12 November 2024

Special Commission of Inquiry into Healthcare Funding

Issues Paper 3/2024
Funding Models and the way that NSW Health Funds Health Services in NSW

Introduction

Mental Health Coordinating Council (MHCC) is the peak body for community-managed mental health organisations (CMOs) in New South Wales (NSW) and is a Registered Training Organisation (RTO) delivering accredited and non-accredited programs. We represent community-based, not-for-profit/non-government organisations who support people living with mental health challenges. MHCC's 150 members assist people to live well in the community by delivering mental health and psychosocial supports including social inclusion, rehabilitation, and clinical services. Our purpose is to promote a strong and sustainable community-managed mental health sector with the investment, resources, and workforce it needs to provide effective psychosocial, health and wellbeing programs and services to the people of NSW.

MHCC provides policy leadership, promotes legislative reform and systemic change, and develops resources to assist community-based organisations build their capacity to deliver quality services informed by a human rights-based, trauma-informed, recovery-oriented practice approach. MHCC works closely with Mental Health Australia on matters of national interest to the sector, including cross-governmental collaboration, bilateral agreements, and the NDIS, and with the Mental Health Alliance, a partnership of state-based peak bodies and professional associations, on matters of mutual interest in NSW.

MHCC welcomes the opportunity to provide information about issues to be explored during the Commission's hearings between 18 and 22 November 2024, focusing on TORs A and C. MHCC has identified 7 issues about which it would like to briefly comment. Our focus centres on issues as they particularly relate to the community-managed (NGO) mental health service sector, and how these services are best placed to keep people well and meeting their aspirations in the community. However, CMOs need to be sustainably funded and resourced appropriately in terms of the identified population needs and the workforce necessary across a myriad of roles to ensure quality service on an ongoing basis.

Issues

Funding approaches and methodologies

Local Health Districts and Specialty Health Networks allocate budgets to their respective facilities and services, and to Affiliated Health Organisations.

7. Whether those budget processes (and if so how) include an evaluation of:

a. **the health needs of the population in the relevant area,**
b. **the mix of infrastructure and services required to efficiently provide adequate standards of patient care to meet that need,**
c. **the resources (capital and human) required to deliver services to meet that need.**

Gap analyses have been conducted at both a state and Commonwealth level that identify the unmet need in terms of psychosocial disability in NSW. These analyses build on information provided in earlier reviews about mental health needs in Australia such as the Australian Productivity Commission Mental Health Report (2020), which recommended reforms that required expenditure of up to $4.2 billion per year across Australia, and estimated that approximately 50,000 people in NSW that would benefit from psychosocial support services are currently missing out. The modelling at that time showed these recommendations would generate national savings of up to $1.7 billion per year and derive benefits of up to $18 billion per year. There would be additional annual benefits of up to $1.3 billion per year as a result of increased economic participation and productivity (Actions and Findings: 4.2).

As part of its work on the National Mental Health and Suicide Prevention Agreement, Health Policy Analysis (HPA) prepared a report on the Analysis of unmet need for psychosocial supports outside of the National Disability Insurance Scheme. This report estimated that in 2022-23, of the almost 206,000 people in NSW aged 12-64 who required psychosocial support for moderate or severe needs, only about 40,000 received that support. This means that in NSW, over 166,000 people aged 12–64 years require, but do not receive, psychosocial support services.

Despite being the state with the highest population, NSW has invested the least per capita on all mental health services, over the past three years, compared to other states and territories in Australia (Australian Institute of Health and Welfare (AIHW) 2023). These statistics show that mental health now represents 15% of total burden of disease in NSW, but only receives 5% of overall healthcare funding, meaning the mental health system in NSW is operating on a third of the budget required to meet the needs in the community. The Gap Analysis has been conducted in NSW but has yet to be publicly released.

The Productivity Commission in its Report on Government Services (2024) provides recent data concerning mental health service use, but we know that savings could be achieved if there was a reallocation of funds from public to the community-managed mental health service sector. The case for change is clear but investment is not. There is a myriad of evidence of need that has failed to be translated to action and investment.

