

Submission to the House of  
Representatives Standing Committee  
on Ageing Inquiry Into Long Term  
Strategies to Address the Ageing  
Australian Population

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## 1. Executive Summary

There is little doubt that the provision of aged care services to the community will become a prime concern for Australian government at all levels as the population ages over coming decades. Two clear challenges emerge in any attempt to comprehend the longer term issues – How will we meet demand? and How will we pay for the service?

In 2002, the Victorian Grants Commission estimated that local government was contributing in excess of \$90 million per annum to aged and disability services from own source revenue, primarily rates, fees, fines and charges. In Victoria, local government is the largest public sector provider of HACC, both in planning and delivery. MAV research and analysis have estimated that local government funding for the HACC core services of home care, personal care, respite care, property maintenance, meals and assessment and care management was \$44 million in 2001-02.

HACC funding is the largest source of specific purpose funding which councils receive. In Victoria the HACC program is funded through a complex process involving all three levels of government. While the total of HACC funding from other levels of government has kept pace with growth in Commonwealth revenues and grown faster than State revenues, it is still lower than the growth in demand for HACC services. As the Australian population ages, demand will continue to rapidly increase. Until recently additional demand has been satisfied by an increasing local government contribution. However, local government does not have access to revenue stream that is growing fast enough to keep pace with demand.

Local government's share of the proportion of actual HACC recurrent funds available in Victoria has declined due to:

- inadequacy of both output purchase prices, block funding and delivered meals subsidy and their indexation;
- more rapid expansion of services where local government is not the predominant supplier; and
- reduction in output purchase volumes of delivered meals.

The gap between the service price State and Commonwealth governments are willing to pay and the actual cost of the service is a central issue.

Another area of concern for Victorian councils is the growth in discretionary funding programs in the area of aged care. At the Commonwealth level through Community Aged Care Packages (CACPs) and at the State level through Linkages packages. While the move toward more direct aged care programs is understandable, it adds a layer of complexity to an already fragmented system. It raises questions within the sector about the commitment of other levels of government to the core HACC services and their reliance upon recurrent funding commitments.

In terms of the current aged care system, the ever increasing complexity of provision and potential inefficiencies across the three levels of government must be addressed in a comprehensive review and restructure. A shared approach must be pursued if government is going to be able to meet demand. All three levels of government have a substantial financial and social investment in the provision of aged care. Cooperation from all levels of government is essential if the current situation is to be remedied.

## 2. The Municipal Association of Victoria & Local Government in Victoria

### 2.1 The Municipal Association of Victoria

The Municipal Association of Victoria (MAV) is the peak body for local government with a legislative responsibility to represent the 78 councils in Victoria. The purpose of the Association is to promote and support the interests of local government throughout Victoria as defined in the *Municipal Association of Victoria Act 1907*.

The MAV assists local government in achieving the highest levels of respect and recognition through its work with State and Commonwealth Governments and a wide range of interest groups. The Association is involved in developing and supporting a number of local initiatives that relate to social, cultural and economic issues.

### 2.2 Local Government in Victoria

Victorian local governments have undergone significant reform since 1993. Following an intensive period of amalgamation, the number of councils was reduced from 210 to 78. The Victorian *Local Government Act 1989* provides the legislative basis from which councils operate in the State and vests power in each council to exercise any powers or functions specified in the Act or by other legislation.<sup>1</sup>

The purposes and objectives of local government contained in the Act are wide ranging. The purpose of a council includes, but is not limited to:

- providing peace, order and good government in its municipal district;
- providing equitable and appropriate services and facilities for its community; and
- ensuring that those services and facilities are managed efficiently and effectively.

In addition, the Act goes further in providing an exhaustive list of functions of councils under Schedule 1. The functions are categorised into the following:

- general services, such as fire prevention, local emergency management and litter control;
- health, education, welfare and other community services;
- planning and land use;
- property services, including land development schemes and waste management;
- recreational and cultural services;
- roads, including footpaths, bridges, drainage, traffic control and signs; and
- any other functions relating to the peace, order and good government of the municipal district, including transport, tourism and environment control.

In addition, to the Act, other State legislation requires councils to undertake activities in areas such as public health. The responsibilities are extensive and illustrate Victorian local government involvement well beyond the traditional perception of 'roads, rates and rubbish'.

