and completeness of the information provided; therefore, any material error discovered in this information by DSC should be reported to us and the report amended accordingly.

In addition to relying on the information supplied by DSC we have assumed that DSC is actually carrying out the processes and procedures as identified in the report. Other than via our review of the experience each quarter we have no visibility of DSC's actual operations. To the extent that a particular process or procedure has been highlighted as important to risk management and financial sustainability of the trial it is necessary that DSC consider each issue carefully. Failure to do so may impact the risk assessment in this report and the level of financial sustainability.

The baseline forecasts in this report are wholly reliant on the estimations within the Productivity Commission report. We cannot assess the accuracy and completeness of the analysis within Productivity Commission report. Conclusions may differ materially if the analysis underlying the Productivity Commission report is shown to be inaccurate. In any case, all forecasts should be considered highly uncertain at this early stage of development.

Furthermore, these forecasts (the adjusted baselines) should not be considered actuarial projections of expected performance. They are not necessarily central estimates. No attempt has been made to provide central estimates of future experience based on the limited experience to date from LSW. The adjusted baselines are an update of the original baselines allowing for known impacts. They provide a baseline for monitoring the evolving experience only.

This abridged report should not be used as the basis for making detailed judgements about the analyses, assumptions and recommendations in this report.

This report has been prepared for the DSC specifically to be used as a publicly available summary of the FSR and to provide a snapshot of trial performance as at 30 June 2015. No reliance should be placed on this report for any other purpose without confirming with us that such a purpose is appropriate.