We also have substantial evidence about what we know works. This is detailed in Advice to governments on evidence-informed and good practice psychosocial services (Mental Health Australia.

Recommendation Issue 7

MHCC outlines its recommendations to the NSW Government in relation to the need for investment in evidence-informed community-managed mental health services in its submission to the *Inquiry into the equity, accessibility and appropriate delivery of outpatient and community mental health care in New South Wales* and MHCC's subsequent *Pre-Budget Proposal 2025-2029.*

We ask that Government:

- look to the recommendations in the aforementioned Inquiry, the HPA analysis of unmet need and the forthcoming NSW gap analysis (commissioned by the MOH and led by David McGrath) and commit to investment in mental health community-managed services, to ensure that population health needs identified are met,
- that that Government address inadequacies of access across the state through local planning and models of integrated service delivery,
- that the Government commits to investment in the workforce to ensure the level of growth and sustainability necessary to provide the quality of services that meet at a minimum the National safety & Quality Mental Health Standards for CMOs

Further commentary

Whilst Commissioning is a useful approach in that it can identify a particular target group in a specific area and bring together those services that best meet the demographic need, it is important that commissioned services should be CMO managed, else they tend towards only a clinical or medical model of care.

Commissioning can be a good way to ensure safe transitions of people across service systems, as these programs can be more innovative, agile, and flexible and can respond to environmental change. However, programs may only be funded short-term and lack sustainability. The commissioning model has proved to be a good way of integrating services, creating partnerships and bringing mental and physical health services together through programs that address co-existing conditions. When CMOs manage services, service users benefit from a model underpinned by a trauma-informed recovery-oriented practice approach.

10. An identification of the process by which funds are allocated to non-government organisations, including but not limited to community health organisations, alcohol and other drug service providers, mental health service providers, Aboriginal Community Controlled Health Organisations, research bodies and universities.

Recommendation Issue 10

- Commonwealth and States and Territories should be responsible for a 50:50 split in funding psychosocial supports, but the state should be responsible for determining service delivery needs based on known data and gap analyses. Services must reflect demographic needs, ensure equitable access, and maximise efficiency and efficacy of service delivery.

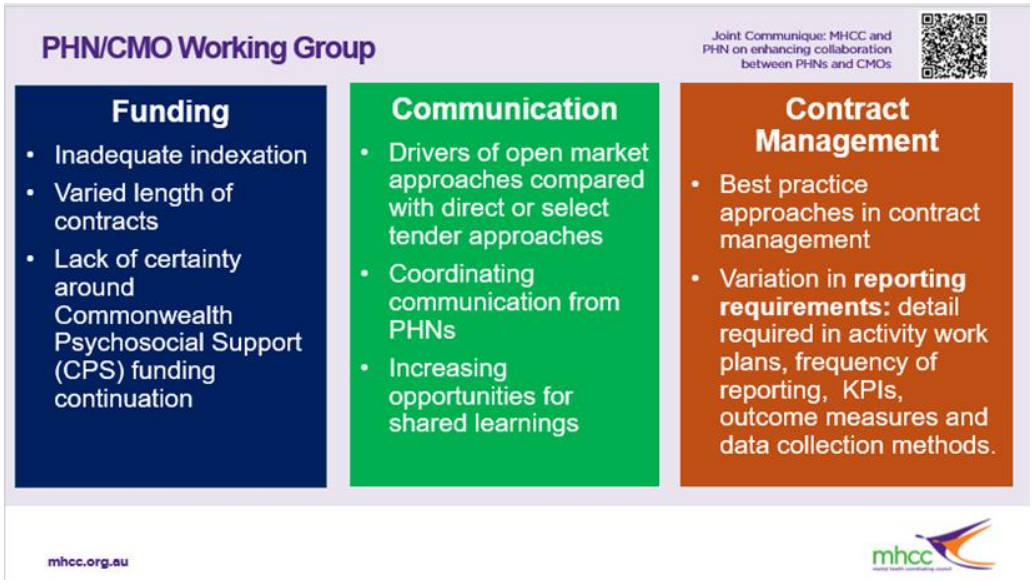
- We also recommend that a CMO Development Grants Program is established to be managed by peaks such as MHCC. This would be initiated to foster new innovative models of care and practice approaches, with research components applied to evaluate outcomes for ongoing sustainability.

