



AGED CARE INDUSTRY COUNCIL

Peak Council of Australia's Aged Care Providers



Dear Treasurer

2009 – 2010 BUDGET SUBMISSION

The ageing of Australia's population, while an achievement to celebrate, brings with it a number of challenges for public policy. They include the increasing numbers of older people requiring care and other services; the increasing number of Australian families whose lives are touched by the world of aged care; and the increasing complexity of care needs among the very old.

In this context, expenditure on aged care should be seen as an investment. An investment in the productivity and quality of life of increasing numbers of Australians; and an investment in the overall effectiveness of the suite of care services used by older people.

ACIC has developed this Budget Submission as there are two key structural issues in which Government must invest if Australia is to meet the challenges of supporting an ageing population:

1. Meet the cost of quality care

Government uses the Commonwealth Own Purpose Outlays (COPO) method to index aged care funding. This is an inadequate approach which is threatening ongoing service provision and access to care. Under this method community care service hours are declining and 40 per cent of residential care providers are operating at a loss as a result of rising costs which are not matched by the indexation provided.

A new and sustainable indexation approach which meets the cost of providing quality care to older people is urgently required. While this new approach is being developed the Conditional Adjustment Payment (CAP) must be maintained for residential care, and also be extended to community care, services.

2. Develop a sustainable capital system

The current approach to capital raising for residential care is unsustainable. It is estimated that the industry will have a capital deficit of \$5.7 billion by 2020 putting the provision of high level residential care at risk. The majority of demand (72% of all new and 69% of existing residents) for residential care is for high care so this can't be allowed to happen. It is critical that the Government addresses this by developing a sustainable capital system which would include:

- An uncapped accommodation charge for high-income older people and an increased charge for those on a medium income so that it is equivalent to the average bond;
- A real choice for those older Australians who want to pay an upfront refundable deposit for their high care accommodation; and
- A link between Government payments for concessional residents and the average bond rate.

The attached submission elaborates on these issues further. We urge you to take the necessary action outlined in this submission. If Government does nothing the aged care industry will not be able to guarantee that older people will be able to continue to access high quality services, either in their own home or in residential care services, when they need them in the future.

We would welcome the opportunity to discuss the submission with you and look forward to your Government's favourable consideration of, and action on, our recommendations.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Greg Mundy', with a long horizontal stroke extending to the left.

GREG MUNDY
Chief Executive Officer
Aged & Community Services Australia

A handwritten signature in black ink, appearing to read 'Rod Young', with a long horizontal stroke extending to the left.

ROD YOUNG
Chief Executive Officer
Aged Care Association Australia



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About ACIC

The Aged Care Industry Council (ACIC) is the peak council of Australia's aged care providers. It brings together the two key representative bodies – Aged & Community Services Australia (ACSA) and the Aged Care Association Australia (ACAA) – to address the issues affecting the entire industry.

The aged and community care industry includes nursing homes, hostels, care package providers, home care and nursing services, retirement villages, independent living units and seniors' housing. The provision of community care services generally includes services to younger people with disabilities as well as older people. Some services are provided specifically for the carers of older people or younger people with a disability.

Together ACSA and ACAA represent 2,836 residential care services and the majority of community care services.



About Aged and Community Services Australia

Aged and Community Services Australia (ACSA) represents church, charitable and community-based organisations providing housing and supported accommodation, residential and community care services to over 700,000 older people, younger people with a disability and their carers. They provide 50,000 retirement village units across Australia.



About Aged Care Association Australia

Aged Care Association Australia (ACAA) is a peak industry employer organisation representing aged care providers, community care providers and seniors housing providers from across Australia.

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1. INTRODUCTION

The ageing of Australia's population, while an achievement to celebrate, brings with it a number of challenges for public policy. They include the increasing numbers of older people requiring care and other services; the increasing number of Australian families whose lives are touched by the world of aged care; and the increasing complexity of care needs among the very old.

In this context, expenditure on aged care should be seen as an investment. An investment in the productivity and quality of life of increasing numbers of Australians; and an investment in the overall effectiveness of the suite of care services used by older people, extending well beyond those funded under the Commonwealth aged care program.

Getting aged care right, in all its forms, is becoming increasingly important. An effective aged and community care system forms an important underpinning for a number of key Government policy objectives including health reform, social inclusion and enhancing national productivity.

This submission focuses on two key issues that if not addressed threaten older peoples access to quality care, the viability of the industry and by implication Government achieving many of its other policy objectives.

