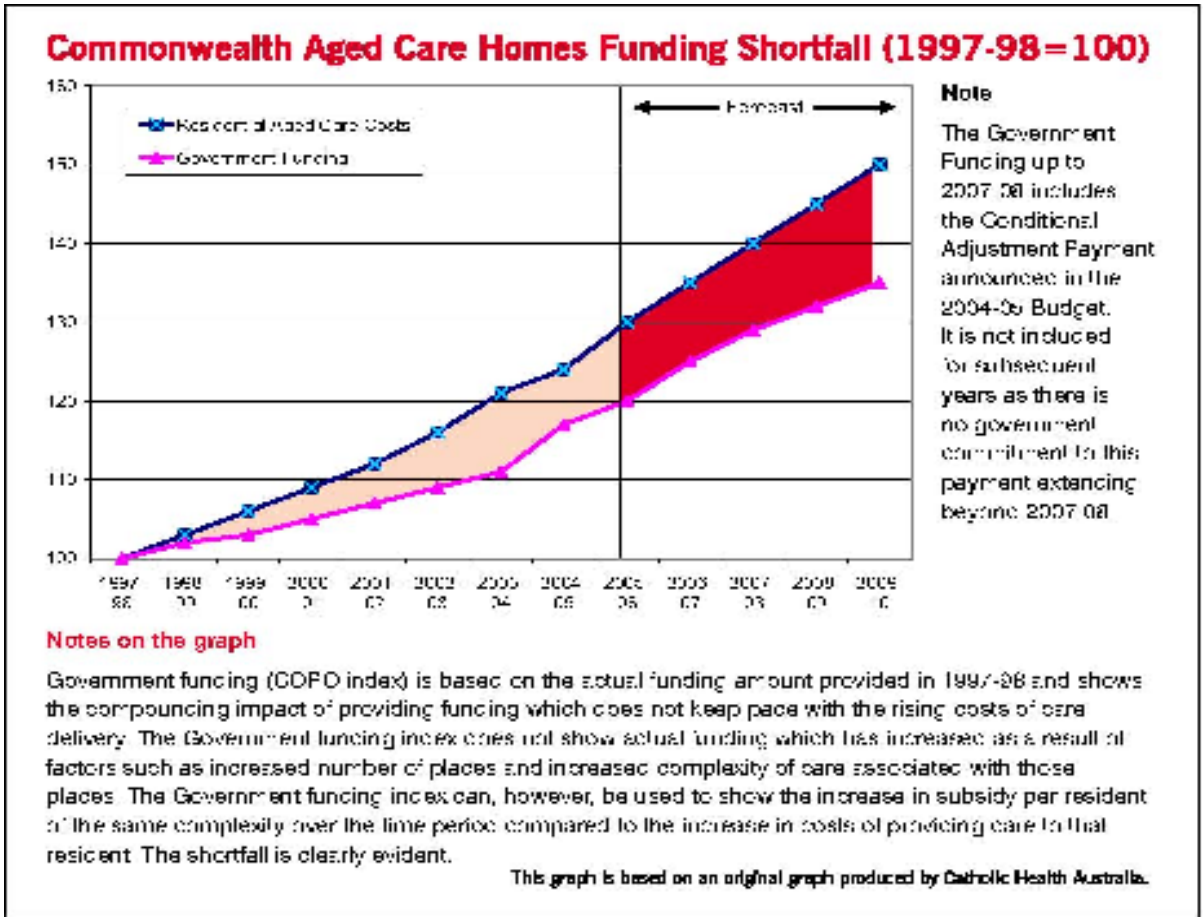
Finance and Public Administration Committee
Inquiry into Residential and Community Aged Care in Australia
Launceston Hearing 27 March 2009

Answers to Questions on Notice – Aged & Community Services Tasmania

Question 1

15 per cent efficiency dividend and benchmarking of indexation

The current indexation formula has resulted in a steadily widening gap between the costs of providing a service and the subsidies provided by the Australian Government. The graph reproduced below illustrates this. In the case of residential care, this has been ameliorated to a minor extent by the payment of the supplementary Conditional Adjustment Payment which is due to expire in June next year, pending the outcomes of a current review. No such payment was made in respect of Commonwealth-funded community care services despite being subject to very similar cost pressures – principally on wages. The main problem with the Commonwealth Own Purposes Outlays (COPO) formula is that it drastically underestimates wage movements in the health and aged care fields by using movements in the overall, national minimum wage as the basis for calculation. This does not reflect actual labour market conditions in health and aged care. The Department of Veterans Affairs is understood to have abandoned the COPO index for its Veterans' Home Care program for this reason.



