



Aged Care Association Australia

Splitting Accommodation From Care

Discussion Paper

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Executive Summary

This paper discusses a possible reform to aged care funding in which the Government would take responsibility for funding care/nursing services for older Australians. Accommodation and lifestyle services would be the full responsibility of customers, with the Government fully funding concessional and assisted recipients.

Britain and Denmark split their personal or care/nursing from other services and divide responsibility for them in this way.

Such a move in Australia would increase revenue to the nursing home sector. Allowing greater flexibility in price setting in addition to delineating care/nursing, living and accommodation services would require the Government to again review the way it funds the residential and community sectors. This could be done in a way which reduces the Commonwealth's contribution.

A reform of this type could encourage a clarification of charges and fees, but would also make the components of the system far more interdependent. Flexible pricing and more market-based opportunities for providers could speed consolidation and even integration with the retirement village and lifestyle industry as the care provided becomes more important than its location.

Distinguishing accommodation from aged care

Residential aged care includes different types of services¹:

1. Living services: we all face these costs wherever we live: food/meals, laundry, cleaning, utilities (electricity, water, phone);
2. Housing services: the accommodation cost component of staying in a home, hostel or hotel, akin to rent; and
3. Personal Care services: these are the nursing and care services: bathing, toileting, feeding, and associated services connected to physical disability or dependence. The UK's 1999 Royal Commission defined "personal care" thus:

Personal care would cover all direct care related to:

- *personal toilet (washing, bathing, skin care, personal presentation, dressing and undressing and skin care (sic));*
- *eating and drinking (as opposed to obtaining and preparing food and drink);*
- *managing urinary and bowel functions (including maintaining continence and managing incontinence);*
- *managing problems associated with immobility;*
- *management of prescribed treatment (e.g. administration and monitoring medication),*
- *behaviour management and ensuring personal safety (for example, for those with cognitive impairment - minimising stress and risk)².*

Current Australian funding and pricing amalgamates these components of residential services. The basic daily care fee, daily income tested fee, and government care payment are applied against the totality of a residential care offering. More recently accommodation charges and bonds for low care and extra high care services have specified one aspect of a residential service; funding flows to general revenue to cover other aspects of care.

¹ The terms "living", "housing" and "personal" are taken from the United Kingdom's Royal Commission on Long Term Care (1999), *With Respect to Old Age: Long Term Care – Rights and Responsibilities, Report of the Royal Commission on Long Term Care*, United Kingdom, <http://www.archive.official-documents.co.uk/document/cm41/4192/4192.htm>.

² *ibid*, <http://www.archive.official-documents.co.uk/document/cm41/4192/4192-06.htm#65>.

In the context of the federal aged care regulation reform debate, most providers now argue for at least some deregulation of pricing, especially around the accommodation component of care. The most obvious example of this is the demand that accommodation refundable deposits, or bonds, be available as a revenue source for all types of residential care.

Additional flexibility in pricing could be extended to the way different components of residential care are remunerated, for example, refundable deposits or cash for accommodation only, or accommodation and hotel services.

Such a relaxation of accommodation price controls and increased customer responsibility for meeting these costs could be accompanied by the Government continuing to cover all costs for concessional and assisted residents. Any contracting for this purpose could have significant price signalling power, possibly enforced by transitional price regulation.

Between 1987 and 1997, a funding system which distinguished between care/nursing services (through the Care Aggregated Module, or CAM) and accommodation or infrastructure costs (the Standard Aggregated Module, or SAM³) encouraged job redesign within nursing homes. Employees' tasks were defined by the funding Modules, increasing demarcation and limiting organisational flexibility and service quality. Any future move to a system which distinguishes between personal care/nursing services and, accommodation/hotel services would need to avoid this administrative and management rigidity.

There are also increasing calls for a relaxation of price ceilings for nursing accommodation⁴, which have recently been joined by Labor backbencher Dr Craig Emerson⁵.