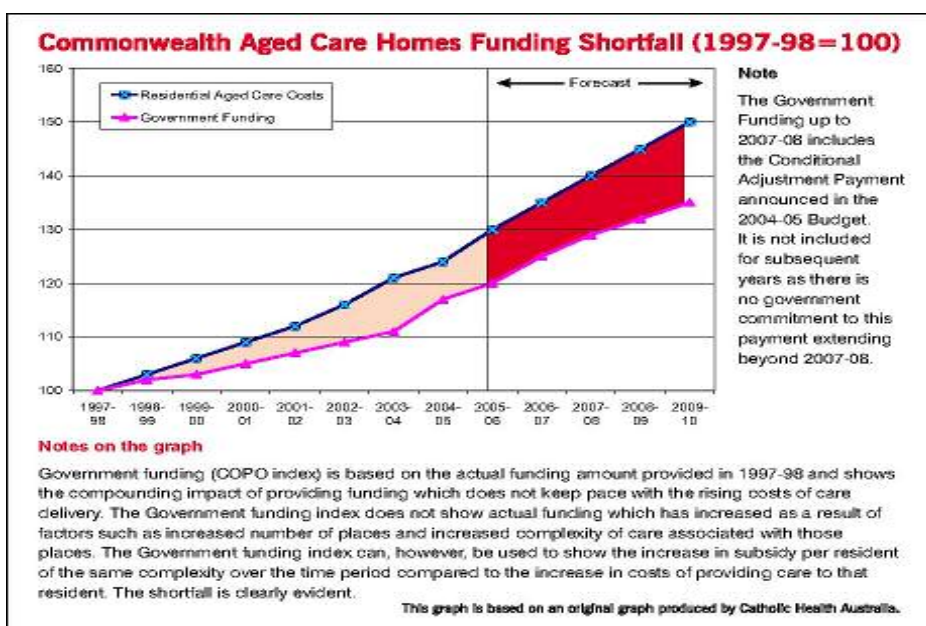
2. FUNDING THAT MEETS THE COST OF QUALITY CARE

Residential and community care recurrent funding does not reflect, nor bear any direct relationship to, the costs of providing quality care. The funding is indexed annually using the Commonwealth Own Purpose Outlays (COPO) formula which fails to take proper account of cost increases faced by the industry. COPO is often less than CPI which is the index generally used to increase the price/costs of other goods and services.

The inadequacy of COPO was recognised by the Howard Government in 2004 when it introduced the Conditional Adjustment Payment (CAP) for residential aged care providers designed

“To assist aged care providers to continue to provide high quality care for older people, including assisting in paying more competitive wages to nurses and to other staff” – (2004-05 Budget Fact Sheet “Summary of Aged Care Measures”).

The CAP has really only relieved some of the financial pressure resulting from ongoing inadequate indexation.



There needs to be an overhaul of the funding system to ensure the costs of providing quality care are met.

The problems resulting from the current indexation approach

Uncompetitive Wages

Costs, especially wages and their on-costs, are rising at a faster rate than the funding provided. Wages represent 70-80% of costs in aged and community care services. The Commonwealth uses the Safety Net Adjustment (SNA), rather than actual aged care sector wage increases which have occurred as a result of enterprise bargaining, to determine COPO.

The more generous funding increases made available to the public and private hospital systems have supported higher wage outcomes in these sectors and increased the difficulty for aged care providers to compete. Nursing wages in the non-aged care sectors continue to escalate and so aged care will be forced to follow or risk losing valued staff to the acute care sector. The cost of achieving wage parity has been estimated at around \$450M in 2008 (Productivity Commission 2008). Additional amounts of around \$100M in subsequent years would be necessary to maintain wage parity under the current COPO adjustment arrangements.

Other Rising Costs

It isn't just wages that are rising faster than the funding provided. A range of other costs, which all businesses have to meet, are also rising. In addition there are specific aged care and medical/health related costs which are also increasing faster than aged care funding. These costs include:

- insurance premiums;
- recruiting costs;
- the increased reliance on disposable continence products;
- improved wound management techniques at considerably higher cost;
- IT and assistive technologies;
- increased specialised nursing procedures (colostomy care, peg feeds, IV therapy Tracheotomy care) previously done in acute settings;
- increased evidence of residents with mental illness (requiring more expensive specialist care) previously catered for in the State health system;
- compliance costs with workers' compensation regulations;
- costs of refurbishing or replacing older buildings and/or constructing new ones;
- fees and other costs associated with accreditation for residential care (which interestingly are indexed by the CPI despite the customer for these services only receiving COPO increases); and
- duplicative accountability costs for community care.