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<sup>1</sup> Local Government Act 1989, s.8(1)

In 2002, the Victorian Grants Commission estimated that local government was contributing in excess of \$90 million per annum to aged and disability services from own source revenue, primarily rates, fees, fines and charges. MAV research and analysis have estimated that local government funding for the HACC core services of home care, personal care, respite care, property maintenance, meals and assessment and care management was \$44 million in 2001-02.

In Victoria, local government is the largest public sector provider of HACC, both in planning and delivery. In 2001-02, 37% of government HACC funds were expended by local government. The contribution of \$44 million to HACC's core services is funded through local government's own sources of revenue. These are primarily rates, fees, fines and charges.

### 3. HACC Funding in Victoria

HACC funding is the largest source of specific purpose funding which councils receive. In Victoria the HACC program is funded through a complex process involving all three levels of governments. In Victoria, local government is the major provider of Home Care, Personal Care, Respite Care, Property Maintenance, Delivered Meals, Assessment and Care Management and Service System Resourcing<sup>2</sup>.

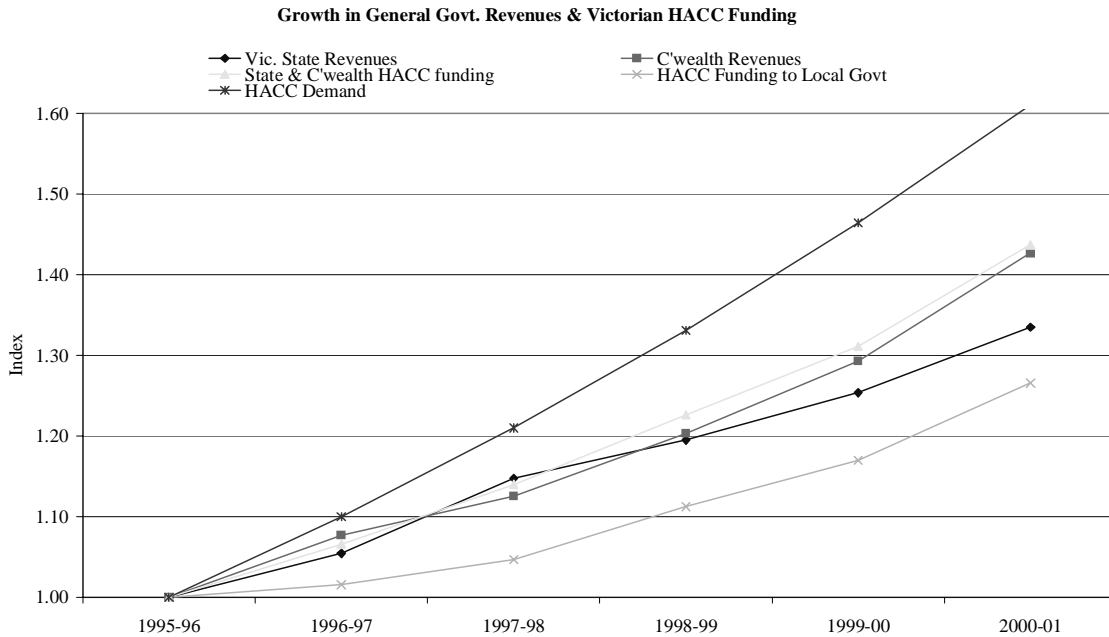
HACC funding provided to Victorian agencies by Commonwealth and State Governments is based on a funding formula of matched contributions plus unmatched State Government funding. The matched contributions are based upon a 60% Commonwealth / 40% State commitment. The latter 40% comprises actual funding provided by the State and an "imputed local government contribution". In addition the State Government also contributes an unmatched contribution. The allocation of funding is a State Government responsibility.