11. Whether funding is allocated to non-government organisations on terms that appropriately balances the need for flexibility in the delivery of programs or initiatives to ensure that they effectively meet the needs of the local communities with appropriate levels of governance in the expenditure of public funds.

Work is already underway with Secure Jobs Funding Certainty (SJFC). This is a whole-of government approach in NSW that includes longer term funding arrangements, a funding framework (including a pricing approach), jobs compact and a prequalification scheme. MHCC's CEO Dr Evelyne Tadros is a member of the SJFC Leadership Group consulted about these arrangements.

Note: the Secure Jobs Funding Certainty Roadmap is being presented to NSW Cabinet in November 2024 for approval, covers the three pillars shown below.

Similarly, the NSW/ACT PHN CMO Working group is working through the below:



Recommendation Issue 11

Maximise the work already underway with Secure Jobs Funding Certainty (SJFC). This is a whole-of government approach in NSW that includes longer term funding arrangements, a funding framework (including a pricing approach), jobs compact and a prequalification scheme.

12. An identification of the process by which capital projects, such as the development of new facilities or re-developments of existing facilities, are:

a. **Identified,**
b. **evaluated, including the extent to which the health needs of the community and the services and facilities required to meet those needs, are considered,**
c. **approved or refused as the case may be, and**
d. **if approved, funded including the extent to which ongoing operational expenses of those new or redeveloped facilities are modelled and funded.**

A)

- The Housing and Accommodation Support Initiative (HASI) and Community Living Support (CLS) programs are part of a suite of community-based psychosocial support programs for adults with severe mental illness to live and participate in the community, the way that they want to. The programs offer psychosocial support, tenancy support in partnership with clinical mental health services. Many consumers are also supported to access secure housing. Together HASI/CLS now support over 1,799 people with severe mental illness across NSW.

  Consumer contact with public metal health outpatient services decreased by 10% in the first year and was 64% less if they remained in the programs for more than one year. Hospital admissions due to mental health decrease reduced by a total of 74% and the average length of stay in hospital decreased by circa 75% over two years. The net cost saving per person was about $86,000 over five years. Over 90 percent of the cost offsets were from reduced hospital admissions and lower lengths of stay.

- The Pathways to Community Living Initiative (PCLI) was established to support the transition of long-stay mental health patients (12 months or more) into appropriate community-based living and services. It is led, funded and coordinated by the NSW Ministry of Health in collaboration with Local Health Districts (LHDs), and involves multiple organisations and care providers.

  The PCLI has two aims:
  - Transitioning long-stay patients - or those at risk of long stays – who experience very complex mental health issues back into the community. And where possible, developing new service models for appropriate care.
  - Creating practice change in inpatient and community services across NSW to decrease the number and length of long stay admissions.

B)

- HASI commenced in 2002 and is now in its twentieth year of operation. The evaluation shows that HASI and CLS programs are generally working well, achieving identified goals and are both efficient and cost effective. Evidence from an evaluation in 2022 demonstrates that HASI/CLS programs produce good outcomes for services users, their families and carers and the community. Based on the Kessler 10 and Health of the Nation Outcomes Scales scores, 30% of consumers in HASI/CLS had a clinically meaningful improvement in their mental health.

The NSW Government conducted its second Evaluation in 2022 of Community Living Supports (CLS) and Housing and Accommodation Support Initiative (HASI) .The Ministry commissioned the Social Policy Research Centre (SPRC) at UNSW to evaluate the HASI/CLS programs. The 3-year longitudinal evaluation ran from November 2017 to January 2020, with final analysis completed in 2021.

- The Pathways to Community Living Initiative (PCLI) report, presents the summative findings of the mixed methods evaluation activities and formative information to guide continuing reform within mental health services. It was an independent evaluation was conducted between January 2017 and October 2021 by the Centre for Health Service Development, University of Wollongong. The report concludes that the PCLI is successfully transitioning consumers with complex care needs to the community. Evidence shows there is better quality of life and improved social and health outcomes by living in the community.