In addition Government has introduced a raft of unfunded regulations with providers having to absorb these costs within already over stretched budgets:

- Police checks;
- The conversion to ACFI (including IT conversions and staff development & training) ;
- Compulsory reporting of incidents;
- Widening of the CRS to the Complaints Investigation Scheme (CIS);
- Increased numbers of Commonwealth surveys;
- Increased validation of subsidy assessments;
- Additional interest on bond repayments;
- Increased unannounced accreditation visits and support contacts;
- Introduction of food safety standards and mandatory food safety programs;

- License fees associated with food safety;
- Implementation of electronic commerce with completion and lodgment of the new ACFI funding instrument; and
- Bond protection and prudential arrangements

Aged care providers believe in accountability for public funds and in protecting residents and giving them a high quality of care. However, many of these additional requirements take valuable time away from direct care as well as increasing the overall costs of care without contributing to a better quality of life for clients/residents.

Impact of Continuing the Current Approach to Indexation

Failing to provide adequate care subsidies will mean a reduced standard of service to clients. If revenue continues to fall behind the increasing cost of care labour, then fewer hours of care per day, per week and per resident or client will be able to be provided. Data collected by industry benchmarking firms already shows that the number of care hours per resident has fallen and anecdotal community care evidence suggests that CACP's hours have decreased from 7 - 10 to 5 - 7 hours per week. EACH packages have experienced a similar decline in hours.

The CAP Review has not yet announced its findings and industry is most concerned that this vital funding will not be continued. It is estimated that the non-continuation of CAP will cost the industry approximately \$635,000,000 which equates to 5.69 full time equivalent positions per residential care facility over 3 years. This directly compromises the capacity of the industry to maintain quality care delivery and will ultimately reduce access to services.

Reduced access to, or reduced hours of, care should never be regarded as improved efficiency. Reducing the efficacy of aged care services is likely to add to costs in other parts of the health care system.¹ Given the increasing ageing population and the growing need for aged and community services this must not be allowed to happen.

What Needs to Happen

The mismatch between COPO and the rising costs of delivering quality care and the implications of continuing with this approach (outlined above) highlight just how inappropriate the current arrangements are and the need for urgent action.

The reason often advanced for continuing to use the COPO index is that it is a "whole of Government" approach. However, the Department of Veterans' Affairs uses a different indexation method (to COPO) for its Veterans' Home Care Program, which provides essentially the same services as the HACC Program. This demonstrates that other indices can be applied where it is relevant to the sector and services being funded.

COPO must be replaced by a method of indexation that meets the costs of care. In the interim the CAP must be maintained for residential care providers and extended to cover community care services.

It is understood that the Government may be undertaking a long overdue review of the COPO methodology and the CAP has also recently been reviewed. The aged care industry looks forward to the outcomes of these reviews addressing the current financial situation and recommending the development of a sustainable indexation approach for aged and community care services.

¹ Refer to the recent PITCH study for data on the efficacy of community care in enhancing recipients health status.

Action Required:

ACIC calls on Government to undertake the following action immediately:

- Continue the additional CAP indexation beyond 2008/09, pending the development of a sustainable aged care indexation formula;
- Extend similar top up indexation to community care programs from 2009 onwards;
- Review the indexation calculation so as to better reflect the increased costs in the industry. This could include the following:
 - Rolling up the CAP increases into the subsidy payments;
 - Linking the indexation to aged pension increases;
 - Allowing Accommodation charges to be based on a periodic payment up to the so-called “maximum bond” level (currently \$141,000)
 - Bond retentions for those Bonds greater than the Y factor included in paragraph 23.71(4) of the User Rights Principles 1997, to be set at a percentage of the bond level; and
 - A more efficient use of the income tested fee to allow Government to partially uncap the accommodation charge.

ACIC calls on Government to commit to developing a sustainable indexation methodology as a long term solution to the funding issues by considering:

- linking aged care payment rates to those applying in the broader health system would stem any future decay;
- developing a specific aged and community care index;
- greater use of user pays approaches to funding care; and
- developing and introducing a long term care insurance scheme.

3. DEVELOPING A SUSTAINABLE CAPITAL RAISING SYSTEM

The current capital raising system for residential care is proving totally inadequate for the expansion and maintenance of aged care beds.

The seeds of the capital problem facing aged care were sown in 1997 when a decision was made by the Howard Government to limit lump sum refundable deposits to low care beds. This effectively limited the amount of capital income that could be raised overall.

Since that time many providers have been forced to use operational income to support capital activity, low care bond paying residents have been cross subsidising high care accommodation charge residents and government funded concessional residents.

The capital problem is exacerbated by the changing pattern of demand for residential care. It is high care that is in demand with 69% of permanent residents and 72% of entering residents currently requiring high care. The new recurrent funding tool, the Aged Care Funding Instrument (ACFI), has recognised this but has compounded the problem with an incentive structure which makes subsidies for many low care residents below cost. Providers cannot afford to take a low care resident under these conditions given the current financial situation and this further reduces the amount of capital available to an organisation.