³ Review of Pricing Arrangements in Residential Aged Care, 2003, *The Evolution of the Australian Government's Involvement in Supporting the Needs of Older People*, Background Paper No. 4, Commonwealth Department of Health and Ageing, pp, 68-73 at

<http://www.health.gov.au/internet/wcms/publishing.nsf/Content/ageing-rescare-acprtask-acprissu.htm>

⁴ See Hogan, W., 2004, *Review of Pricing Arrangements in Residential Aged Care*, Department of Health and Ageing, <http://www.health.gov.au/internet/wcms/Publishing.nsf/Content/health-investinginagedcare-report-index.htm>, especially , pp.298 in the context of the longer-term option of a contracting agency to negotiate

Support for pricing flexibility has naturally led to consideration of mechanisms to better delineate between residential care services. Hogan described such an approach as

*"... distinguish[ing] fully between required health care and the accommodation costs for residents. ... the costs of health needs would be met in the same ways as at present, but the accommodation costs and funding support would be left to negotiations between user and provider"*⁶.

Francis Sullivan supports a "separation of the responsibility for accommodation costs from the remainder of the service ... [leaving] customers to meet their accommodation costs on a capacity to pay basis"⁷.

International experience

The United Kingdom's (UK) and Denmark delineate between aged accommodation and care services and how the costs of these are borne by the customer and government.

The UK's 1999 Royal Commission on Long Term Care concluded that improvements in government provision needed to be accompanied by an acceptance that the state could not meet all the costs of long-term care. It therefore recommended that the elements of care which relate to living costs and housing costs should be met from customers' income and savings, subject to means testing, while the costs of "personal care" should be met by the state.

The UK Government accepted this and other recommendations, though personal care is now provided through the National Health Service on a different, more complex basis than that conceived by the Commission⁸.

pricing; Also Hogan, W., 2005, *Policy Issues in Aged Care*, 34th Australian Conference of Economists 2005, University of Melbourne, 26-28 September, p.38.

⁵ Emerson, C., 2005, "Providing aged care in a fair society", *Progressive Essays*, 26 November, http://www.craigemersonmp.com/progressive_essays.html.

⁶ Hogan, 2005, p. 39.

⁷ Sullivan, 2005, *op. cit.*

⁸ In the UK, "nursing homes" offer personal and nursing services as well as accommodation, and "resident care homes" provide personal care and accommodation only, with nursing or personal care provided by

In Denmark accommodation and general home care are treated separately from care/nursing wherever the consumer lives. Accommodation is the financial responsibility of the individual while care is broadly covered by universal insurance. Residents pay for rent, electricity and heating as well as any extra services they use. Residents in nursing homes are encouraged to maintain independence and control over their affairs. Therefore the costs of services are not deducted directly from their pensions. They receive their full pensions and 'pay as they go' for the services as they would if they were still living in their own homes⁹.

Implications of splitting accommodation and aged care costs in Australia

Issues which could arise from any Government move to split care from accommodation include:

- changes in the level of subsidy for personal care/nursing to nursing home operators;
- how the Government might regulate consumer responsibilities for accommodation and housing services;
- changes in the level of subsidy for personal care/nursing to community care providers; and
- how these decisions might increase subsidies for concessional residents.

These issues focus on how the Government would use such a split to change the funding regime. Government charges and regulations would be far more interdependent in a split system, and location of service will become less relevant. Finally, such a move would speed consolidation in the sector by increasing the importance of organisational capabilities.

The subsidies which the Government currently pays nursing home operators are based on residents' dependence, or 'personal care', through the Resident Classification Scale and soon the

National Health Service visits; Review of Pricing Arrangements in Residential Aged Care, 2003, *Long Term Aged Care International Perspectives*, Background Paper No. 3, Commonwealth Department of Health and Ageing, pp. 10-12, 19, at <http://www.health.gov.au/internet/wcms/publishing.nsf/Content/ageing-rescare-acprtask-acprissu.htm>

⁹ *Ibid*, pp. 70, 73.

Aged Care Funding Instrument (ACFI). The daily accommodation charge and refundable deposits, where levied, are related to accommodation or capital costs.

