

## Audit Report No. 40 2008-09

# Planning and Allocating Aged Care Places and Capital Grants

## Introduction

- 7.1 The Australian government has a primary role in the funding and regulation of Australia's aged care services. The provision of aged care is a high profile area of government activity, involving large amounts of government expenditure and the delivery of services to vulnerable populations.
- 7.2 Rather than directly providing aged care services, the Australian government supports the provision of aged care to those people who are assessed as requiring care, via subsidies and grants to aged care providers. The Department of Health and Ageing (DoHA) manages the planning and allocation of Australian government-funded aged care, under the *Aged Care Act 1997* (the Act).
- 7.3 The Australian government budget for aged care subsidies for residential, community and flexible care in 2008-09 is \$6.7 billion.<sup>1</sup> Up to \$44.5 million

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<sup>1</sup> While the Australian government provides the majority of the funding for aged care, care recipients may also make a means-tested contribution towards the cost of their care.

in capital grants for residential aged care will also be made available in 2008–09. The government's expenditure on aged care is expected to rise in coming years, in line with Australia's ageing population.

- 7.4 The providers of aged care services include commercial companies and the not-for-profit sector. Indicative of the composition of the industry in terms of residential care services, in 2006–07 providers accounted for the following shares: religious organisations (28.8 per cent); private providers (26.9 per cent); community-based providers (17.5 per cent); charitable organisations (15.0 per cent); state government (9.1 per cent); and local government (2.6 per cent).
- 7.5 The government controls the supply of subsidised aged care places through its role in setting the aged care planning ratio target. In accordance with this target, DoHA allocates and funds aged care places supplied by approved aged care providers, for a set number of operational aged care places for every 1000 Australians aged 70 years and over. The current planning ratio target is 113 operational aged care places per 1000 people aged 70 years and over, to be achieved by June 2011. The target mix of care type within this target total is 44 high-care residential places, 44 low-care residential places and 25 community care places.
- 7.6 Owing to the time lag that necessarily occurs between DoHA allocating places and those places becoming operational (usually due to the need to construct a residential facility), DoHA has adopted an approach that 'over-allocates' places in order to meet the target ratio by the target date. At 30 June 2008, DoHA had allocated a total of 247 371 aged care places (resulting in the allocated ratio being 123.6 per 1000 people aged 70 and over). At the same point in time 223 107 aged care places were operational, that is, in a position to provide care (resulting in an operational ratio of 111.5 places per 1000 people aged 70 and over).
- 7.7 DoHA, as a matter of broad principle, seeks to achieve the national aged care planning ratio (currently 113 operational places per 1000 people aged 70 years and over) uniformly in all states and territories, as a way to provide equitable access to aged care for all older Australians.
- 7.8 DoHA provides advice to the Minister for Ageing on the number of new aged care places required to reach the planning ratio target. The decision on how many places to release each year is made by the Minister, taking into account the DoHA advice. Following this decision, DoHA allocates aged care places via a competitive, tender-like process – the Aged Care Approvals Round (ACAR). In recent years over 10 000 new places have been allocated each year. The ACAR is highly contested by current and prospective aged care providers because 'gaining a place' is a necessary

step in participating in the provision of aged care, with access to ongoing government subsidies.

- 7.9 The provision of aged care places and capital grants fits within a broader context of government and non-government activity in aged care and associated fields at the national, state and local levels.

## The Audit<sup>2</sup>

### Audit objective and scope

- 7.10 The objective of the audit was to assess the effectiveness of DoHA's management of the planning and allocation of aged care places and capital grants, in accordance with the *Aged Care Act 1997*.
- 7.11 Australian government-funded aged care relevant to this audit comprises:
- residential aged care;
  - community aged care packages which provide care services in a care recipient's home;
  - several flexible care programs including high care services in the care recipient's home and services for people with dementia living at home; and
  - support for aged care infrastructure via capital grants.

### Overall audit conclusion

- 7.12 The ANAO made the following overall audit conclusion:

The Department of Health and Ageing (DoHA) manages the planning and allocation of aged care places under the *Aged Care Act 1997* (the Act). The Act prescribes in detail much of the planning and allocation processes to be undertaken by DoHA. The planning and allocation of aged care places is a mature process and, overall, DoHA has adopted an appropriate approach to its planning, implementation and reporting against government targets. It has effectively managed the planning and allocation of aged care places and capital grants, in accordance with the Act.

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2 In this chapter, all references to 'the audit' are references to Audit Report No. 40 2008-09, unless specified otherwise.

