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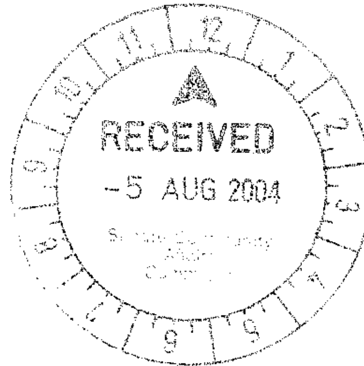

3 August, 2004

The Secretary
Senate Community Affairs References Committee
Suite S1 59
Parliament House
Canberra ACT 2600

Dear Sir/Madam

It was a pleasure to hear of your Inquiry into Aged Care and I enclose the attached reports for your consideration:

- "Australian directions in aged car" – especially the section on future directions and policy options (page 47) onwards.
- "A review of healthy ageing research in Australia" – especially page 2 on the information needs of program managers, service providers and other stakeholders (pages 11 – 18).
- "Will the New Directions in the Budget Transform Aged Care" which is a paper I presented to Aged and Community Services Australia (NSW).

I trust that this information will be helpful in your deliberations. If you would find it helpful, I would be pleased to talk further with the Committee about policy directions, research to guide policy and program development, and the critical shortage of aged care workers in the allied health professions as well as nursing.

Yours sincerely

Professor Hal Kendig

Attachments

"WILL THE NEW DIRECTIONS IN THE BUDGET TRANSFORM AGED CARE"

Paper presented to the 2004 Board and Leadership Conference

Aged and Community Services Australia (NSW)

by
Professor Hal Kendig
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20 May, 2004

Sydney

Thank you very much Paul [Saddler] for the kind introduction. It is a pleasure to be back with ACSA at another leadership conference and to speak in this session along with the Minister on Ageing and your President Mr Glenn Bunney.

My comments on the history of aged care and some policy options for the future are based heavily on a paper that I co-authored with Steven Duckett called "Directions for Aged Care Policy" written for the Australian Health Policy Institute a few years ago. The paper is available from the Website http://www.usyd.edu.au/chs/ahpi. Information on the budget is available on the Web from the Department of Health and Ageing (http://www.health.gov.au/investinginagedcare/index.htm) and from Aged and Community Services Australia (www.agedcare.org.au/publications/nationalreport/issueno81).

When is major change possible?

My topic is "Will the new directions transform aged care?" This could be answered by a simple "no" because a radical transformation is unlikely in a budget announcement. But it still is a very good question for raising broader considerations about how new policy directions in aged care are set. It helps us to consider "where we are going?" beyond the annual budget and beyond the electoral cycle. My commentary is based on 30 years of watching aged care policy developments over 30 years from Universities in Canberra, Melbourne and Sydney.

In considering the future a good starting point is always to remember our past and where major changes have occurred previously. Each of the present foundations of aged care policy continues to be influenced by key developments in distinctive political and social contexts:

- Commonwealth subsidies for nursing homes were introduced in the early 1960's largely because many older people were entering hospitals and there were heavy cost pressures on insurance firms. The industry sought policy action (funding relief) at a time when the Coalition Government was facing substantial political pressure in the lead-up to a tight election. The nursing home industry as we know it now was largely spawned in this context.

- The major step towards a more balanced aged care system was largely established through the reforms from the mid to late 1980's. After a decade of reports arguing for better community care, the Home and Community Care Program was established along with the (at that time) Geriatric Assessment Teams and more integrated residential aged care arrangements. The underlying fiscal concern at the time was a blow-out of costs for residential care, which attracted calls for action from Finance and Treasury. Electoral impetus for change was provided by the Women's and Carer's Movements, to which the new policies had considerable appeal.

