Aged & Community Services Association of NSW & ACT

Submission to the Senate Finance and Public Administration Committee

INQUIRY INTO RESIDENTIAL AND COMMUNITY AGED CARE IN AUSTRALIA

Aged & Community Services Association of NSW & ACT

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ACS Profile

Aged & Community Services Association of NSW & ACT Inc (ACS) is the leading peak organisation for not-for-profit aged care services including residential and community care services and retirement villages in NSW & ACT. ACS represents over 300 organisations providing over 1,600 services to more than 100,000 people. ACS members range from very large multi site organisations to very small rural and remote stand alone facilities.

This submission responds to the six specific areas related to funding, planning, allocation, capital and equity in residential and community aged care.

Terms of Reference

a) Whether current funding levels are sufficient to meet the expected quality service provision outcomes

There is clear need for further investment in aged care, both now and in the future, to enable the provision of quality community and residential care services and outcomes. Currently 57%[1] of ***residential aged care services in NSW are operating at a deficit***. The current capital and operational funding levels do not adequately take into account current economic variables such as building maintenance, wages, petrol etc. The inability to charge bonds in ordinary high care (nursing home) and the capping of the accommodation charge significantly impacts on capital funding streams. Currently a bond with the interest and retention amount far exceeds the worth of a daily accommodation charge. Many approved providers have recently put expansion plans on hold as the capital costs of providing new places as well as the ongoing maintenance of buildings and amenities are exceeding current funding.

The ***operational funding from the Commonwealth does not match the actual costs*** of providing care. Residential care subsidies are increased annually by Commonwealth Own Purpose Outlays (COPO) yet wages and goods and services are increased by CPI. Whilst the interim measure of Conditional Adjustment Payment (CAP) for residential care has attempted to assist with this, it is insufficient. Furthermore, community care faces these same issues.

Funding for aged care services is further impacted by ***government policy increasing demands*** such as police checks, compulsory reporting, increased validation of residential care funding claims, increased accreditation visits and food safety standards and mandatory food safety programs. These costs have to date been absorbed totally by the industry.

Other factors such as ***responding to consumer demands and expectations*** have and continue to place significant financial impost on providers. The complexity of care needs of consumers is also increasing, partly as a result of the increased longevity that we are experiencing but also because of the number of older people with chronic illness and associated co-morbidities. This increased complexity of care needs requiring specialised nursing procedures and involvement of other qualified health professionals which further impacts on expenditure. This is a key issue in NSW as traditionally we have had the highest wages nationally. The current Government subsidies do not allow the industry to pay competitive salaries for these professionals as in many cases the operating funding does not meet the real costs of providing care.

A clear message that the funding levels are inadequate, particularly for residential care can be identified through the ***under subscription of the Aged Care Approvals Round*** (ACAR) in

[1] Stewart Brown Business Solutions – *Aged Care Financial Performance Survey 2007/2008*

2007/2008 and the handing back of bed licences. There is also serious doubt as to the level of uptake of the 2008/2009 ACAR for residential care places.

In community care the set rate for care provision of CACP, EACH and EACH-D clients only provides 3 levels of subsidy. This results in declines in the level of services offered to clients as package funding is unable to meet the assessed needs. *A New Strategy for Community Care - The Way Forward* includes the review of fees in community care however this process needs to be driven forward quickly if older Australians are to be able to receive appropriate quality care.

<u>Recommendations</u>

- Provide appropriate levels of subsidy to enable service providers to deliver quality care.
- Expansion of user pays to ordinary high care, as exists in extra service high care, and/or the uncapping of the accommodation charge.
- Remove the 40% level for supported residents and increase the supported supplement payment.
- Consider alternative options for user pays such as increasing superannuation contribution with a proportion assigned for provision of aged care.

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

Aged care subsidies are indexed by the COPO formula. In recognition of the inadequacy of this form of indexation the interim measure of the CAP was introduced for residential care in 2004/2005. This however has not been applied to community care despite facing the same issues.