DoHA has sound administrative processes that: take into account the objectives of the Act when providing advice to Minister for Health and Ageing on the planning ratio target; allow staff to follow established legislative and internal guidelines to implement each step of the Aged Care Approvals Round (ACAR); and provide adequate information for the department to report on outcomes against government targets.

DoHA achieved the government's 2004 and 2007 targets for the provision of aged care places. The national targets were designed to strike a balance between costs and the community's aged care needs. As at 30 June 2008 there were 111.5 operational places per 1000 people aged 70 years and over. Given the government's target is to achieve 113 operational places per 1000 people aged 70 and over by June 2011, DoHA is well placed to achieve the current target.

Although DoHA has an effective approach to managing and allocating aged care places, there are two high-level processes that could be augmented to strengthen aged care planning and the transparency of DoHA's provision of places to Indigenous Australians, and more generally, improve the equity of access to aged care for older Australians:

- DoHA providing advice to the Minister for Ageing on options for incorporating the Indigenous aged 50-69 population numbers into the planning ratio target; and
- DoHA assessing alternatives to how the department applies the government's national aged care planning ratio across state and territories, so as to better take account of state demographic differences.

The government's ratio target determines the number of places to be released each year, based on the number of people aged 70 and over. DoHA also allocates places for the Aboriginal and Torres Strait Islander population aged 50-69, recognising that the conditions associated with ageing generally affect Indigenous people earlier than the wider Australian population. In doing so, however, DoHA uses places that were determined based on the Australian population aged 70 years and over.

Changing the aged care planning ratio is a matter for government. DoHA could provide advice to the Minister for Ageing on options for incorporating the Indigenous population aged 50-69 into the national planning ratio target. Taking account of the Indigenous population aged 50-69 in the ratio would enhance DoHA's ability

to plan for the aged care needs of that population and plan the distribution of places accordingly, without the need for DoHA to reallocate places initially determined on the basis of the Australian population aged 70 and over.

In directing places to the Indigenous population aged 50-69, DoHA uses its administrative discretion to better facilitate Indigenous access to aged care services. In taking this approach, the department is recognising the demographic situation of a particular population. There is an opportunity to extend this approach to deal with other demographic differences between states and territories.

DoHA seeks to achieve the national aged care ratio uniformly in all states and territories. This approach is seen by DoHA as enhancing equitable access to aged care for all older Australians. However, the uniform application of the aged care planning ratio target does not recognise state and territory demographic differences. In order to better address state and territory differences, DoHA should, in consultation with its Minister and other stakeholders, assess the merits of alternative methods of planning the distribution of places across the states and territories.

DoHA advised the ANAO that it agrees that these matters should be considered in the context of the Government's planned review of the aged care planning ratios and allocation process.

The ACAR has been conducted for over ten years and, during this time its scale and complexity has continued to grow. In order to manage in this environment, decision makers need to be supported by appropriate management information relating to ACAR costs, particularly costing information on the key components of the process including at the state level.

## ANAO recommendations

7.13 The ANAO made the following recommendations:

**Table 4.1 ANAO recommendations, Audit Report No. 48 2008-2009**

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| 1. | The ANAO recommends that the Department of Health and Ageing assess the merits of alternatives for how the department applies the aged care planning ratio and sub-ratios across states and territories, so as to better take account of differences in state and territory demographics, including health status. |
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DoHA response: *Agreed*

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| 2. | Recognising the scale and increasing complexity of the Aged Care Approvals Rounds |
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(ACAR) process, the ANAO recommends that the Department of Health and Ageing put in place appropriate costing arrangements that track the costs of key components of the ACAR, so as to inform management decisions relating to program delivery.

DoHA response: *Agreed*

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## The Committee's review

7.14 The Committee held a public hearing on Wednesday 25 November 2009 to examine this audit report. Witnesses from the following agencies attended and gave evidence:

- Department of Health and Ageing (DoHA); and
- Australian National Audit Office (ANAO).

7.15 The Committee heard evidence on the following issues:

- debriefing of unsuccessful applicants;
- requirements of special needs groups;
- review of planning ratios and allocation process;
- Indigenous allocation;
- costs of key components of the Aged Care Approvals Rounds (ACAR); and
- post-allocation monitoring of providers.