The above is an excerpt from the Aged & Community Services Australia Submission, Page 4

The graph on the previous page displays the 15% efficiency dividend ACST referred to in their appearance before the Inquiry in Launceston. Indeed, this "efficiency dividend" was confirmed by a former Minister for Ageing, Santo Santoro, at a meeting of industry peaks in the August 2006 before he left the portfolio. We believe the situation has further deteriorated since former Minister Santoro made that statement.

There has been no specific benchmarking against indexation/increased funding provided to other areas of the health sector. This is difficult because we are not always sure we are comparing apples with apples so therefore the comparisons are broad and probably in hindsight not that useful.. When we refer to our indexation we mean the actual increase to an individual unit (subsidy) to cover the rising costs of care. In other sectors their indexation can include growth in services and demand as well. A clear example is shown by the way the Department confuses the indexation issue by including in their 8 per cent indexation figure not only COPO and CAP but also increased frailty and funding. This is an overall volume or global measure which is not relevant to our member providers who are more interested in how much their actual funding increases from one year to the next per individual resident, thus allowing them to therefore cover (or not cover) the rises in the costs of delivering that care. One only needs to track movements in CPI and wages over the last 12 years relative to the the application of COPO indexation to residential subsidies to realise that we are more than 15 per cent behind in covering rising annual increases in costs. Whilst CAP has *ameliorated to a minor extent* the funding gap (see graph) community care packages have and to survive solely on annual indexation in accordance with COPO and subsequently the value of packages in care hours has dropped considerably.

Question 2

Department of Health and Ageing - Hansard evidence 13/03/09

At the hearing held in Launceston on March 27, witnesses were invited to comment on the evidence provided by the Department of Health and Ageing and the fact that the evidence provided by the Department does not support claims by providers that there is a crisis in aged care. ACST responds as follows:

"The entire industry could be efficient if it wished to be" – Dr. Cullen, Assistant Secretary, Policy and Evaluation Branch, Ageing and Aged Care Division, Department of Health and Ageing
Committee Hansard p.87, 13/03/09

The above comment sums up the challenge in front of the Tasmanian sector in a rigid centralist model. This comment fails to understand the regional differences and characteristics across the sector. This displays ignorance of the specific challenges for Tasmania around costs, size, lack of business support services, market limitations, lower socio economic indicators and ageing population and workforce.

It appears from the Department's statement that all providers need to do is to be more committed to efficiency. Again, this is a highly insulting conclusion – reached by a departmental officer who takes no account of the efforts made by organisations to become more business-like. It appears to be just a matter of ""wishing harder".

For the entire industry this is a dangerous reflection of a policy of "efficiency by desperation" where the Department takes no strategic view of where the industry needs to be and what support is required. In fact this and other comments seem to indicate that the approach is to manage each crisis and closure individually as they emerge with no overall commitment to creating a sustainable, flexible and modern system.

The nature of the relationship between the Department of Health and Ageing and providers is quite clear from reading the evidence provided to the Committee on Friday March 13, 2009, in Canberra. That is; there is little or no common ground on the issue of the health and vitality of the industry; there is a fundamental difference between the Department and the industry as to how the health and vitality of the industry should be measured or quantified; and there is a clear difference of opinion between the Department and the industry about the role of the Department in sustaining the industry.

The Departments' officers could be described as being unhelpful to the committee, even arrogant in their dismissal of questions put to them – see p.78 of the Hansard where Mr Stuart asks Senator Humphries whether he is "sure you do not want to ask a more specific question." Further examples can be found in Dr Cullen's response to Senator Humphries question as to why evidence about the accommodation supplement was not included in the Department's submission – see p. 80.