C)

- Despite this most recent and compelling evidence of the benefits of HASI/CLS, further expansion of these services has not been forthcoming. MHCC has continued to advocate for increased investment. The most recent occasion was in our Pre-Budget submission.

- In relation to PCLI Stage 2 CLS there has been a complete failure to meet identified need. In late in 2010, several CMOs submitted a response to NSW Health for a Request for information (RFI).

  The RFI was directed to:

  i. CMOs (Part A for Accommodation Support Services described as: the commissioning of staff, operation of the residence/s and provision of an intensive accommodation support and rehabilitation program according to the PCLI Stage 2 SLS Framework)
  ii. and community housing providers (for Part B Housing Services).

  An open tender was released in June 2021 with an original submission date of the 17 August 2021. An extension was subsequently granted (on Thursday 29 July 2021) with a revised submission deadline of the 14 September 2021.

  As part of the PCLI 2, 230 state-wide SLS accommodation beds were to be distributed across nine LHDs and one Local Health Network. The RFI assumed a contract length of five years after the occupation date of the last Community Residence in each LHD, and potentially and additional 5-year extension.

  Three to five CMOs where to be selected to deliver Part A: Accommodation Support Services across NSW with 1 provider per LHD. Preferred providers were advised in July 2022 and formal negotiations began in November 2022.Throughout the negotiation there appeared to be watering down of the program in terms of the number of clients originally tendered and from the number of regions to be engaged.

  On the 19 June 2023 the NSW Health Department formally advised: “Negotiations with the preferred Community Housing Provider have been unsuccessful and we have had to withdraw from the negotiations.

Unfortunately, the procurement did not identify another suitable provider and therefore we have had to terminate the Housing Services procurement process. This also means we cannot proceed on the planned delivery model and cannot enter into contracts with Accommodation Support Services either".

Regardless of the formal withdrawal of the tender, the Department continued to salvage with good intent elements of the program. Three preferred providers Flourish, Stride and Mission Australia were confirmed. Negotiations continued with these three-providers.

Despite the best of intentions with the original RFT and open-tender the outcome remains that the 230 participants to be serviced remain in long-term inpatient care and NFP service providers who have invested significant time and resources remain resolute to see positive outcomes for the identified group in need.

- In answer to this issue we again refer to the Secure Jobs Funding Certainty Roadmap still awaiting NSW Cabinet approval referred to in page 4.

Recommendation Issue 12

- MHCC recommends that commitment to investment of existing psychosocial support programs such as HASI/CLS, be expanded to support an additional 2,500 people in NSW each year.

- MHCC further recommends that the PCLI2 program be implemented as originally intended, with funding of $40 million p.a. for 4 years (noting that these figures were what was produced by service providers back in 2021 and may need to be revisited). The original tender specified the program should include 29 facilities and 230 beds, but it appears there was never a forecast for either the capital or the operational support services, despite the service providers who submitted a response to the RFI, being led to believe that funding had been secured. For instance, it is assumed a RFI may not have secure funding attached to it and it just in an exploratory phase, but then to go to open tender, one assumes funding has been secured.

- Utilisation of the Secure Jobs Funding Certainty Roadmap.

16. Whether there are any alternative methodologies or approaches to funding of health services in New South Wales that could address any of the barriers or limitations in current approaches or to otherwise support the safe delivery of high quality, timely equitable and accessible patient-centred care, now and into the future.

- That Health-funded CMOs are a critical component of healthcare to NSW communities. Most NSW Health strategies, including health workforce, are silent on whether health-funded CMOs organisations are considered as part of strategies. This inquiry is only just beginning to include discussion around how CMOs fit into the mental health system as a whole, and MHCC are encouraged to see this change in focus.

In Victoria, a Mental Health and Wellbeing Payroll Tax Surcharge commenced on 1 January 2022. The levy was a recommendation of the Royal Commission into Victoria's Mental Health System. The Victorian mental health payroll levy imposes a surcharge of 0.5% on employers whose taxable wages are more than $10 million and 1% on those with total Australian wages of more than $100 million. The money generated from the levy is pledged to mental health programs and cannot be spent on other measures. A similar initiative was rolled out in Queensland on 1 January 2023. According to mental health advocates, the benefits of the payroll levy will ultimately far outweigh the costs.