## Debriefing of unsuccessful applicants

7.16 The ANAO recognised that the debriefing process for unsuccessful applicants is important as it allows applicants to improve future applications.<sup>3</sup> The ANAO acknowledged the improvements DoHA has made to the process in recent years but found that some stakeholders still find the feedback and advice they receive too generic:

Providers would like more detailed information about how their applications could be improved, and the reasons for DoHA decisions.<sup>4</sup>

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3 Audit Report No. 40 2008-09, p. 89.

4 Audit Report No. 40 2008-09, p. 89.

7.17 The ANAO suggested the DoHA 'continue to seek to improve the debrief process, via staff training and by continuing to evaluate future ACAR debriefs'.<sup>5</sup> The Committee queried why the ANAO had not made this suggestion a recommendation in light of its findings. The ANAO advised that it is satisfied that the Department is taking positive steps to improve the process and therefore did not feel a recommendation is required:

One of the things that we try to do when we think about whether a recommendation is a useful idea or not is to take on board what the agency is already doing, and they have been progressing their thoughts in that area. As I said, they are using more senior people to provide the feedback.<sup>6</sup>

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And they have done some work to consider what the feedback responses have been. We found that DoHa was actively reviewing the comments provided.<sup>7</sup>

## Requirements of special needs groups

7.18 In 2007 the ANAO found that not all states were addressing all five special needs groups identified in the Allocation Principles.<sup>8</sup> A number of states were only including information on selected special needs groups to the Aged Care Planning Advisory Committee (ACPAC) considering allocation of Aged Care Places in their state. In response to a recommendation by the ANAO to improve overall administrative effectiveness, including this deficiency, DoHA 'disseminated 'National Best Practice Guidelines on collection and Assessment of Supporting Information for ACPACs 'to its state and territory offices in January 2008'.<sup>9</sup>

7.19 Although the ANAO found overall improvements to the information provided to ACPACs during the current audit, only two of the four states had fully adhered to the guidelines with regard to the five special needs

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5 Audit Report No. 40 2008-09, p. 89.

6 Mr Steven Lack, Australian National Audit Office (ANAO), p. 10. All references to witnesses' evidence comes from the Committee's hearing into this audit dated 25 November 2009, with page numbers relating to the Proof Committee Hansard.

7 Ms Anne Cronin, ANAO, p. 10.

8 ANAO Audit Report No. 38 2006-07, *Administration of the Community Aged Care Packages Program*, Canberra, p. 74. The five groups identified under the *Aged Care Act 1997* and the Allocation Principles are: people from Aboriginal and Torres Strait Island communities, people from non-English speaking backgrounds, people who live in rural or remote areas, people who are financially or socially disadvantaged, and veterans.

9 Audit Report No. 40 2008-09, p. 64.

groups.<sup>10</sup> The ANAO concluded there is still room for improvement. The Committee asked DoHA why there are inconsistencies across state and territory offices. The Department maintained that a standard set of information is provided to all ACPACs but that the ACPACs are independent advisory committees and may not do things in an 'exactly standard way'.<sup>11</sup>

- 7.20 The Committee asked how transparent the deliberations, recommendations and names of the ACPACs are. DoHA assured the Committee that the names of the committees are publicly known and that, although their deliberations are confidential, the information they provide is incorporated into the Departments guide that is distributed to applicants.<sup>12</sup>

## Review of planning ratios and allocation process

- 7.21 The ANAO found that the current practice of applying the planning ratio uniformly across states and territories does not recognise demographic differences and recommended that alternative methods be explored to improve equity of access to aged care.<sup>13</sup> The Department responded that the Government is planning a review of the process.<sup>14</sup>
- 7.22 The Committee asked if the proposed review has commenced, what form it is taking and whether or not it is addressing the ANAO recommendation. The Department told the Committee:

The Government has indicated that it will provide a reference to the Productivity Commission to undertake a public inquiry into aged care in Australia. This inquiry will examine the needs of Australia's aged persons for the next 20 years and look at appropriate standards and funding arrangements to secure the best outcomes from aged care services. It is anticipated that the inquiry will consider issues around the planning and allocation of services.<sup>15</sup>

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10 Audit Report No. 40 2008-09, p. 65.