The Department's representatives also have a very different view to providers about what the role of the Department is. It is clear that the Department will consider there is no crisis if aged care is being delivered – no matter the tumult or disruption to organisations that may be going on to ensure the care is provided. Thus, the Department has a very low satisfaction level. It is only through the goodwill of thousands of staff, families, providers and communities that the care is delivered. The Department is clearly content to ignore protests from providers while their low satisfaction level is achieved. In response to Senator Humphries direct question as to whether or not there is an emerging crisis in the provision of aged care accommodation in Australia Mr Stuart indicates that he does not see a crisis – "the industry continues to deliver care every night to about 175,000 older Australians. Insolvency in this industry is extremely rare." (See p. 79)

ACST considers that the industry can be in crisis while care is still being delivered. The Department's evidence reveals that the official view is that there is a crisis only when care is not being delivered. ACST considers this a bit late to assess the health of the industry and take action to improve it. It seems an expectation that our members erode their reserves, cross subsidise, depend on community fundraising etc to survive when in fact this is a flawed business model inconsistent with the "efficiency" focus of the Department. On that basis we question the Department's commitment to the security of residents and the care and services they are provided.

The Department's representative Dr Cullen indicates that "the average residential care subsidy per resident will be eight per cent higher" in 2008 - 09 than it was in 2007 - 08. (See p. 81) He later breaks that eight percent figure down – attributing contributory increases to "normal indexation" – presumably COPO, CAP, "frailty growth amongst residents" and new policies. Dr Cullen therefore suggests that aged care funding has risen by 8 per cent. On an Australia wide global funding basis the money allocated to aged care may have risen by 8 per cent. However, the Senate Committee should not be under the impression that providers have received an eight per cent increase in funding for the same residents or like for like residents. The basic subsidy levels have not been increased by eight per cent. In fact a significant number of our members have reported subsidy increases this financial year below 3 per cent (including the temporary CAP indexation). It is not appropriate to apply the volume growth to what subsidy increases individual providers receive annually. In fact the volume growth in the global figure should be expected in the context of an ageing population.

The evidence given by Dr Cullen is further illustration of the Department's global view of the industry. The Department appears incapable of distinguishing between the total level of funding to the sector provided and described in budget papers and the actual sums of money provided to individual providers – with responsibilities to individual residents, families, staff and communities in a context of their organisational history and philosophies. In short, the Department appears reluctant to actually deal with the practical reality of the industry and would rather hide behind what is essentially an abstract – the industry/sector as a whole. This may give the Department's representatives some comfort when appearing before your committee but it does not provide comfort to those responsible for providing care for the residents or their families.

Please do not be mislead by this global figure – there has not been an eight per cent increase in subsidy levels for the residents that we care for.

The Department puts much store on the levels of plans to build and building activity as indicators of the sentiment of the industry – see pp. 82 – 84. There is no indication that the comparative figures for building starts are adjusted for inflation. The decision to go ahead with building may also say more about the provider's commitment to providing care to the community than a "hard-nosed" business decision. It appears that this matter has not been tested – a statistic is used to prove the health of industry sentiment – it may not in fact reveal this when subject to closer scrutiny. Providers may well be seeking to make currently uneconomic facilities more efficient through economies of scale – this may be the lesser of two evils when faced with closure due to lack of sustainability. Dr Cullen also cautions the Committee on taking too much account of these statistics – see p. 83. There is also a question here of what is included in this indicator and we would assume that retirement villages and independent living units form part of the data and therefore bring into question the Department's conclusions.

The Department representatives indicate that it does not see a need for urgent ACAT reassessment of a resident whose needs have increased where care is already being provided – see p. 86. This is further evidence that the Department has a low satisfaction level when it comes to providing care – as long as care is provided it does not matter that the organisations providing it may not be properly reimbursed – the only requirement is that care is being provided.

