

NADA Position: Business and Funding Models Study

November 2023

Background

In 2020, the NSW Ministry of Health commissioned the Centre for International Economics (CIE) to undertake the Business and Funding Models (BAFM) Study for non-government organisations (NGOs) providing Alcohol and other Drugs (AOD) treatment services in NSW.

NADA was supportive of the study, because without an objective and well-funded costing and business models study, we were not able to adequately argue for appropriate levels of government funding for members from a base of sound financial data. We hoped that the study would provide guidance to NSW Health so they could improve the funding amounts, mechanisms and processes to provide a stable and efficient funding program for the NSW NGO AOD sector.

NADA members funded by NSW Health were engaged in an extensive consultation process to inform the results of the study, including the provision of large amounts of financial data. NADA members agreed to participate in the BAFM study on the condition that it would be used to improve the funding and approach to commissioning AOD treatment by NGOs in NSW.

The report was finalised on 30 August 2021, and following a number of requests by NADA, it was released to the sector on 1 March 2023. A webinar was held for members on the 10 March 2023, however, little advice was provided on how the results would be used to inform a review of existing and future business and funding models.

Key areas

Business costings

This study identified a substantial degree of cost variation in delivering NGO AOD treatment services. Key drivers of cost variation include activity levels, economies of scale, client complexity, and staffing requirements.

- Average cost per bed day for residential rehabilitation (a more stable measure of costs than episode costs) is \$296.
- The average cost per episode for residential withdrawal management \$11,266.
- The average cost per episode for non-residential care, including counselling, case management, and day rehabilitation, is \$7 311. However, there was significant variation between these three service types. The average cost for counselling services alone was \$4 534 per episode. Average costs for case management and day rehabilitation services are not reported, because of the large variation and limited sample size.

NADA's position:

Residential services: Costs identified for residential rehabilitation and residential withdrawal management should be used as the benchmark for all future commissioning. A review of existing services funded to provide these services should be reviewed on a case-by-case basis to bring significantly underfunded services up to levels that support the delivery of quality care to people.

Non-residential services: Costs identified for counselling services should be used as the benchmark for all future commissioning. A review of existing services funded to provide counselling services should be reviewed on a case-by-case basis to bring significantly underfunded services up to levels that support the delivery of quality care to people. Further work should be undertaken to understand the average costs to provide case management and day programs.

Funding models

A key finding of the study was that *“a mixed funding model that is majority grant based, but with clear elements of outcomes funding and clearer benchmark-based determinants of payment terms, will be most likely to provide the best value for money for NSW Health and clients of AOD treatment services”*. Further, that *“grant-based annual funding arrangements are most suitable for NGO AOD treatment services, as providers face up-front costs for activities and core service delivery that are not linked to outcomes.”*

NADA’s position: We support the finding that grant-based funding arrangements (i.e. block funding) are most suitable. Contract terms should be five years in line with the commitment from the NSW Government. Should the NSW Government move to outcomes-based funding, defined in the study as *“a partial payment in arrears model (for at least 5 per cent of funding) to enable a greater shift to outcomes-focused models and funding based on actual activity where warranted”*, then this should be done as an opt-in pilot to test its appropriateness for the funding of NGO AOD treatment. Agreement on the process and outcomes should be co-designed with the sector.

Implications for the sector moving forward

The study proposed a horizons-based approach to elements of continuous improvement that will support any future potential change in funding arrangements. *“Horizon 1 is the existing contract period, which works towards building capacity for any change in the funding model. Horizon 2 is a glide path towards Horizon 3 when legacy funding ceases, funding for like-for-like services is based on efficient cost benchmarks, and niche programs are funded in a cost reflective way, based on clear outcome goals.”*

Further implications: The data from the BAFM was collected in 2020 and no longer reflects the true costs to deliver services in a changing environment in Australia that is seeing the impact of the rising costs of living. This impact is being felt among NGO AOD services in NSW. The cost for residential services also doesn’t factor in additional costs incurred by specialty services, such as women’s services that have children in their care. Further consideration to the cost of NGO services needs to be adjusted for these changes.

NADA’s position: We believe that the NSW Government should work in collaboration with NADA and its members to develop a plan to improve the business costings and funding models for NGOs funded to deliver AOD treatment in NSW based on the BAFM study, as well as any further data required to inform sustainable change.

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