11 Mr Peter Broadhead, Department of Health and Ageing (DoHA), p. 11.

12 Mr Peter Broadhead, DoHA, p. 11.

13 Audit Report No. 40 2008-09, pp. 50 and 53.

14 Audit Report No. 40 2008-09, p. 54.

15 DoHA, *Submission No. 13*.



## Indigenous allocation

7.23 To accommodate the fact that the conditions of ageing often affect the Indigenous Australian population earlier, the ANAO found that DoHA allocates places for Aboriginal and Torres Strait Islander people aged 50-69.<sup>16</sup> To achieve this, DoHA reallocates places assigned to the whole Australian population aged 70 years and over.<sup>17</sup> The ANAO suggested that:

DoHA could provide advice to the Minister for Ageing on options for incorporating the Indigenous population aged 50-69 into the national planning ration target. Taking account of the Indigenous population aged 50-69 in the ration would improve DoHA's ability to plan for the aged care needs of that population and plan the distribution of places accordingly.<sup>18</sup>

7.24 The Committee asked if DoHA has, or intends to, provide such advice to the Minister. The Committee also asked whether or not the intended government review would consider specifically allocating extra places for special needs groups, particularly the Indigenous population aged 50-69 years. DoHA informed the Committee that it expected both these issues to be covered by the intended inquiry into aged care in Australia to be undertaken by the Productivity Commission.<sup>19</sup>

## Costs of key components of the Aged Care Approvals Rounds

7.25 The ANAO found that DoHA was unable to provide 'specific data or estimates on the costs and funding approach related to the planning and allocation of aged care places and capital grants'.<sup>20</sup> This indicated that DoHA had not 'systematically considered the resourcing' of the process.<sup>21</sup> In order to continue to meet its goals to provide aged care places in an increasingly competitive market, the ANAO recommended that DoHA put in place a costing framework to track the costs of key components of the ACAR.<sup>22</sup>

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16 Audit Report No. 40 2008-09, pp. 14-15 and 47-49.

17 Audit Report No. 40 2008-09, p. 15.

18 Audit Report No. 40 2008-09, p. 15.

19 DoHA, *Submission No. 13*.

20 Audit Report No. 40 2008-09, p. 70.

21 Audit Report No. 40 2008-09, p. 71.

22 Audit Report No. 40 2008-09, pp. 71-72.

7.26 The Department agreed to improve the cost tracking process but did not provide details of how it would go about this.<sup>23</sup> The Committee is concerned that the lack of data will inhibit DoHA's ability to implement future efficiencies and asked DoHA what action has been taken, or is planned to be taken, to implement the recommendation. DoHA informed the Committee:

As part of the Business Planning exercise for 2009-10, the Ageing and Aged Care Division and the Office of Aged Care Quality and Compliance undertook an exercise to improve the quality and consistency of resource allocations for aged care activities to ensure that the resource allocation was accurate for the round and affected activities. The results of this exercise were then submitted as part of the Business Plan for both of the Divisions which have responsibility for aged care programs.<sup>24</sup>

### **Post-allocation monitoring of providers**

7.27 After the allocation of places, the ACAR applicant has two year to ensure the places become operational. Over recent years, increases in building costs and construction times have made it more difficult to meet this deadline. The ANAO acknowledges that the DoHA is taking a more active role in monitoring this process in an attempt to ensure compliance. However, the ANAO found that DoHA had difficulty monitoring whether or not providers meet the conditions of allocation as the records were held on paper in files in state and territory offices.<sup>25</sup> The ANAO suggested that DoHA consolidate its records of conditions of allocation to enable post-allocation monitoring of providers.<sup>26</sup>

7.28 The Committee asked DoHA what actions it is taking to improve post-allocation monitoring of providers, for example has it implemented physical inspections. The Department informed the Committee that the intended enhancement of its Places Tracker IT system will provide a capability to undertake systematic and IT-assisted scrutiny of the conditions of allocation on a centralised and coordinated basis.<sup>27</sup> The Committee asked for an update on this process. DoHA replied:

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23 Audit Report No. 40 2008-09, p. 72.

24 DoHA, *Submission No. 13*.

25 Audit Report No. 40 2008-09, p. 91.

26 Audit Report No. 40 2008-09, p. 91.

27 Audit Report No. 40 2008-09, p. 91.

Since 2007, the Department has entered conditions of allocation into the National Approved Provider System (Places Tracker). The Department is undertaking work to incorporate information on past allocations into this system. This is a large task requiring manual data entry of information held in a variety of different forms and records systems including paper based files in state and territory offices of the department. The compilation of this information in the system in a readily available form is a necessary pre-cursor to more actively monitoring conditions of allocation from allocations prior to 2007.<sup>28</sup>

## Conclusions

- 7.29 The Committee acknowledges that overall the planning and allocation of aged care places and capital grants by DoHA is operating effectively. The Committee notes that the government is planning to undertake a review into aged care in Australia that will address concerns regarding planning and allocation of services.