Means-tested contributions are sought from non-pensioners. This aspect of the current system would continue and be given greater weight in any future reform which split responsibility for personal and other services.

Personal Care subsidies

The simplest outcome for industry (other settings remaining equal) would be one where current subsidies, at the very least, would simply become personal or care/nursing subsidies, with increased consumer responsibilities being contributed on top. However, a Government could argue, indeed has argued (the extra service-related claw-back is an example), that any increase of revenue for providers should alleviate the taxpayers' burden. This could especially be the case if accommodation and living charges are even slightly deregulated, raising revenue.

After such a great deal of work to review and reconfigure the RCS, it is difficult to see how the Government could argue for a reduction in subsidies on the basis of new or different personal or nursing care needs. Unresolved ACFI funding issues or debates, if any, could be reopened if new funding sources were allowed, especially in future reviews.

Therefore the first issues to consider are any pressure to reduce government-funded personal care subsidies (especially by economic Ministers, the Treasurer and Minister for Finance), and the likely trade off between the level of government subsidies for personal care, and the extent of permitted flexibility in pricing accommodation and living services.

Consumer accommodation and living charges

Should the Government require customers to be responsible for non-personal or care services, how would these charges be set?

In terms of *accommodation* or housing services, the Government could simply extend the use of refundable deposits, or bonds, throughout the residential sector, and increase the daily charge to a level closer to the value of the revenue stream for an 'average' bond.

At the other end of the reform spectrum, the Government could deregulate accommodation charges further, allowing prices to be set by the market, with consumers paying in varied ways (cash, deposit, combination or other) as agreed with providers. Such a reform would undoubtedly be implemented over some years while competition in the sector and consumer information (and acceptance) develops. A system of caps as suggested by Francis Sullivan (as discussed above) could be a politically saleable compromise between these two models.

As for charges to *living services*, the Government could similarly implement a staggered deregulation of charges. Current extra service fees could act as a benchmark for lower standard living services, with increases monitored.

Community service fees

Customers in their own homes under Commonwealth community aged care packages (CACPs) cover their own accommodation and living needs, with personal or care/nursing services provided and funded. The effect of making consumers responsible for living services would need to be negotiated with state governments if the jointly funded home and community care program (HACC) was to follow suit.

Government moves to distinguish between personal or care/nursing care and other services could encourage community fees to be based more closely on residential fees, to the extent that the services are the same. This could either increase community rates or encourage the government to lower residential rates.

Such a move would also support philosophical acceptance of consumer-directed care, or vouchers. If those personal services offered within residential homes and within the community were seen as identical, funding could follow users irrespective of where the personal services were provided.

Concessional residents

As already noted, there is growing agreement that any new funding split would see the Government pay all costs (personal/care/nursing, housing/accommodation and living) for concessional or assisted residents.

This would require the government to set fee or subsidy levels for accommodation and living services. Such an exercise would act to set benchmarks for consumer fees and could even influence living services currently offered under government programs (such as HACC).

Sector Consolidation

A revenue system in which providers increasingly set prices will put additional pressure on nursing homes to substantiate such charges. Thus marketing capabilities within organisations will become more important, to capture a clearer picture of consumers' needs and to communicate benefits, through branding and better services. Additional resources and bases may also be required to justify fees to the Government.

Pricing flexibility will also encourage greater market segmentation, the development of different levels of service for different types of customers and operational and communication strategies to align care offerings with different segments. These have been apparent in the retirement village industry. Indeed, pricing flexibility could drive integration of the two sectors, as choices in living arrangements increase, irrespective of which care services are used.

Conclusion

Splitting accommodation and living services from personal or care/nursing services, and placing responsibility for non-nursing services on consumers, would increase revenue to the nursing home sector, depending on accompanying regulation. An opportunity for greater revenue will require greater understanding of and communication with customers. Government charges and regulations will become increasingly interdependent. More clearly delineating

between different types of services may encourage other reforms such as consumer-directed care or vouchers.