Estimates from the Productivity Commission flag that mental illness costs Australia about $200 billion per year. The payroll levy in Victoria is projected to generate $50 billion in savings through a 25% improvement in mental health. In NSW a payroll tax levy has been initiated but not directed at any mental health services and supports.

- As NSW Health undertakes a review of governance, policy and funding arrangements related to health-funded CMOs to ensure business and workforce sustainability. The review should consider the rising cost to deliver CMO healthcare and ensure that appropriate cost escalation is considered as part of the health budget annually. This should include the development of a workforce strategy for health-funded CMOs and addresses systemic barriers workforce attraction and retention through a review of funding, cost escalation and long-term contracts. For example MHCC has undertaken a workforce profile report of Mental Health CMO's and delivered a subsequent Workforce Solutions Paper (2024) to address the issues identified.

Recommendation Issue 16

- Consider dedicated additional funding for the mental health system achieved through a surcharge raised through a payroll tax levy.

- Provide adequate indexation that responds to inflationary impact on salaries and service delivery in CMOs.

Adequacy of available funding

17. Whether the New South Wales Ministry of Health has historically received adequate funding to deliver the services needed to meet the health needs of the people of New South Wales.

- MHCC propose that NSW has not received adequate funding to deliver the services needed to meet the health needs of the people of New South Wales. In undertaking a gap analysis and the cross-party Upper House Inquiry in NSW is evidence that that work needed to be done to gather the evidence around where the gaps in service delivery are, particularly in a community context. Likewise, the Secure Jobs Funding Certainty Roadmap currently with NSW Cabinet for approval and NSW/ACT PHN/CMO Working Group (refer to page 4 above) in relation to funding, communication and contract management, are important considerations.

- There is a movement towards a 50/50 funding split between the Commonwealth and State/Territory governments in Australia for mental health services. This aims to establish and strengthen mental health support systems outside of the National Disability Insurance Scheme (NDIS), as indicated in recent discussions among stakeholders. However, specific details and arrangements are still being finalised.

- Advice was provided to government in a submission by Mental Health Australia (2024), gathered in consultation with the sector. The advice is intended to inform policy deliberations on the design and commissioning of psychosocial support outside the National Disability Insurance Scheme (NDIS).

  Governments are currently analysing the unmet need for psychosocial support outside the NDIS, with this work due to be completed by March 2024 under the National Mental Health and Suicide Prevention Agreement. In addition, on Wednesday 6 December 2023, National Cabinet agreed to jointly design and commission additional Foundational Supports outside the NDIS, which the NDIS Review indicated should include psychosocial services. The Minister for Social Services and the Minister for the NDIS subsequently announced consultation on the design of a Foundational Supports Strategy.

Recommendations Issue 17

- 50:50 share in funding psychosocial Foundational Supports outside of the NDIS between the Commonwealth and States and Territories (see media release)

- Address the unmet need outside of the NDIS as identified in the HPA Report

- Utilise the Advice to governments on evidence-informed and good practice psychosocial services (This advice is intended to inform policy deliberations on the design and commissioning of psychosocial support outside the National Disability Insurance Scheme).

- Government to ensure safe transition from Bilateral schedule on mental health and suicide prevention: New South Wales to the National Health Reform Agreement

23. Whether the funding allocated to non-government organisations is sufficient to cover the cost of delivering services, initiatives or research which are the subject of the relevant grant.

Funding has not been sufficient to cover the cost of delivering services, initiatives or research which are the subject of the relevant grant.

Refer to earlier comments in regard to the Secure Jobs Funding Certainty Roadmap currently with NSW Cabinet for approval and NSW/ACT PHN/CMO Working Group info (page 4).

Recommendation Issue 23

- Provide adequate indexation that responds to inflationary impact on salaries and service delivery in CMOs.

- See also Appendix 1 (page 11) for details regarding Secure Jobs & Funding

MHCC thanks the Special Commission for providing us with the opportunity to provide this submission prior to the hearings. Me or my colleague Corinne Henderson, Director, Policy & Systems Reform (E: corinne@mhcc.org.au) are happy to provide any further details about the issues raised in this paper.

