Submission to the
Senate Finance and Public Administration Committee's
Inquiry into residential and community aged care in Australia

November 2008

Key points

- National Seniors welcomes the Senate Inquiry as an opportunity to get consensus on the costs of an aged care model that delivers appropriate quality of care outcomes as well as quality of life outcomes to consumers.

- The impact of the adequacy or otherwise of aged care funding on consumers should be the primary concern of the Senate Inquiry.

- Consumer input in defining adequate service outcomes, both quality of care and quality of life, is vital.

- National Seniors is concerned that discussions about service quality are currently focused almost exclusively on quality of care to the detriment of quality of life. This balance needs to be redressed

- Aged care funding appears to be adequate for achieving quality of care outcomes but it may not be adequate for achieving good quality of life outcomes.

- The trend towards community aged care is a result of people wanting to live at home to be closer to family and friends and people are living longer, healthier lives, but is also a criticism by consumers of the pre-dominant residential care model and its focus on quality of care to the virtual exclusion of quality of life in aged care.

- National Seniors calls on the aged care industry and the Government to negotiate sustainable improvements in service quality and better outcomes for the consumer, while ensuring adequate returns to the providers and keeping costs to government at manageable levels.

- To move forward, the aged care industry will need to create financial and operational transparency that enables the industry and the regulator to develop a consumer-focused aged care model in which quality of life is paramount and quality of care a non-negotiable given.

About National Seniors

National Seniors is the largest seniors' organisation in Australia with over 280,000 individual members in 175 branches across the country. We are a not-for-profit community organisation with the following objectives:

- to provide economic and social benefits for people 50 years and over;
- to represent our members' views to government at all levels; and
- to make donations and provide service and advice to charitable institutions assisting people 50 years and over.

Our members, who are from metropolitan, regional and rural areas across all states and territories, are broadly representative of the three key ageing cohorts: those aged 50-65; those aged 65-75; and those aged 75 +.

Response to the inquiry's terms of reference

- ***Are current funding levels sufficient to meet the expected quality service provision outcomes?***

National Seniors welcomes the Senate Inquiry as an opportunity to get consensus on the costs of an aged care model that delivers appropriate quality of care outcomes as well as quality of life outcomes to consumers. We stress that the impact of the adequacy or otherwise of aged care funding on consumers should be the primary concern of the Senate Inquiry.

National Seniors notes that this inquiry into aged care funding needs to be complemented by further inquiry into the wider issues and challenges facing the aged care industry to ensure the development of an aged care model that will serve Australians well in the decades ahead.

According to an aged care survey carried out by Grant Thornton (October 2008), the average annual return for residential aged care operators is 1.1 per cent. This seems alarmingly low.

However, this number represents an industry average and it may not be meaningful to measure an industry's financial performance by averaging the financial performance of the good, the bad and the indifferent operators . The Hogan Report, published in February 2004, found that the top 10 per cent of aged care providers achieved quite high returns on their investment and that, in fact, the first quartile of aged care providers did very well.

This is not to say that those providers who are not doing well financially are necessarily doing so through mismanagement. The adequacy of funding is determined in large part by the composition of the resident populations accommodated by providers. Clearly, high proportions of low care residents, whose places are funded through market-priced bonds and who cross-subsidise high care residents, will result in higher returns, especially if a provider runs a number of homes and is able to control the composition of the overall resident population in their care.

In the absence of hard evidence to the contrary, it seems fair to assume that the top quartile performers are still doing well and that any crisis of financial viability in the aged care industry does not necessarily have anything to do with how the industry is funded, but first and foremost with the business model adopted by providers and their ability to adopt a financially viable business model.

Also, anecdotal evidence suggests that by complying strictly with the aged care accreditation standards, some providers are able to keep costs down and improve returns, while providers who go beyond strict compliance have higher costs and, therefore, lower returns.

If that is the case, should the primary focus of attention be on aged care standards and whether those standards are set high enough? If they are not, there might be an argument for increased funding so as to enable financially under-performing aged care providers who already meet those higher standards to improve their financial performance. Conversely, those aged care providers who already perform well financially would be able to continue to do so while raising the standards of care in their homes.

It will, however, be difficult to find the necessary evidence to take such an approach. The reason for this is that the current aged care industry regulatory framework lacks a uniform financial reporting system and a uniform aged care service outcomes measurement and reporting system on the basis of which informed judgments could be made about the adequacy of current service outcomes and funding arrangements.

What we currently know about the aged care industry is which homes are meeting the minimum standards and which homes are not. We also know that it is possible to generate good or adequate financial returns.

It should come as no surprise, then, that the current regulatory focus is on compliance with the aged care standards and that a funding increase to improve the aged care industry's bottom line is not.