- The introduction of the 1997 Aged Care Act by the newly elected Coalition Government implemented directions foreshadowed at the previous election. These were a more integrated residential care program (replacing the distinction between hostels and nursing homes with high and low care); the new accreditation arrangements (designed to reduce bureaucratic red tape and increase standards); and the proposed introduction of bonds for high care places (generally in line with those that had long applied to low care residential care places). The context here was that the Government was addressing "Labor deficit and debt" which, along with an ageing population, was said to require substantial cut-backs in health and welfare expenditure. After the consumer and public backlash against the bonds and the proposed cuts, the government's "Staying at Home" package led to substantial additional expenditure in popular areas such as carer support as well as other important initiatives in community care.

These examples from the past provide some useful lessons as to when and how major changes have been possible in our aged care system. We can see what one might call a "sedimentary" model of program development: new policies tend to be overlaid on old ones and there is more evolution than radical change. When change does occur there usually is underlying social change [note how the Carer's Movement in the 1980's eventuated in the Treasurer extolling carers in a major heading in his 2004-05 budget speech.] For change to occur there also usually are major fiscal pressures precipitating them (even though the eventual outcome may well be more rather than less expenditure). Overall there has been a long tern trend towards modest real growth of expenditure in aged care. Finally, in terms of electoral cycles, major initiatives tend to emerge after rather than before elections. This is not surprising given that most major changes are contrary to some interest groups that would oppose them when a political opportunity is available.

What are the major directional issues now?

The underlying context for the Government's ageing-related expenditure has been set firmly by the Treasurer's 2002 Intergenerational Report. The Report projecting the consequences of population ageing to 2042 for the macro economy, government finance and taxation, and health and income support policies – not specifically aged care. While the report has been important to focus attention on the long-term consequences of an ageing population, we need to remember that projections do <u>not predict</u> the future; they rely on many assumptions which inevitably will change and unforeseen circumstances inevitably will arise. The main message of the Intergenerational report is that we need to begin to address soon issues about maintaining the labour force and saving for retirement incomes to prepare for demographic change.

To understand the fiscal context for aged care, we need to appreciate that "care" is not a major component of government expenditure on older people. The "big ticket" items now are the aged pension (about two-thirds of expenditure) and health (twenty-five percent including pharmaceutical expenditure). Aged care per se is a relatively

small part coming in at 10 to11% for residential care and 3 to 4% for non-residential care. While this expenditure is certainly substantial, it is not of the scale to have major consequences for overall government expenditure or the economy.

As for the future, we need to remember that the long-term ageing of the population will not have major impacts on aged care until 2020 and beyond when the baby boomers reach advanced old age. The prospects for the next 10 years are that the proportion of the population aged 80 years and over will remain relatively constant. According to the Hogan review, the costs of aged care are projected at 1.1% of gross domestic production in 2002-03 and 1.2% in 2012-13.

In my view, the major contextual questions ahead for aged care concern the underlying social issues rather than any major fiscal challenge. The major social change concerns the rising aspirations of older people and their expectations for more quality and choice in aged care. There also will be older people who will have accumulated assets over the post-war economic boom and they probably will be more willing to draw on their assets to pay for their own care. In addition to paying for and assuring better care, the major fiscal challenge is to ensure adequate capital investment particularly in quality improvements and expansion in the high care end of residential care of provision.

Overall, the major difficulties to be solved in the aged care system have been with us for a very long time. These are the ongoing divides between the Commonwealth and State governments, between the health and welfare sectors, between community and residential care, and between people who can and those who cannot contribute financially to their own care. The consequences of these divides are major difficulties in delivering integrated flexible care to older people in each of the local service areas throughout the country. Indeed, the final test for the adequacy of an aged care system must be the difference it makes for the lives of vulnerable older people and those who care for them.