A report by Price Waterhouse Coopers, commissioned by the Aged Care Industry Council (ACIC) has highlighted that significant reform of the capital raising system is required. The report estimates a capital deficit of \$5.7B to 2020 if the current capital raising scheme is not reformed.

The Impacts of the Current Capital Raising System

In the longer term there will be fewer bond paying entrants in residential care. Industry is seeing the start of this trend now. This means that there will be a time when there will not be enough new bonds available to repay old bonds and providers will have to use cash reserves to meet this future requirement. If providers become cash negative we may have a situation develop along the lines of the difficulties being experienced on global markets today.

If action is not taken immediately there will be a major funding shortfall for building aged care beds. Currently high care capital funding is, on average, half of the actual building cost. We are also seeing providers being reluctant to apply for high care bed licences. The 2008 ACAR saw an under subscription for places in WA, Tasmania and the Northern Territory. Even in states that were not under subscribed many providers decided not to apply for high care beds because of the capital and general financial situation industry is facing. This is a warning sign that must be heeded.

Without a greater contribution from residents who can afford it, this shortfall will need to be met by taxpayers. If the shortfall is not met in some way the only high care facilities that will be built are extra service facilities - which are able to charge residents a bond.

For older Australians this will result in:

- Long waiting lists for high care because aged care providers, who are already experiencing difficulty securing loans for high care facilities, can no longer afford to build stand alone high care facilities;
- No choice of how to pay for aged care services in a way that best suits their individual circumstances;
- Low care residents subsidising high care residents regardless of their income levels or assets; and
- Families being called upon to shoulder a greater share of the burden of caring because they cannot find a nursing home place for their loved one in their local community.

These will not be acceptable outcomes for older people, their families or the general community.

What Needs to Happen

Government must develop a sustainable capital raising system to ensure ongoing access to high care for older people and that the accommodation provided continues to be of the highest standard. The need for this to occur is now widely agreed with church and consumer representative groups supporting the call for a sustainable capital system.

There are three simple steps, two of which require no financial commitment from Government, which would provide the basis for a new and effective system which should be enacted immediately.

- 1. Uncap the daily accommodation charge for high income older people and increase it for those on a medium income so it is equivalent to the average bond. This measure has no cost to government.**

Uncapping the daily charge, or increasing it and linking it with the price of the average accommodation bond, will ensure that those residents who can afford to contribute to the cost of their accommodation are asked to pay a fair share.

It will also help providers to access sufficient capital to enable them to continue to build new, and upgrade existing, high quality nursing home accommodation.

This move will provide choice for residents and funding to enable aged care providers to build high quality stand alone high care facilities.

2. Provide real choice to those older Australians who want to pay an upfront refundable deposit (bond) for their high care accommodation. This measure has no cost to Government.

The current capital structure does not allow eligible high care residents to choose to pay an upfront refundable deposit. This means that residents are often unable to select the best payment mechanism to suit their individual circumstances.

Recent changes to aged care and social security policy means that it is often more advantageous for a resident to pay an upfront lump sum accommodation deposit, which is treated as exempt for pension assessment purposes, whereas funds held by a high care nursing home resident to pay their accommodation charge are not exempt.

Stronger prudential arrangements for accommodation bonds have been established which ensure that in the unlikely event of a provider defaulting on bonds:

- the resident will receive their entitlement; and
- taxpayers are protected from bearing the cost as Government recoups any shortfall from the industry.

3. Link Government payments for concessional residents to the average bond rate. This measure would have a total cost to government of \$422 million.

This measure will ensure that concessional residents continue to have equitable access to care on the basis of need, rather than on their financial status and provides equality in funding regardless of whether a resident is concessional or not.

Action Required:

ACIC calls on Government to take immediate action to relieve the dire capital problems facing aged care by:

- Uncapping the daily accommodation charge for high income older people and increasing it for those on a medium income so it is equivalent to the average bond. This measure has no cost to government.
- Providing real choice to those older Australians who want to pay an upfront refundable deposit for their high care accommodation. This measure has no cost to government.
- Linking Government payments for concessional residents to the average bond rate. This measure is estimated to have a cost of \$422m to Government.

ACIC calls on Government to develop a sustainable capital raising system to ensure that older Australians can access high quality residential care when they need it.

The first step in developing such a system should be a Government convened national roundtable in 2009-10 involving aged care providers, consumer representatives, senior Government officials and financial experts to commence this development. Analysis of the issues will need to occur pre the roundtable and policy development post the roundtable. \$5m