The discussion recorded around the various financial analysis and reports of the sector indicates that the Department has no other contrary or reliable evidence. The discussions over the top quartile distract from the clear evidence from all reports that the trend sector data on returns is trending down. In fact since the Department's comments Stewart Brown Financial Services, James Underwood and Associates and Grant Thornton Australia Ltd have submitted the following statement to the Inquiry:

"We refer to recent references made in Senate Estimates and the Aged Care Senate Inquiry to our research on the financial performance of residential aged care services. Information from our respective surveys has been used in public forums to argue different points of view and following statement is made to clarify our position.

Our research confirms that modern, single-room High Care services – other than those with extra service approvals – are not viable under current funding and regulatory arrangements. "

Dr Cullen also opines that it is more appropriate to concentrate on the results of the top quartile of providers rather than to look at the industry as a whole – see p.87. This is a clear example of the Department's failure to grasp that the industry is providing care for actual human beings – that if the security of tenure of 75% of the residents is threatened then the Department has a problem NOW.

Dr Cullen was asked whether his Department was telling providers how they could be more efficient but another question was posed before he could answer that immediately. When pressed – see pp.89 – 90 Dr Cullen indicated that in his view economies of scale and scope that make the top quartile better performers than those in the other three. What future does this suggest for smaller providers – such as those with one or two sites? Is the Department recommending consolidation, or takeover, perhaps by organisations that might close smaller community facilities that might be deemed uneconomic?

Tasmania has many small providers – it appears that the Department believes that economies of scale and scope could assist. Yet apart from a small pilot project on the North West Coast the Department has taken no action to provide this leadership or service to providers. When queried by Senator Humphries as to how small providers could achieve these efficiencies he was not enlightened by the Department's representatives. In fact Tasmanian providers do have access to some economies of scale – our access to Government purchasing facilities is an obvious example. Despite this though – we are in trouble. There is a clear danger to the sector in Tasmania of this "bigger is better" consolidation strategy. We have small providers that are key contributors both economically (often in the top three employers) and socially to our communities. We feel that our system needs support and would be very interested to know if the Department has a policy of consolidation and efficiency focused on larger and lesser providers as this has serious dangers for the health of Tasmanian communities.

There is a need for the Department's role to be better defined. Is the role of the Department to protect the Minister from political "heat" or to assist providers – who have essentially sub-contracted from the Government the role of care – to achieve higher quality, sustainable operations – thus removing from Government the need to reacquire the responsibility for the care of our elderly? Mr Stuart later indicates that the Department believes that there is continued "fiscal vitality" among the "better" aged care providers. Taking this evidence together with the evidence provided by Dr Cullen about economies of scale it appears that the Department view is that "the bigger, the better." This may be fine in theory – but again it does not reflect the reality – especially in Tasmania which is dominated by small not for profit organisations. It appears however, that the Department does not believe it needs to concern itself with actual measures that improve the lot of current providers – as long as the low satisfaction threshold is achieved.

On the question of ACAR applications Mr Stuart indicates that "So far we have been able to make up the gaps using the government's zero real interest loans round, both in Western Australia and Tasmania...". Mr Stuart does not provide evidence to support this blanket statement that all available places which were not taken in the ACAR Round have now been taken. The facts are that only 7 providers applied and a substantial number of places were taken by one provider. There are questions over whether these places will proceed? However with the lack of capital funding available this was the only opportunity providers had and we are sure felt they had no choice.

Page 94 – "The government spends a good deal of funding on workforce training to ensure that there is an appropriately trained workforce available to providers...." The Governments workforce strategy has failed - no nurses have returned to aged care as a result of their $6000 return to work initiative. Providers have limited resources to support clinical placements or induct new nurses, carers etc. ACST have presented an innovative proposal to the Minister for Ageing regarding a hub

and spoke teaching nursing homes model that would build internal infrastructure and support partnerships with key educational institutions. As was reported to us by an Advisor to the Minister this was referred to the Department. Since that time (end of 2008) we have had no feedback.