Dr Evelyne Tadros
Chief Executive Officer
Mental Health Coordinating Council
E: evelyne@mhcc.org.au

Appendix 1

MHCC and member organisations provide the following detail in terms of secure funding, contract and workforce arrangements.

Contract length

Increased contract length will assist in the long-term planning of workforce and infrastructure, but also in the planning of investment in resources that may take several years to develop.

An increase in the contract term to at least five years will significantly decrease the cost of the commissioning process and increase the ability to plan and invest. Clarity and certainty around the options in a contract will further assist planning and investment decisions. Suppose there is a reasonable expectation that the contract will be extended based on the options agreed at the start of the agreement. In that case, it is more practical for the parties to consider investment and workforce development over this extended period. As an example, should there be a reasonable expectation that the contract will extend for multiple option periods automatically, e.g. a 5-year initial period plus an optional 5-year period will give the CMO clarity of operations for 5-10 years (unless there is a significant underperformance in service delivery).

Indexation

What is the purpose of indexation?

Indexation is the much-needed increase in the funding amount of grant contracts intended to compensate for the rise in CPI and salaries and wages, the latter of which is the most significant part of the cost structure of operations and inflation. If contracts are not indexed sufficiently, it puts an enormous financial strain on any organisation.

Why is indexation so important?

- The cost of operations is directly affected by two drivers:
- The increase in wage cost is due to changes in the award rates, superannuation, portable long service leave scheme, guarantee rates, and insurance. The wages cost is commonly between 75% and 85% of the total cost structure
- The increase in non-wage cost, commonly driven by an increase in rent, utilities and other operational costs
- Should the indexation not reflect the increase of these two contributors, there are only two actions that can be taken:
- Do nothing, and thus the deficit is funded through other services surpluses, cutting of overhead costs, or even using the equity of CMOs.
- Change the service delivery to align with the available funding, which usually means cutting available services.
- Both these practices are unsustainable and will lead to the loss of available services for consumers through either the exit of CMOs from the sector or the degradation of services.

Issues experienced with indexation

- Inconsistent calculation of indexation and a lack of transparency as to how this is calculated.
- Lack of clarity of indexation over the lifetime of a contract means that a CMO and PHN will enter into a contract, not sure if the lack of adequate indexation may lead to an inability to perform against the contract obligations.
- Indexation not meeting the increase in wage cost growth, directed mainly by the Award rate increase.

- Indexation not compounded year-on-year. Because indexation is aimed to compensate for cost growth, it must always be calculated on the increased contract value post-indexation from the previous year.

Salary and Wages Cost Increases

- In June 2023, The Fair Work Commission Expert Panel announced the 2023 Annual Wage Review decision, granting a 5.75% increase to the national minimum wage and a 4.6%, or a minimum of $40 per week, increase to modern award minimum wages. This increase flows to our Awards, including the SCHADS Award, HPSS Award and Nurses Award from 1 July 2023.
- The Superannuation Guarantee rate increased from 10.5% to 11% effective 1 July 2023.
- The total increase in staff cost is 6.25%, excluding any increase in workers compensation insurance.

Non-Staff Cost Increases

- The **annual inflation rate/CPI increase** to the end of the March 2023 quarter was 5.1%.
- **Rent increases** generally outstripped inflation, with residential increases averaging 3% and commercial (including retail and office space) around 3% to 4%. There are some cases of this being even higher.

Total Cost Increases

- Salary and Wage costs are the most significant contributors to budgets, typically around 75%-85% of the total budget cost. Therefore, the total effective cost increase for a service in 2023, and thus the required indexation, would be at least 5.3% (or 85% of 6.25%).

As wage cost increases are essentially not negotiable, inadequate indexation will ultimately lead to a degradation in service levels to consumers.

- Addressing the issues of contract length and adequate indexation are two very effective ways to address the critical issue of complications associated with the funding of services. Not only will it contribute to the consistency of contract, process and operations amongst PHNs and CMOs, but it also increases the certainty of services, ultimately benefitting the consumers dependent on these services' availability for their continued well-being.