Table 1: Total HACC Funding Contribution by Government Level

	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02
<b>Cwlth Matched</b>	119.0	126.6	134.0	141.2	148.9	157.7	167.3
<b>State Matched</b>							
<b>including imputed LG</b>							
<b>Contribution</b>	79.5	84.7	89.7	94.3	99.4	105.0	111.7
<b>State Unmatched</b>	0.5	0.6	2.7	7.7	11.4	18.7	22.3
<b>Sub-total</b>	199.0	211.9	226.4	243.2	259.7	281.4	301.3
<b>Local Government</b>							
<b>Imputed Contribution</b>	na	na	6.6	6.9	7.3	7.7	8.2
<b>Capital/Non- Recurrent/Non-Govt. Organisation</b>							
<b>Insurance</b>	na	na	na	6.1	4.6	3.4	4.6
<b>State HACC Administration Funding</b>	na	na	na	2.5	2.6	2.6	2.7
<b>Balance Available</b>	190.7	203.3	217.3	227.7	245.2	267.7	285.8
<b>Local Govt Share</b>	80.9	82.1	84.6	89.9	94.6	102.3	111.5
	42%	40%	39%	40%	39%	38%	39%

<sup>2</sup> Service System Resourcing block funding is used for the purchase of maintenance services for senior citizens centres, community service officers involved in planning and coordination and the purchase of systematic advocacy, training and support for consumers and provider organisations.

Figure 1:



While the total of HACC funding from other levels of government has kept pace with growth in Commonwealth revenues and grown faster than State revenues, it is still lower than the growth in demand for HACC services, as shown in *Figure 1*. As the Australian population ages, demand will continue to rapidly increase. Until recently additional demand has been satisfied by an increasing local government contribution. However, local government does not have access to revenue stream that is growing fast enough to keep pace with demand.

The MAV is unclear as to the background of the agreement struck between the State and Commonwealth Governments on the level of imputed local government contribution. This contribution is recognised as about 8% of the Victorian State matched contribution, although the local government contribution is currently estimated at more than 30% of the total cost of HACC services<sup>3</sup>. This marks a considerable shift from the 80% Commonwealth/State government – 20% local government basis that originally characterised responsibilities for HACC funding.

<sup>3</sup> Estimate over all HACC services. Figure estimated at 27% for the major HACC services, down from 30% two years earlier.

#### 4. Funded HACC Price Versus Cost of Service

Local government's share of the proportion of actual HACC recurrent funds available in Victoria has declined due to:

- inadequacy of both output purchase prices, block funding and delivered meals subsidy and their indexation;
- more rapid expansion of services where local government is not the predominant supplier; and
- reduction in output purchase volumes of delivered meals.

The State Government administers HACC funding through an output purchasing system in which the Department of Human Services (DHS) determines an output price for some services and allocates funding to agencies on the basis of purchasing a specific volume of units. The gap between the service price State and Commonwealth governments are willing to pay and the actual cost of the service is a central issue.

DHS has indicated that it has based its output prices for those services where local government is the predominant provider on local government delivery costs. However, the State's output prices have never fully compensated the full costs of service provision. This is shown in *Table 2*.

*Table 2: Comparison of HACC Output Prices & Estimated Average Unit Costs*

<b>Output Prices</b>	<b>1997-98</b>	<b>1998-99</b>	<b>1999-00</b>	<b>2000-01</b>	<b>2001-02</b>	<b>2002-03</b>
Home Care	21.5	21.7	21.7	22.13	22.75	23.84
Personal Care	24.6	24.8	24.8	25.3	26.01	27.26
Respite Care	22.4	22.6	22.6	23.05	23.51	24.64
Property Maintenance	33.66	34	34	34	34	34.68
Planned Activity Group (Core)	8.4	8.48	8.48	9.12	9.35	9.69
Planned Activity Group (High)	12.52	12.65	12.65	12.85	13.17	13.66
Meals	1.1	1.1	1.1	1.1	1.1	1.2
<b>Estimated Average Unit Costs</b>	<b>1997-98</b>	<b>1998-99</b>	<b>1999-2000</b>	<b>2000-01</b>	<b>2001-02</b>	<b>2002-03</b>
Home Care	22.22	22.66	23.08	24.01	24.73	25.55
Personal Care	23.7	25.65	27.59	28.78	29.65	30.65
Respite Care	26.02	28.16	30.29	31.44	32.38	33.46
Property Maintenance	42.53	38.77	35	35.86	36.93	38.13
PAG Core	9.56	9.13	8.72	8.9	9.17	9.44
PAG High	11.86	12.93	14	14.42	14.85	15.28
Meals	7.19	7.65	8.06	8.28	8.53	8.71
<b>Unit Price as % Unit Cost</b>	<b>1997-98</b>	<b>1998-99</b>	<b>1999-2000</b>	<b>2000-01</b>	<b>2001-02</b>	<b>2002-03</b>
Home Care	97%	96%	94%	92%	92%	93%
Personal Care	107%	97%	90%	88%	88%	89%
Respite Care	88%	80%	75%	73%	73%	74%
Property Maintenance	93%	88%	97%	95%	92%	91%
PAG Core	106%	98%	103%	102%	102%	103%
PAG High	79%	98%	90%	89%	89%	89%
Meals	15%	14%	14%	13%	13%	14%