The Department's lack of grasp of the reality of the situation for providers is further underlined by the evidence provided by Dr Cullen about labour productivity – see p. 94. Dr Cullen indicates that "labour productivity allows you to offset cost, it allows you to grow your earnings." The language used in this evidence is revealing too. It suggests that the Department personnel are prepared to discuss theoretical economic modelling – again a practical element is missing. Presumably Dr Cullen suggests that increased labour productivity would mean fewer staff are required. Our industry provides care for people – it does not produce goods. Already costs have been reduced by cutting excess staffing time and hours. An exhortation to work harder is hardly helpful.

In short, the evidence provided by the Department reveals:

- There is no relationship between the Department and providers;
- As long as care is provided the Department is not concerned by the turmoil in the organisations providing it nor the short, medium or long term health of those organisations;
- The Department has used a global figure to suggest that aged care funding for providers with the same resident profile year on year has increased by 8 per cent;
- The Department believes providers could be efficient simply if they "wished" to be so;
- The Department considers the industry in global, non-differentiated terms – and considers assistance in the light of economic models not practical initiatives.
- Tasmanian communities are in a vulnerable position as a result of the perceived push for consolidation and efficiencies.

Question 3

What is a sufficient amount of funding and indexation?

At the Senate Committee hearing in Launceston on March 27 Senator Bernardi requested "…..are you prepared……..to put a figure on what would be a sufficient amount of funding? …….. Similarly, do you have an idea about indexation—what is an appropriate measure of indexation, whether it be CPI or whether it be linked to something else? ……."

1) Indexation:

The current indexation formula is inadequate with regard to residential aged care. Research commissioned by the aged care industry demonstrates that the differential between increases to costs over increases to income exceeds fifteen percent since 1997, this in spite of the CAP.

Income has in the last few years been indexed at around 2% (less in Tasmania for all but the last two of these years due to coalescence). The chief cost component in our industry is staffing, as is clear from submissions to the Inquiry and this component typically accounts for some seventy five percent of total costs. In an era of almost full employment nationally and regionally; ageing population; and chronic skills shortage (particularly in nursing), not only has the sector's ability to attract and retain adequate numbers of competent staff in the areas of nursing, personal care and hospitality services been impacted but these have driven this cost component upwards by around 5 to 7% annually. However, in spite of these increases the sector lags behind the acute care sector with regard to

remuneration of nurses. In addition we are currently experiencing upward cost pressures resulting from drought related and global economic factors impacting on the cost of food, transport and energy. The increased regulatory requirements pertaining to the industry, addressed elsewhere in this submission as well as numerous submissions to the enquiry, as well as the ramping up of the non-industry based regulation (example Food Safety planning recently introduced in Tasmania, emissions trading on the way) is continually driving up the cost base of an industry unable to price adjust to compensate. This is placing organisations in our sector under severe financial and hence operational stress.

The main thrust of any proposed solution can only be an indexation model that factors in the impact of all cost components (in broad categories, e.g. wages, energy, food, services and consumables, etc) in proportionate measures, possibly differentiated on a state by state and/or even a city v regional basis using publicly available data (wage indexation, CPI) but without any downward adjustment for "efficiency dividends".

A suggestion by the Church Peaks Group which we support is "an indexation benchmark weighed at 75% for wage growth and 25% for non wage growth, using the Labour Price Index (Health & Community Services) for the wages elements and CPI for the general prices. This index is more reflective of the wage cost pressures that we face."

If the Government was to consider a comprehensive review of long term aged care funding needs and levels, including an appropriate indexation method then COPO should continue to be supplemented by CAP increases of 1.75% annually. The application of CAP should be extend to all community care packages.

However, any attempt to fix the problem is dependant on getting the financial model right in the first place.

2) Level of Funding:

The sector in Tasmania submits that overall funding levels applying to residential aged care are grossly inadequate and that this is threatening the ongoing viability of the sector. It is likely that without this issue being effectively addressed that further facility closures are inevitable. It is all very well for Mr Stuart of the department to proclaim that "insolvency in this industry is extremely rare". Historically there may be some truth in his assertion but we respectfully suggest that the past is not always an accurate guide to the short to medium term future as indeed organisations are currently incurring unsustainable losses and are accordingly using up reserves accumulated through many years or even decades. Liquidity reserves are being further adversely impacted by net outflows of accommodation bonds as the industry transits from predominantly low care to predominantly high care. Needless to say access to low care bonds in Tasmania is much lower in number and small in size relative to the mainland states due to the socio-economic status of the Tasmania population Our sector generally does not have access to bonds even close to $500,000 in either rural or metropolitan areas. Once an organisation's reserves are fully used up closure is almost unavoidable.

