Submission to the Review of the Conditional Adjustment Payment

On behalf of:
Braemar Presbyterian Care (WA)
Dunbar Homes Inc (SA)
Kirkbrae Presbyterian Homes (Victoria)
Presbyterian Aged Care NSW & ACT
Presbyterian Care Tasmania Inc.
PresCare Queensland

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Introduction
The Presbyterian Church of Australia, through its state-based aged care organisations, provides over 1,700 residential aged care beds, over 500 community care packages and related community care services and seniors housing. We are making this submission because of the importance of adequate investment in aged care given our responsibilities to existing service recipients and future generations of older people.

The Presbyterian Church aged care providers are members of Aged & Community Services Australia and support ACSA's submission.

Analysis of the Conditional Adjustment Payment
The Conditional Adjustment Payment (CAP) was a temporary patch to the aged care funding system initiated by the Howard Government in response to Professor Warren Hogan's *Review of the Pricing Arrangements for Aged Care*, completed in 2004. It responded to Hogan's finding that the historic aged care indexation formula (based on the Commonwealth Only Purpose Outlays index) was failing to keep pace with rising costs. Hogan recommended a temporary payment for four years on top of the indexation formula linked to incentives for the industry to improve efficiencies. He believed this payment should be reviewed at the end of its timeframe.

The Howard Government implemented the CAP as a 1.75% per annum top up to indexation (which has averaged around 2% in recent years) for residential aged care services only. The Rudd Government recently extended the CAP for a further year - 2008-09.

There are some notable features of the CAP:

- To receive it, residential care providers had to provide opportunities for workforce training, make audited accounts available and take part in a workforce census.
- It didn't cover community care, despite community care programs being subject to many of the same cost pressures and demands for efficiency as residential care.
- It was explicitly designed as a holding position, pending creation of a better model for funding recurrent costs
- It did not attempt to address all recurrent (or capital) issues facing aged care providers.

From the point of view of aged care providers, the aged care funding system has a number of different purposes. For example, providers need to provide competitive wages in order to attract good quality staff. Professor Hogan, as have many others including the Productivity Commission, found that the wage structures in aged care struggle to be competitive with other industries.

The funding system also needs to respond to the rising acuity of older people entering aged care. This is the primary purpose of the Aged Care Funding Instrument (ACFI) but its effectiveness can be easily undermined if the annual adjustments of the ACFI rates do not keep pace with costs.

From an overall perspective, aged care providers need to be able to operate viably while delivering the quality of care and accommodation we are obligated to provide under the aged care standards. Our capacity to remain viable is dependent on how the funding system as a whole operates, including the contributions able to be sourced directly from consumers as well as payments from governments or other funding available to operators.

Efficiencies
According to the Howard Government when it introduced it, the CAP was intended to provide medium-term financial assistance to providers while encouraging them to become more efficient through improved management practices. We are pleased to advise the CAP review of some of the improved management practices adopted across the national Presbyterian aged care network.

Efficiencies achieved to date
Over the past 4-5 years, Presbyterian aged care services have achieved a number of improvements:

- We have absorbed significant wage increases above indexation (including the CAP). For example, in NSW from 2003-2008: funding rose only 21% in residential care and 14% in community care compared to a 26.5% increase in nurses wages and 23.5% in other care staff wages.
- In WA, the projected cost increase for 2008/09 is 7% (no change to activities). Key drivers are staff enterprise agreements fixed increases, followed by food and laundry.
- In Tasmania, we have absorbed substantial increases in non-labour costs such as power charges while retaining service levels.
- In Queensland, we have absorbed substantial increases in property and local government costs.
- In all states, we have introduced new opportunities for staff education and training, including accessing upskilling courses for existing staff.
- In NSW, two congregationally-managed services have transferred to central management by Presbyterian Aged Care NSW & ACT (one in 2005, one in 2008), providing additional management efficiencies.
- Presbyterian Care Tasmania acquired ADARDS Tasmania in mid 2008, bringing improved efficiencies for residential care services and allowing an expansion of community services across Home and Community Care (HACC) and other programs.
- In all states, we have introduced new rostering and payroll IT systems in recent years.
- In NSW, we have strengthened central purchasing systems to make our dollars go further.