Notes:

1997-98 & 1998-99 based on shadow prices. *Italicised figures proposed.*

For services where local government is the predominant provider, the proportion of full cost offset by the purchase price has also fallen. In fact the output prices that the State DHS pays Victorian councils for home care, personal care and respite care are below the lowest obtainable market rates, the impact is amplified by the fact that most councils are forced to



pay higher-than-award rates to attract and retain an appropriate number of staff. It should be noted that the Commonwealth Productivity Commission's report of October 2000 titled "Long Term Aged Care Expenditure Trends and Projections" indicates costs well above those presently remunerated under the HACC program.

The State has block funded Assessment & Care Management (A&CM) over recent years at 5% of the total value of output prices for direct service. The MAV has found that the ratio of A&CM cost to service cost is about double this. The cost of assessment, home care, personal care, respite care and property maintenance purchased by DHS exceeded its funding for these services by \$20m in 2001-02. In total the contribution from councils, user charges and Commonwealth Department of Veteran Affairs (DVA) funding in 2001-02 amounted to \$44m.

Table 3: Comparison of HACC Unit Prices & Costs for Victoria 1999-00 to 2001-02

	Units "Purchased" by DHS	Value of Output Purchases (\$m)	Cost of DHS Purchases (\$m)	Estimated Total Units	Cost of Total Council HACC Provision (\$m)	DHS Output Purchases as % Total	User Charges	Contribution from Council# (\$m)
<b>1999-00</b>								
Home Care	1,618,670	35.1	37.4	2,600,877	60.1	58%	9.0	15.9
Personal Care	552,145	13.7	15.2	598,547	16.5	83%	1.8	1.0
Respite Care	586,568	13.3	17.8	666,299	20.2	66%	1.2	5.7
Property Maintenance	164,098	5.6	5.7	283,133	9.9	56%	2.6	1.8
Meals	4,054,534	4.5	5.0	3,626,684	29.4	15%	12.9	12.0
A&CM		3.7	9.0		11.6	32%	-	7.9
<b>Total</b>		<b>75.8</b>	<b>90.2</b>		<b>147.7</b>	<b>51%</b>	<b>27.5</b>	<b>44.4</b>
<b>2000-01</b>								
Home Care	1,709,920	37.8	41.0	2,568,984	61.7	61%	9.2	14.6
Personal Care	567,714	14.4	16.4	617,839	17.8	81%	2.0	1.5
Respite Care	607,134	14.0	19.1	636,956	20.0	70%	1.2	4.8
Property Maintenance	170,780	5.8	6.1	290,548	10.4	56%	2.7	1.9
Meals	4,009,845	4.4	5.1	3,763,917	31.2	14%	13.7	13.1
A&CM		4.2	9.6		11.9	35%	-	7.7
<b>Total</b>		<b>80.6</b>	<b>97.3</b>		<b>153.0</b>	<b>53%</b>	<b>28.9</b>	<b>43.5</b>
Difference on Previous Year		4.8	7.1		5.3			-0.8
<b>2001-02</b>								
Home Care	1,773,335	40.3	45.3	2,491,525	63.7	63%	9.5	13.8
Personal Care	587,268	15.3	18.0	623,231	19.1	80%	2.1	1.7
Respite Care	618,948	14.6	20.7	636,818	21.3	68%	1.3	5.5
Property Maintenance	175,249	6.0	6.7	282,039	10.8	55%	2.8	2.0
Meals	3,891,404	4.3	4.9	3,936,507	33.6	13%	14.8	14.5
A&CM		4.8	9.9		12.0	40%	-	7.3
<b>Total</b>		<b>85.2</b>	<b>105.5</b>		<b>159.5</b>	<b>53%</b>	<b>30.5</b>	<b>43.8</b>
Difference on Previous Year		4.6	8.3		6.5			0.3

Notes:

# includes DVA funding in 2001-02

DVA funding is not provided for meals or assessment and care management

No user charges for A&CM

There is no more poignant indicator of the cost shift in HACC than delivered meals. Rather than an output purchase, DHS provides a unit subsidy. Although considered as the most basic and universal of aged and disabled services the subsidy has not changed for many years, being anchored at \$1.10 or less than 15% of the total cost. DHS has proposed an increase of 10c per meal in 2002-03. The subsidy for meals in 2001-02 was \$4.3m against \$14.7m in user fees and a balance of \$14.5m by way of council contribution.