The Grant Thornton Survey of 2008 supports our assertion that the industry is inadequately funded. This is supported by previous surveys carried out by Grant Thornton, Stewart Brown and James Underwood who report that the situation is getting progressively worse. Indeed an Access Economics report commissioned by an alliance of eight church affiliated groups representing forty percent of the aged care market, just released, concludes that the shortfall between the capped accommodation charge ($26.88 per day) and the true cost of accommodation ($40.32 per day) currently amounts to $13.44 per resident per day.

There is clearly need for a wholesale review of the entire funding model for residential aged care. ACST has previously proposed the separation of accommodation and care costs. There needs to be some flexibility for providers in what they can charge for accommodation with protections in place for those potential residents that may be financially disadvantaged.

Such a review to be effective must be thorough and complete.

There is a need to segregate funding for accommodation and care, incorporating greater pricing flexibility for providers in relation to accommodation. In the meantime the shortfall in funding for accommodation should be redressed by moving the cap on daily accommodation charges by $13.44 to $40.32.

In addition there is a need to ensure the ongoing financial viability of the sector in Tasmania through the provision of either;

1. ***Additional funding amounting to $5 per resident/package per day to all Tasmanian providers; or***
2. ***Extension of the viability supplement to all of the residential and community aged care sector in Tasmania.***

The above measures could be put in place for a transitional period pending completion of a review and implementation of a new and effective funding model. Any such funding model would need to be receptive to the specific challenges faced by the regional characteristics of Tasmania (previously outlined in ACST written and verbal submissions). This model would also need to be able to absorb the additional challenges for Tasmania of a population ageing more rapidly than any other jurisdiction and lower labour force participation rates threatened further by our ageing workforce.

We would stress that such additional funding would support the industry to remain financially viable through the transition period but pending conclusion of a funding model review we believe that it wouldn't necessarily lead to further investment in the industry by the sector in terms of commitment to build additional beds – it's a stop-gap measure.

Currently Tasmanian residential providers are experiencing a reduction in funding relative to the previous financial directly resulting from the introduction of the Aged Care Funding Instrument (ACFI). Some have reported incurring reductions in income of between $20,000 and $35,000 per month.

Three things can be implemented now to ease this immediate threat of ACFI to viability:

1. ***A basic minimum care fee (safety net fee through ACFI) that equates to the basic daily care fee (e.g. as an example we have a member that has seven residents that attract no funding under ACFI);***
2. ***Removal of the capping on ACFI maximum subsidies in place until 2011 (e.g. currently the frailest resident assessed to receive $171.43 under ACFI only receives $138.11 due to the capping).***
3. ***The ACFI review due in September be brought forward and be undertaken immediately.***

Question 4

Examples of over reactions to a small number of incidents that have resulted in an unnecessary regulatory response.

At the Senate Committee hearing in Launceston on March 27 Tasmanian witnesses indicated on a number of occasions that there were several instances where the Federal Government has responded to one, two or a handful of incidents with a new layer of bureaucratic regulation, a new process or other new requirements for providers to meet. This tendency has pre-dated this current Federal Government.

1) In response to media publicity around elder abuse in 2006 the Federal Government introduced new police check requirements and a compulsory reporting regime for all providers of residential care. Many providers had already required potential employees to submit police checks. The new requirements also applied to existing staff – hence long term existing staff members were subject to a retrospective check. This cost providers thousands of dollars which was diverted from direct care provision. The Government indicated that the funding of the checks was not a matter for Government.

The new compulsory reporting procedures place on providers a requirement to observe a standard procedure and requires all documentation to be available for retrospective check by Accreditation Agency assessors.