Directions in the 2004 Aged Care Budget

The Minister has already outlined the key features in the Government's 2004 Aged Care Budget. In my estimation, this aged care budget is one of the more significant ones over recent years. Although it's financial and reform commitments are modest, the budget begins to address some of the hard questions that have been simmering for years. Difficult decisions could no longer be postponed (as they had while the Hogan review was being conducted) nor left to broad directional statements such as those in the 2002 National Strategy for an Ageing Australia. The Government released the controversial Hogan Report along with its budget that specifically addressed short-term recommendations from this Review (see more below).

We should also recognise that, while the budget provides a significant increase for the Home and Community Care Program, it does not take major action on the recent Community Care Review. Perhaps there will be further announcements concerning

community care in the lead up to the election and also in the lead up to the re-negotiation of the HACC Review for 2005.

Overall, this appears to be a sensible election budget and there does appear to be a continuing growth of real expenditure. We do not as yet have for comparison any detailed statement from the Opposition on its alternative budget proposals. These cautious positions by the parties are understandable in the lead-up to an election, which historically has not been a time for major new policy reforms. There are, however, some features in the current budget which could point toward further developments and I comment on them below.

The increased funding for residential care is to be welcomed, although the increases this year are modest and the major increases are delayed for several years. The aged care industry will articulate their strong views on the inadequacy of indexation arrangements while the government can be expected to point toward the Hogan review's comments on the potential for efficiency gains. It is noteworthy that the additional payments are termed "conditional adjustments" and that these conditions involve requirements for further effort in staff training and in publishing more financial information. The additional information on finances will have important implications for the Departments given its increasing interest in the efficiency of the industry.

The budget also proposes significant increases in aged care places in its planning guidelines. This provides a response to strong growth of the very old population and continuing pressures on aged care provision. It needs to be noted however, that the actual provision of aged care at present is now only 82 places per thousand as contrasted with the 88 residential care places proposed in the new guidelines. Further, as the Hogan Report notes, there is considerable unevenness in the distribution of current places.

The new guidelines call for a substantial increase in the community aged care packages from 10 to 20 places per thousand people aged 70 years and over. This is to be achieved by allocating all of the new care places to the community packages as well as by reallocating two out of a thousand low-care residential places to the community packages. This increase of community provision recognises the strong preference amongst older people to remain in their own homes in the community whenever possible. It also recognises the substantially increasing capacity of community care services to support more dependent older people, usually in partnership with self-help and carers.

With the move toward more community places, the Commonwealth is directing expenditure more specifically for care services while leaving responsibility for accommodation as more of a private matter. In residential care, of course, the government (and residents) are committing substantial expenditure to accommodation as well as to living and care expenditure. This separation of accommodation and care responsibilities can lead to savings of Commonwealth expenditure, at least for people

at low level care needs, with more of the costs being met privately. Older people with the financial means can have government support with care while paying for whatever accommodation they chose or can afford. The community care option is not as available for those who do not own their own homes or who do not have other stable housing arrangements that enable them to remain in a community setting.

The expenditure supplementation for rural and remote viability and for special needs groups to is especially to be welcomed. There is no question that it costs more to provide adequately in rural and remote areas as compared to an urban setting. Similarly, there are additional costs in serving indigenous communities and people with dementia. The costs need to be recognised with adequate subsidies if there is to be adequate provision for these groups.

At the high-care end of residential provision, the budget provides modest increases. The 3,000 new transitional care places will be valuable particularly in providing better care immediately after hospital. The additional community care places will only indirectly lessen pressure on providers who face the strong demand and difficulties meeting the costs for high end residential care. These are small steps in better relating the acute, residential, and community care sectors and transitions between them.

Over the past decade the most contentious area for aged care budgets has concerned capital investment particularly at the high care end of provision. The importance of capital upgrading is increasing along with the rapidly approaching date of 2007 for meeting all accreditation requirements. The budget allows residential care facilities to charge residents a substantially increased daily capital charge if they can afford it: and the government pays directly the additional amount for people who do not have the necessary private resources. It is now seven years since the government tried to put into place accommodation bonds for high care provision (nursing homes). Such action still does not seem likely in the near term notwithstanding the recommendations from the Hogan Report that bonds are necessary.