Many councils have responded to the cost shift by absorbing increases in State purchases of additional hours of home care, personal care and respite care that they had previously been providing. This has resulted in reductions in total service volumes or service growth that is significantly less than the growth factor in State and Commonwealth funding directed to HACC. Other councils are considering possibilities for increasing user charges within the constraints posed by funding agreements and the users' capacity to pay or making a decision not to provide services.

*Table 4: Change in Service Units Purchased by DHS from & Delivered by Victorian Councils*

	Unit	2000-01 % Change in Units Purchased by DHS on previous year	2000-01 % Estimated Change in Total Units on previous year (n=43)	2000-01 Estimated Net Change in Total Units (000)	2001-02 % Change in Units Purchased by DHS on previous year	2001-02# % Estimated Change in Total Units on previous year (n=45)	2001-02# Estimated Net Change in Total Units (000)
Home Care	Direct Service Hours	7.7	-1.2	-18,427	6.6	-3.0	-47,462
Personal Care	Direct Service Hours	4.9	3.2	11,531	6.3	0.9	3,447
Respite Care (H&C)	Direct Service Hours	5.6	-4.4	-15,617	4.0	0.0	-84
Property Mce.	Direct Service Hours	4.1	2.6	4,583	2.6	-2.9	-4,469
Delivered Meals	Meals	-1.1	3.8	79,738	-3.0	4.6	103,546

Notes:

#excludes CACPS, Linkages, other brokerage and private business but includes DVA in 2001-02

75 Victorian councils deliver HACC services

The MAV argues that the current funding levels are insufficient to avoid the growing home care crisis. Councils under significant financial pressure are not in a position to continue to subsidise home care at previous levels. It is not unusual for councils to report waiting lists of several hundred persons and waiting periods of up to 3 months for high priority cases and up to 12 months for low priority cases.

Table 5: Changing Levels of HACC Hours Provided By Local Government

	% of Councils Surveyed 2000- 01	% of Councils Surveyed 2001- 02
<b>Change in Home Care Hours</b>		
fall of 10% or more	21%	25%
fall of less than 10% to 5%	16%	13%
fall of less than 5% to zero	23%	20%
increase up to 5%	14%	13%
increase of more than 5% to 10%	7%	10%
increase of more than 10%	19%	20%
<b>Change in Personal Care Hours</b>		
fall of 10% or more	38%	23%
fall of less than 10% to 5%	7%	5%
fall of less than 5% to zero	2%	13%
increase up to 5%	7%	5%
increase of more than 5% to 10%	14%	10%
increase of more than 10%	31%	45%
<b>Change in Respite Care Hours</b>		
fall of 10% or more	31%	38%
fall of less than 10% to 5%	12%	8%
fall of less than 5% to zero	10%	8%
increase up to 5%	17%	15%
increase of more than 5% to 10%	12%	3%
increase of more than 10%	19%	30%
<b>Change in HC, PC &amp; RC Hours</b>		
fall of 10% or more	19%	20%
fall of less than 10% to 5%	12%	23%
fall of less than 5% to zero	21%	8%
increase up to 5%	21%	15%
increase of more than 5% to 10%	16%	8%
increase of more than 10%	12%	28%

## 5. Growth in Discretionary Programs at Commonwealth & State Level

One area of concern for Victorian councils is the growth in discretionary funding programs in the area of aged care. At the Commonwealth level through Community Aged Care Packages (CACPs) and at the State level through Linkages packages<sup>4</sup>. While the move toward more direct aged care programs is understandable, it adds a layer of complexity to an already fragmented system. It raises questions within the sector about the commitment of other levels of government to the core HACC services and their reliance upon recurrent funding commitments.