2) In June 2008 the Minister foreshadowed a new regime – now introduced – requiring providers to report any case of missing residents. The media release from the Minister's Office mentioned three instances of missing persons from aged care services. There was no research suggested to establish whether this was an issue that required a national reporting regime or was in fact a cluster of accidents. The release quotes statistics relating to all aged persons without distinguishing them from those in care. The regime is now in place.

3) Later that same month, the Minister announced a new National Protocol – a plan to look after elderly Australians living alone – Media Release 13 June 2008. This was the result of a single incident involving an elderly person being found in her home having been dead for several days. Whilst it was even questionable whether this person was in fact a client of a community care organisation the Minister publicly indicated that there would be a protocol drafted and put in place.

4) In July 2008, following a publicity given to "recent gastroenteritis outbreaks in nursing homes" the Minister announced a "response plan". The plan heralded a review of standards on infection control, development of an awareness, prevention and education kit and new national guidelines on norovirus. Aged Care facilities are already required by Accreditation standards to meet the requirement for effective infection control- see Accreditation standard 4.7. A National Gastro pack has now been issued to all providers.

5) In February 2009 prior to a tragic heatwave in Victoria and NSW, the Minister indicated that she had directed the Department of Health and Ageing to begin an audit of all nursing homes in relation to heating and cooling. On March 23 the Department issued a Heating and Cooling Survey to all providers – to be returned by 24 April 2009.

6) Following experiences in the Victorian bushfires and Queensland floods in February, the Minister has issued a Media Release indicating that all providers who seek new licences under the ACAR round will be required to demonstrate that they have taken into account natural disaster threats such as bushfires and floods.

On the basis of the above, it appears that the response to media coverage of events in the aged and community care sector is increased national regulation or new protocols or requirements. This appears to be done without serious assessment of how necessary such regulation or protocols are. The new regulation can be imposed **even where Government requirements are already in place**. In consequence of imposing new regimes/protocols the Minister appears to be taking a strong stand. However, this "strong stance" reinforces the message that providers are not providing care responsibly. We reject this suggestion. In fact in a number of the cases above particularly 3, 4 and 6 ACST and providers had already commenced work with various stakeholders to ensure we had adequate procedures and plans in place and identification of any gaps. This is hardly the behaviour of an irresponsible sector. Many of the above situations are already covered by quality and accreditation requirements and the Government is only duplicating activity and wasting resources by these constant knee jerk reactions.

This extra regulation only diverts resources away from direct care to procedure creation and maintenance as no extra resource is provided to implement new regulation. The most obvious case in point is police checks. Upon the implementation of the new requirements providers paid for police checks for existing staff, followed up any issues of concern with individual staff – in some cases leading to termination, created data bases and systems to ensure the new requirements were met and provided evidence to regulatory authorities – including the Aged Care Standards and Accreditation Agency and the Office of Aged Care Quality and Compliance – to prove the systems were robust. No funding was provided for this increased regulation – therefore it came from existing budgets – or from the reserves of already stretched organisations. Clearly these resources could have been used to support or enhance care for residents – however, by Government determination they were spent elsewhere

It is worth noting that the Productivity Commission is about to release its draft report from its "Annual Review of Regulatory Burdens on Business - Social and Economic Infrastructure Services Commissioned study" in June 2009. In the third year of review the Commission will focus on those regulations that mainly impact on the whole or any part of the social and economic infrastructure services including residential aged care services.

The terms of reference require the Commission to identify specific areas of Australian Government regulation that:

1. are unnecessarily burdensome, complex or redundant; or
2. Duplicate regulations or the role of regulatory bodies, including in other jurisdictions.

The Commission will identify options and make recommendations for:

- alleviating the regulatory burden on the sectors, including on small business ; and
- Enhancing the consistency or reducing duplication of regulations, or the role of regulatory bodies, for the sectors.

Additional Information in Conclusion

It is obvious from the various submissions of ACST to the Inquiry plus our responses outlined that we have a view that Tasmanian is a case with special circumstances requiring a specific short term policy response and an enhanced level of support to guide us through a period of enormous vulnerability for aged care service provision in our communities.

Medium to long term we feel we have the small size to offer Governments the opportunity to look at trialling a more fully integrated health system across acute, residential aged care and community care.