In order to give its claims for additional funding a sound evidentiary basis, the aged care industry should take the lead in promoting and developing an across-the-sector financial reporting system and an across-the-sector service outcomes measurement and reporting system.

In tandem, such systems will be able to generate objective evidence for the need for any significant real increases in funding.

While the development and establishment of a financial reporting system for the aged care sector should be a relatively straightforward exercise, the development of a measurement and reporting system for service outcomes is not.

According to a report prepared by Campbell Research and Consulting [1] and published by the Department of Health and Ageing in October 2008, the system of accreditation is responsible for establishing minimum standards of care and this has led to quality improvements in care provision.

It seems therefore reasonable for a measurement and reporting system for service outcomes to be an extension of the accreditation system, although this measurement and reporting system would need to pay heed to consumer expectations, something which the accreditation system does not do.

The Campbell report found that consumer expectations are centred on lifestyle rather than the clinical aspects of care, on which accreditation is focused.

Consumers regard good clinical care as something that is provided as a matter of course, but judge the care provided on such things as the quality of services (with the quality of meals a stand-out), meaningful activities, a home-like atmosphere and interaction with staff.

These consumer attitudes and expectations need to be reflected in any service outcomes measurement and reporting system, difficult as that may be. As the Campbell report notes: "Resident quality of life is, by definition, subjective. Well-being and lifestyle are paramount aspects of quality. These factors can be measured, but such measurement is reliant on collection of data from residents, staff and family carers. While this is a valid and very useful approach it must be acknowledged that this type of research can be challenging and resource intensive."

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[1] *Evaluation of the impact of accreditation on the delivery of quality care and quality of life to residents in Australian Government subsidized residential aged care homes - October 2007*

- ***How appropriate is the current indexation formula in recognising the actual cost of pricing aged care services to meet the expected level and quality of such services?***

- ***Is there an inequity in user payments between different groups of aged care consumers and, if so, how can the inequity be addressed?***

Aged care places are funded through resident fees and charges and through the Aged Care Financial Instrument (ACFI) subsidies.

The resident fees and charges are the Basic Daily Fee, the Daily Income Tested Fee and the Accommodation Charge. With exception of the Basic Daily Fee (which is indexed using the greater of the Consumer Price Index (CPI) and the Male Total Average Weekly Earnings (MTAWE)), the value in real terms of all these charges is maintained through indexation using the CPI rather than through a specialized index or through review. Revenue raised through the low-level aged care accommodation bond is not indexed, while the bond itself is market-priced. ACFI subsidies, including the Accommodation Supplement, are also indexed in line with CPI.

While the actual aged care cost increases may not match fee increases calculated through CPI indexation, it would be unfair to residents to raise the fees they pay by more than CPI, or, in the case of the Basic Daily Fee, by more than MTAWE. Clearly, if aged care costs increased by more than CPI or MTAWE, residents could be priced out of residential aged care.

However, the Government has a responsibility to ensure that aged care providers are adequately paid for their services. There is, therefore, a prima facie case for ACFI subsidies not to be determined through indexation in line with CPI, but in line with some sort of Aged Care Cost Index or through regular review.

However, the corollary of that is that maximum low-level aged care accommodation bonds rather than market-priced bonds would need to become part of the way residential aged care is funded. It would be unfair to operate a hybrid funding system that, on the one hand, painstakingly calculates and pays increased subsidies based on the true cost of providing aged care, while, on the other hand, that system allows aged care providers to charge low-level aged care residents what the market will bear. Currently, revenue generated through low-level aged care bonds cross-subsidises high-level aged care.

- ***Is the current planning ratio between community, high- and low-care places appropriate?***

- ***What is the impact of current and future residential places allocation and funding on the number and provision of community care places?***

The aged care system as it currently operates is a system that aims to meet demand while tightly controlling supply and price. Such a system will always be prone to distortions, because demand and supply are difficult to predict accurately, as is the level of funds required to make the system viable from the point of view of care providers and consumers.

The trend towards community care rather than residential care is a trend towards aged care with the focus on quality of life, rather than on quality of care. However, the aged care system is currently geared towards quality of care.

It is obvious that the trend towards community aged care is a result of people wanting to live at home to be closer to family and friends and people living longer, healthier lives, but also a rejection of residential aged care by consumers. It may be that the aged care industry in Australia has not paid sufficient heed to quality of life expectations. Now that there appears to be a measure of consumer choice in that community care is increasingly made available, the aged care industry needs to resolve how it will respond. Will it continue to build institutional facilities with the implied focus on quality of care or will it embrace community care and adopt the quality of life approach to care in the way they provide both community and residential care?

If it does the latter, and it does not really have a choice, the aged care industry will need to create financial and operational transparency by developing a uniform, sector-wide financial reporting system in tandem with a uniform, sector-wide service outcomes measurement and reporting system that generates information about quality of care and quality of life in aged care.