The budget also introduces additional measures which warrant some comment:

- Prudential Arrangements: While this initiative is not detailed, it foreshadows the government taking a more substantial responsibility in protecting older people who place substantial assets under the use of residential care providers. Measures along these lines will facilitate user contributions and consumer protection.

- Workforce and Training: With this initiative the government continues and strengthens its recognition that expertise of staff is arguably the greatest resource for providing quality care. The need for such initiatives underscores the growing difficulties of articulating university funding (provided primarily by the Commonwealth Government) to the rapidly growing needs in the health workforce (more of a concern for State Government, the voluntary

sector, and the private sector). These difficulties are becoming so significant that more radical action may be necessary. There are increasing calls for funding the education of health workers through the Commonwealth health budget rather than the education budget.

- Aged Care Assessment: The increase of funding here suggest greater Commonwealth attention towards targeting aged care resources to those having higher level needs and to ensuring more comparability of access criteria across the community and residential sectors. The proposed web-based information development is part of a broader trend toward keeping consumers informed and enhancing choice where possible.

- Means Testing: The move of responsibility for means testing from residential care facilities to Centrelink reflects the government's intention to take increased responsibility for targeting its subsidies (the RCF's responsibility is specifically to provide care). While this change indicates a more rational policy approach, it does raise questions as to how quickly Centrelink may be able to respond when older people need to make moves quickly as a result of changing needs.

- Aged Care Standards and Accreditation Agency: The increased funding and the provision of the web-based information system is another indication of the government's focus on assuring quality and enabling and increasing participation about consumers and carers.

Overall, the 2004 budget can be seen as providing a favourable but modest increases of funding along with some small steps towards a possibly deeper reform over the coming years.

Several areas are disappointing in terms of their absence from the budget. First, virtually nothing is said about accommodation for older people particularly those who have not been able to buy their own homes. The provision of community care requires that older people have secure housing to which domiciliary services can be delivered. Second, very little has been said specifically about positive ageing and the great potential for health promotion to enable older people to remain as independent as possible. Both housing and health promotion are major areas of State Government responsibility and their difficulties with the Commonwealth may go some way in explaining why these areas did not receive much attention in the budget.

MAJOR ISSUES FOR THE FUTURE

The Hogan review of residential care funding sets a valuable agenda for considering future policy developments in residential care. I should say that I served on the Technical Advisory Committee for his Review and I am impressed by Professor Hogan's exceptional abilities and integrity. He has brought a rare clarity to understanding aged care issues particularly from a market view of the world

(although this does not sit entirely comfortably with the language of the election budget). A most significant contribution is the Review's thorough analysis of costs in the residential care sector including new data and analysis (notwithstanding some difficulties with the sampling). For considering major aged care policy developments a major limitation of the Review is that it does not provide comparable attention to community care and its relationship to residential care.

Overall the Hogan Review greatly advances our knowledge of costs in this sector. Further, his recommendations address the most contentious and difficult of the funding questions for the industry over some years. While not everyone will agree with his views, he provides a coherent and potentially workable way for advancing funding of residential care over the longer and middle term as well as the short term.

The major difficulty with the Hogan review is that its terms of reference (and information collection) were directed to costs without comparable attention to quality of care. When one analyses costs without considering quality, it is difficult to distinguish between facilities that provide higher quality (and cost more) from those that simply are less efficient (provide the same quality at a greater cost). In my estimation it is not correct to state that facilities that have a higher cost are necessarily less deficient. To seriously come to grips with improving residential care we require cost-effectiveness analysis that carefully considers factors influencing both costs and quality of care.