Future efficiencies
All Presbyterian aged care services have plans for additional improvements in coming years, including:

- Further rollout of information management and assistive technologies.
- Further consolidation of management of diverse services.

We are also examining ways in which to share management and other experience across state boundaries.

We believe this must be matched by a commitment from government to address regulatory inefficiencies which bedevil the aged care system, such as:

- Over-regulation of consumer charging regime
- Failure to adopt a risk management approach to unannounced visits by the Aged Care Standards & Accreditation Agency
- Costly new compliance measures being introduced without compensation (e.g. accreditation, police checks, compulsory reporting of assaults)
- Many other examples of intrusive red tape via an *Aged Care Act* that has swollen to well over 1,000 pages with no comprehensive review since it was introduced.

Consequences of Inadequate Funding

The aged care sector cannot remain viable when costs increase at anywhere from 5%-7%pa while subsidies increase at around 2%pa (without CAP). The Productivity Commission, in its September 2008 *Trends in Aged Care Services* report, has repeated its conclusion of a decade ago that "[B]asic subsidy rates should be adjusted annually according to indices which clearly reflect the changes in the average cost of the standardised input mix, less a discount to reflect changes in productivity. Revised indexation arrangements should be introduced as soon as possible."

Already the Grant Thornton analysis of CAP audit returns for the Department of Health & Ageing shows over 40% of providers operated at a loss in 2005/06, with a return on assets of only 2.95% across all activities and less than 2.5% for residential care beds. All organisations, including the "strongest performers" experienced declining returns from 2004 to 2006, in spite of the CAP.

Presbyterian aged care services are also experiencing the same phenomenon. For example, in NSW net surpluses for aged care have reduced from $1.4 million in 2005-06 to a projected loss of $475,000 in 2008-09. In Tasmania, an consolidated surplus for 2007-08 of $430,000 would turn into a breakeven overall result and an $800,000 operational loss without the CAP funding.

Specific impacts include:

- *Reduced standard of service to clients – fewer hours of care per day/week.* For example in Community Aged Care Packages, we were able to provide an average of 7 hours per week about 8 years ago. Now we can only provide around 5 hours per week. Similarly, staffing levels in residential aged care are constantly under review in order for individual facilities to remain viable.
- *Reduced ability to pay competitive wages and recruit/retain staff.* Although all Presbyterian aged care services make full use of remuneration packaging and attempt to remain as competitive as possible, it is increasingly difficult to keep pace with the wage increases in other sectors. In WA the pressure on workforce is critical – there are statewide labour (not skills) shortages as the still very strong economy adds to wage pressures with "mining wages and conditions" strongly influencing all sectors including aged care. Braemar Presbyterian Care is currently relying on agency staffing for 40% of staffing needs; often the need is not satisfied.
- *Compromised viability affects access.* All Presbyterian aged care services have a commitment to provide access for people from financially disadvantaged backgrounds and with other special needs. However, this becomes more difficult when our organisations' overall financial performance is threatened by inadequate government funding. As a consequence, we can be forced to place more emphasis on seeking people who can pay larger accommodation bonds – the only part of the aged care funding system which is uncapped by government regulation.
- *Specific issues for smaller services, especially in rural areas.* It is particularly challenging to run smaller aged care facilities or community care services in a financially viable fashion. A number of Presbyterian aged care services are smaller services, some of them in rural areas. In many cases, the smaller urban services are being shut to allow development of new buildings with more beds. This option is not present in rural areas. We acknowledge the government does provide a viability supplement for small rural residential and community care services which certainly makes a difference. However, the reality is many smaller services struggle to break even, even though they are vital components of their local economies as well as their communities.
- *Risk of compromising Government strategies on health and hospital reform and improving social inclusion.* The Rudd Government has bold plans to address

structural reform of the health system and to improve social inclusion of marginalised groups. If the aged and community care system is not functioning effectively, these strategies could be severely compromised. For example, initiatives to reduce hospital costs by moving people to more appropriate aged or community care services only work if the aged and community care services are present and viable. Similarly, efforts to improve social inclusion of older people require a responsive aged and community care system.

