

BOARD OF TREASURERS

TRS19D2178

The Hon Josh Frydenberg MP
Treasurer
PO Box 6022
Parliament House
CANBERRA ACT 2600


Dear Treasurer

NATIONAL DISABILITY INSURANCE SCHEME (NDIS) TRANSPARENCY AND FINANCIAL SUSTAINABILITY

The NDIS is a major social reform and it is pleasing to see that, at the Council of Australian Governments (COAG) Disability Reform Council (DRC) meeting on 28 June 2019, Ministers reconfirmed their commitment and shared responsibility to deliver on the objectives of the NDIS, and agreed to maintain a strong focus on improving the operation, transparency and governance of the NDIS.

There has been a firm commitment from the States and Territories to provide significant resources to ensure the success of the Scheme. All States and Territories (except for Western Australia) have entered into full scheme NDIS bilateral agreements.

The NDIS full scheme bilateral agreements require the States and Territories to contribute fixed annual payments (indexed at 4 per cent each year), thus providing certainty of States and Territories' commitment. The bilateral agreements also require the establishment of a NDIS Reserve Fund in 2019-20, which is currently being negotiated.

In contrast, the Commonwealth's contribution lacks transparency on how it is calculated and adjusted for actual costs over time. This is a concern given the significant underspends to date, and reductions to NDIS payments of \$6.8 billion over four years to 2021-22 (calculated by comparing the 2018-19 and 2019-20 Commonwealth Department of Social Services Portfolio Budget Statements). It is unclear how much of this reduction is due to under-utilisation of NDIS package supports.

It is noted that the Budget Statements indicate a return to the previously anticipated level of NDIS expenditure from 2020-21. This improvement in utilisation, given current low levels of utilisation, appears to be an implausible assumption.

In the context of uncertain Commonwealth contributions and with likely ongoing Scheme underspends in the next few years, we have the following concerns:

- The Commonwealth may seek to reduce its commitment to the NDIS and to offset its future contributions with unspent contributions.

- The risk that the Reserve Fund may not be established as intended from both Commonwealth and State and Territory contributions (but instead, mainly consist of State and Territory contributions).

To ensure the NDIS is financially sustainable and to achieve a Scheme and Reserve Fund that is appropriately funded by all parties, it is critical that all contributions to the NDIS are reported to Treasuries in a more transparent manner. To this end, we seek commitment from the Commonwealth to provide the following:

1. A clear and consistent calculation methodology for Commonwealth contributions to the NDIS.
2. Greater transparency of future Budget estimates for NDIS payments, including of updated estimates and key NDIS funding parameters.
3. A reconciliation of variations to NDIS payment estimates over the past year. This includes the impact of the NDIS price increase in the 2019-20 Budget and details of how this is funded.
4. Additional information in monthly NDIS invoices to enable States and Territories to conduct their own financial reconciliations to better understand fluctuations in Scheme costs.
5. A quarterly report on the Scheme's financial sustainability to the COAG DRC with actuarial forecasts and information on provisions to the NDIA, market sector health and investment strategy.

Attachment 1 sets out this request in more detail. We would welcome further work by senior officials to establish ongoing information sharing processes.

The financial transparency of the NDIS is of significant importance to the States and Territories given its link to the financial sustainability of the Scheme and the establishment of the Reserve Fund. An open and transparent funding model will ensure that the NDIS is co-funded by all parties on a reasonable and fair basis, and allows for public and stakeholder confidence in the Scheme.

Further, we seek agreement from the Commonwealth to work with States and Territories to identify and rectify the causes of under-utilisation of NDIS packages as a first priority. If the Commonwealth adjusts its funding for actual costs due to under-utilisation, then some States may subsequently see a corresponding reduction in overall contributions while under-utilisation persists. Given the nature of the problem, this would be a sub-optimal outcome.

We look forward to your response.

Yours sincerely



Hon Rob Lucas MLC
Treasurer of South Australia
Chair of the Board of Treasurers

29 August 2019

Att

- Cc. Hon Dominic Perrottet MP, Treasurer of New South Wales
Hon Tim Pallas MP, Treasurer of Victoria
Hon Jackie Trad MP, Treasurer of Queensland
Hon Ben Wyatt MLA, Treasurer of Western Australia
Hon Peter Gutwein MP, Treasurer of Tasmania
Mr Andrew Barr MLA, Chief Minister and Treasurer of the Australian Capital Territory
Hon Nicole Manison MLA, Treasurer of the Northern Territory

States and Territories seek commitment from the Commonwealth to provide:

1. A clear and consistent calculation methodology for its Commonwealth NDIS contributions. It is unclear how the Commonwealth will adjust its contribution to the NDIS based on actual package costs. New South Wales and South Australia signed up to the full scheme on the understanding that contributions would only be adjusted for the actual number of participants.
2. Greater transparency of future Budget estimates for NDIS payments. A reconciliation of updated estimates and key NDIS funding parameters to be shared with State and Territory Treasury Secretaries (under embargo) for each jurisdiction prior to all Commonwealth Budgets and MYEFO.
3. A reconciliation of variations to NDIS payment estimates over the past year. A breakdown of estimates and key parameters in the 2019-20 Budget since the 2018-19 Budget and MYEFO for each State and Territory. This includes the impact of the NDIS price increase in the 2019 20 Budget and details of how this is funded.
4. Additional information in monthly NDIS invoices to enable States and Territories to conduct their own financial reconciliations to better understand fluctuations in Scheme costs, including:
 - The calculation of average package cost and assumptions on utilisation rates.
 - An explanation from the NDIA Actuary on how the level of 'Total Cash and Equivalent Assets' is determined in each jurisdiction
 - A calculated (rather than hardcoded) Commonwealth funding contribution including in-kind and Information Linkage and Capacity. All hardcoded data (inputs aside) relating to the Commonwealth and State accumulated funds, should be replaced with formulae-driven tables to allow for a transparent accounting process.
 - The impact of pricing increases on Budget and invoices.
 - The total participant and new participant numbers.
 - The flow of contributions into accumulated cash.
 - Financial accounting for the interest on accumulated cash.
 - Commonwealth contributions to ILC and in-kind.
 - Ongoing monthly reconciliation of NDIA payments in each jurisdiction for major components and any adjustments for previous periods (e.g., State in-kind, Commonwealth in-kind, in-kind washups, ILC and participant package costs). The total payments in NDIA invoice spreadsheets are currently hardcoded and there is a lack of transparency on how this is derived.
 - Detailed reconciliation and explanation of any adjustments to NDIA payments relating to services provided in prior years and its impact on NDIA cash balances in the current year. For example, it is not clear how services provided in NSW during transition (prior to 30 June 2018) are reflected in NDIA payments in 2018-19 (full scheme) and how this is reflected in 2018-19 payments or the cash balance.
5. A quarterly report on the Scheme's financial sustainability to the COAG DRC. The National Disability Insurance Agency (NDIA) should provide a quarterly report that builds on existing reports with additional actuarial forecasts and information on provisions to the NDIA, market sector health and investment strategy. As a starting point, the NDIA should be releasing to States and Territories the full annual financial sustainability report from the Scheme Actuary immediately.