In the context of predicted growth in demand for aged care and the increasing range of needs for the care of older people, there is an urgent need to address two important issues. The first is the range of problems experienced by service users in relation to access, responsiveness, continuity and service funding. The second is to reduce fragmentation, inefficiencies and duplication.

The proliferation of separate programs within the aged and disability services sector with similar purposes and similar target groups demonstrates overlap and confusion across programs funded by the Commonwealth and the State. This creates fragmentation in program funding and service planning. The Myer Foundation research undertaken for the MAV shows that there has been a significant increase in the number of outlets for CACPs alone over the past few years, from 71 outlets to 141. On the research, the number of outlets in metropolitan areas have almost doubled. This fragmentation leads to increased administrative inefficiencies and costs, ultimately impacting on resources available for direct service provision<sup>5</sup>. The impact on local government is driven by a combination of increased direct participation in multiple programs or by having to interact with a diversity of other providers participating in different programs.

The growth in discretionary programs at Commonwealth and State level is a direct threat to local government's provision of HACC core services through recurrent funding. In addition to the issues outlined above, it raises questions about the ability of recurrent HACC funding to grow in line with the required demand if discretionary programs based on package outcomes – that is delivering a certain number of services to older Australia – also continue to grow. Over the longer term, this issue will need to be decisively and cooperatively addressed by the three levels of government.

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<sup>4</sup> MAV, 2002, *A Report to the Myer Foundation on Targeting Home and Community Care Services – Local Impacts*.

<sup>5</sup> Howe, A., (June 2002) *HACC Status Report for Victorian Local Government*. Prepared for the Municipal Association of Victoria.

## **6. Impact of an Ageing Population on Local Government Revenue**

Unlike Commonwealth and State taxation, local government's property tax system has limited growth potential. There are a numerous constraints that influence land development, which ultimately determines the base that generates council rates. More importantly, Commonwealth and State taxes are more closely aligned to capacity to pay than property taxes. The Commonwealth levies taxes on the income of individuals, businesses and non-residents, goods and services (GST), fringe benefits and superannuation. The States receive the net GST revenues collected by the Commonwealth and also have access to payroll taxes, stamp duties, land taxes and taxes on gambling and vehicle use.

Property taxes do not recognise the situation where ratepayers are asset rich and cash poor. In these cases ratepayers may have considerable property, often the family home, but have a low level of disposable income - a good example being aged pensioners. Taxes on income and consumption are much more reflective of capacity to pay as tax rates are based on the level of income.

Local government is facing a significant financial challenge as Australia's population ages rapidly over the next 40 years. Not only will councils be confronted with a growing rump of ratepayers who are asset rich and cash poor, but they will also be experiencing record levels of demand for aged services. As a result, if local government is to continue providing HACC services there needs to be acknowledge of the impact of changing demographics of local government revenues and reform of the was aged services are provided. By necessity, this will need to involved all three levels of government.

The MAV also believes that there is a fundamental deficiency in the structure of untied and specific purpose payments made to local government. While these programs provide support to local government, they simply have not recognised adequately the costs of service provision, the pace of cost increases and the mismatch between a property taxation system and what it is being asked to deliver. While local government has limited capacity to meet service obligations, the Commonwealth, and to a lesser degree the Victorian State Government, have the capacity to better support local government.

## 7. Conclusion

There is little doubt that the provision of aged care services to the community will become a prime concern for Australian government at all levels as the population ages over coming decades. Two clear challenges emerge in any attempt to comprehend the longer term issues – How will we meet demand? and How will we pay for the service?

In terms of the current aged care system, the ever increasing complexity of provision and potential inefficiencies across the three levels of government must be addressed in a comprehensive review and restructure. At present one of the greatest difficulties facing Victorian local government in resolving issues around the HACC service is that both the Commonwealth and State will not accept responsibility for the cost pressures facing councils. A shared approach must be pursued if government is going to be able to meet demand. All three levels of government have a substantial financial and social investment in the provision of aged care. Cooperation from all levels of government is essential if the current situation is to be remedied.

The emergence of parallel programs such as the Commonwealth's CAPS program and the State's Linkages program also create tensions for local government. The brokerage services that characterise the program must impose additional administrative overheads. Improved program planning and cooperation is needed to ensure maximum efficiency with HACC services. As the cost to the community of aged care increases, governments will be required to more closely address just how services are funded and how services are integrated across jurisdictions.