Recommended Action
The COPO indexation system bears no relationship to aged care cost structures and is totally inadequate. A new system that recognises the real and relevant costs of aged care is required, one that also recognises state/regional/rural real cost differences. There is no need for an ongoing CAP if the indexation system is relevant and reasonable.

1. Immediate
The Government must ensure aged care providers can respond to rising costs without eroding the level of services we provide to older people or becoming financially unviable. Immediate actions which would achieve this outcome are to:

- Maintain the CAP and continue to index it beyond 2008/09 pending longer term resolution of issues
- Extend the CAP (or a similar measure) to all community care programs.

2. Longer Term Options
There must then be a proper long-term resolution of the full range of funding issues facing aged care. The National Presbyterian Aged Care Network supports the conclusions of the Productivity Commission (2008) for a broader revamp of Australia's aged care funding system, including moves to unbundle accommodation and care payments, reduce over-regulation through relaxation of planning and allocation restrictions, and consideration of trialing consumer-centred care models.

Sepcifically, we believe there should be examination of options such as to:

- Introduce an aged and community care specific index linked to actual cost movements in the sector
- Index aged care by same amount as the health care agreement, which would partially address wage competitiveness
- Introduce block funding for small rural aged and community care services to ensure basic infrastructure costs can be met to keep services open
- Allow greater scope for user pays across capital and recurrent payments, coupled with maintenance of a strong safety net – this should include allowing all permanent clients of residential care to choose paying for their accommodation via a lump sum bond or a daily or periodic rental charge (at a level equivalent to the stream of capital available via a bond)
- Investigate the potential to introduce a long-term care insurance scheme as part of an overall solution.

APPENDIX 1

Review of the Conditional Adjustment Payment
Terms of Reference

Background

1. The Conditional Adjustment Payment (CAP) was introduced as part of the Australian Government's initial response to the Report of Professor Warren Hogan's Review of Pricing Arrangements in Residential Aged Care.

2. The amount of CAP payable in respect of a resident is calculated as a percentage of the basic subsidy amount payable in respect of a resident. In 2004-05, the year of its introduction, this percentage was 1.75%. It then rose annually in 1.75% increments, to 3.5% in 2005-06; 5.25% in 2006-07 and 7.0% in 2007-08. The forward estimates contain provision of the CAP to continue at the 7.0% level beyond 2007-08.

3. The Australian Government has provided $407.6 million in the 2008-09 Budget to increase the level of the CAP to 8.75% ongoing.

4. The CAP was intended to provide medium term financial assistance to providers while encouraging them to become more efficient through improved management practices. Consequently, residential aged care providers are only eligible to receive the CAP if they:

> a) give their staff information and opportunities regarding workforce training; and
>
> b) make audited accounts available each year to residents, potential residents, their representatives and any person or agency authorised by the Secretary of this department; and
>
> c) take part in a periodic workforce census.

Scope and timing of the Review

5. Drawing on existing information and data, and on public submissions, the Department of Health and Ageing, together with the Departments of Prime Minister and Cabinet, Treasury, Finance and Deregulation, and Veterans' Affairs, will examine:

> a) the extent to which the medium term financial assistance provided by the CAP has been effective in encouraging efficiency through improved management practices, including the effectiveness of the three conditions in achieving the objectives of the CAP; and
>
> b) the need for and level of any further medium term financial assistance to encourage providers to become more efficient through improved management practices.

Submissions to the Review:

Nursing home and hostel operators, older Australians, unions and consumer representatives have been invited to lodge formal submissions to the Review of the Conditional Adjustment Payment (CAP) in residential aged care.

Submissions can either be emailed to cap.review@health.gov.au or faxed to (02) 6289 1560 or mailed to:
CAP Review, MDP 76, Department of Health and Ageing
GPO Box 9848, CANBERRA ACT 2601

Submissions will be accepted up until Friday 24 October 2008