Professor Hogan bravely faces the contentious issue of accommodation bonds for high care facilities. He suggests longer term mechanisms that would enable older people to draw on the wealth in their homes while protecting their own interests and those of their heirs. Moves in this direction could increase revenue and quality of care as well as consumer choice. However, while the government has committed to consult on virtually all of his other middle and long term recommendations, it has already ruled out any further developments towards making more use of older people's housing assets.

The underlying difficulty here concerns the deep Australian belief in the sanctity of owner-occupied housing and the right of older people to leave their assets (relatively unencumbered) to their family. While Australian values support means and asset testing in the area of welfare, for example, access to public housing and pensions, there still is a strong sense that nursing homes are a health care issue and that health care (eg. hospitals) should be provided on the basis of health need rather than financial means. For this reason we need to device policies that "unbundled" accommodation and care provision (see Kendig and Duckett, 2001). This approach would enable people to pay themselves for their accommodation, if they have the means to do so, and also to have government subsidies for needed care irrespective of the accommodation where it is provided.

What are some of the possibilities for the longer term? A few years ago some policy analysts thought that responsibility for aged care could devolve increasingly to the

States along with their receiving the full GST revenue by 2007. However, this possibility would appear to becoming less likely as a result of changes in general revenue sharing for some states (NSW and Victoria). Another reason to be cautious is that State revenue is likely to fall substantially in the wake of the housing boom that had fuelled State coffers over recent years.

Another possibility for the future would be to move towards more of a market model of provision following the mechanisms recommended by Professor Hogan for the middle and longer term. For example, there are possibilities for various vouchers systems and for residential care providers to buy and sell allocated places. In my view these possibilities are unlikely. There would be substantial risks were governments to be exposing vulnerable older people more directly to the vagaries of markets. There is no question, however, that governments will be continuing and arguably accelerating their drive towards greater efficiency in the industry. This in turn is likely to lead to a major rationalisation of providers in the sector.

I wish to particularly emphasise three considerations concerning the future:

- Firstly, policies will need to appreciate the rising expectations of old people for choice and quality of care. Many of the discussions that now occur between funders and providers will widen into tripartite discussions also involving informed and increasingly powerful consumer interests. ACSA policy documents are to be commended for recognising the imperative to focus on outcomes for the older people.

- Secondly, we do not have the evidence base in aged care that the National Strategy for an Ageing Society has stated to be essential for the Plan's implementation over the coming decades. For evidence on the relationship between cost and quality in residential care we need to go back to 1980s studies; few studies of the effectiveness of community care have been conducted over the last decade. Hogan recommended that greater resources be applied to administrative data collections with the Australian Institute of Health and Welfare. This would be valuable but deeper research is also required. Research on aged care needs to be included in the national research goal "Ageing Well, Ageing Productively" as it is implemented by the Department of Health and Ageing as well as the Australian Research Council and the National Health and Medical Research Council. ACSA has strongly supported research initiatives in aged care.

- Thirdly, we are fortunate that the National Strategy for an Ageing Australia has set a strong vision for directions over the next few decades. But what we now need is a business or an operational plan that will guide actions as to <u>how</u> the National Strategy will be implemented. Our longer-term strategies and aspirations need to be linked to operational plans that set out advances developments over several years rather than the budget next year. It is particularly important to consider the joint development and inter-relationship

between residential and community care (with the HACC agreement to be renegotiated for next year).

In summary, the 2004-05 budget provides the Government's case to the electorate on its track record and directions for aged care. The Opposition has yet to declare its hand very fully. While one cannot expect a plan to transform aged care in the lead-up to a difficult election, it must be an essential priority for the next government.

Note from Senate Community Affairs Committee Secretariat –
the following reports referred to in Professor Hal Kendig's submission may be accessed at the following weblinks:

Australian directions in aged care: the generation of policies for generations of older people
http://www.usyd.edu.au/chs/ahpi/publications/kendig/kendig_paper.pdf

A review of healthy ageing research in Australia

http://www.ageing.health.gov.au/ofoa/documents/pdf/haresearch.pdf