Costs, especially wages and their on-costs, are rising at a faster rate than increases to care subsidies and care recipients' fees. The ***average increase in funding does not sustain the costs*** of the aged care industry's operations. In particular, COPO does not adequately recognise increases in wages, which often represents 70-80% of costs in the aged community care sector. The Department of Veterans Affairs is understood to have abandoned the COPO index for its Veterans' Home Care program for this reason. The Commonwealth also uses the Safety Net Adjustment, rather than actual aged care sector wage increases which have occurred as a result of enterprise bargaining, to determine COPO. This method of indexation is insufficient to keep up with actual increases in the costs of operating an aged care service.

In community care the ***service purchasing capacity of a Community Aged Care Package*** (CACP) has diminished considerably since 1995. Between 1995/96 and 2005/06 the value of the package had increased by 27%, yet the overall increase in the ordinary time earnings of full time working adults has been 64%, more than double the increase in CACP subsidy.

The ***Government ceiling on income streams*** through admission control, growth control and price control and the inability to charge residents who can afford uncapped fees or charges to offset wages and operating costs needs to be re-examined.

COPO is not an appropriate method of indexation for the aged care industry and whilst the Government may be reviewing this methodology action is required as a matter of urgency. The ***aged and community care industry funding issues which are threatening the sustainability*** of the sector require both immediate and longer term solutions.

<u>Recommendations</u>

1. Immediate actions

- Continue CAP indexation beyond 2008/09, until a long term aged care indexation formula that better reflects the actual industry costs.
- Extend CAP indexation to community care programs from 2009 onwards.
- Review the indexation formula to reflect the actual costs to the industry. This could include such items as the combining of the CAP increases into subsidy payments, linking indexation to aged pension increases and more efficient use of the income tested fee to allow Government to uncap the accommodation charge.

2. Longer term solutions
- Link aged care payment rates to those applying in the broader health system.
- Develop a specific residential aged and community care index could be developed and applied annually such that movements in the average cost of care are covered each year. This could be administered by an independent body, analogous to the Fair Pay Commission, to ensure transparency and to avoid conflicts of interest.

c) Measures that can be taken to address regional variations in the cost of service delivery and the construction of aged care facilities

Some aged care service providers face higher building and operating costs and/or have less scope to raise productivity as they operate in rural or remote locations. In northern NSW building costs are estimated to be between 6% and 12% higher than the city. (Ref: Rawlinson Building Index &Blair Architects). Residential providers located in these areas are also unable in many cases to command large bonds that metro services attract. The capacity of community care services to meet the needs of older people is impacted by the distances required to be travelled. Transportation costs in conjunction with a lack of competition for market resources also contribute to higher costs. Availability of appropriate workers and the increased costs of education and training as a result of limited community infrastructure and the need to replace employees for longer due to travel requirements further impacts on the cost of service delivery.[2]

ACS acknowledges the provision of the ***rural and remote viability supplement*** in recognition of the difficulties faced in relation to isolation, small size and high cost structures, which recently has also been extended to community care. This however is ***inadequate*** to meet the additional costs in these areas. The other issues is that where small rural and remote providers have merged together in a region to gain some economies of scale they have in some instances been penalised through loss of this supplement, yet they are still operating and providing services in a rural environment. [2]

To enable equitable access to aged care services government funding needs to be appropriately distributed to accommodate the higher costs of service provision and construction in rural and remote areas.

<u>Recommendations</u>
- Identify cost variations for rural and remote providers.
- Develop flexible models of care that can ensure services are delivered wherever older Australians reside.
- Review the Rural and Remote Viability Supplement criteria and payment levels for both residential and community care.
- Enable the income tested fees paid by self-funded retirees to be retained by the facility, rather than being taken off the subsidy paid.
- Increase the supported resident supplement payment and remove the 40% level.
- Develop a sustainable strategy for ageing rural Australians.

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[2] Productivity Commission – *Trends in Aged Care Services 2008*

d) Whether there is inequity in user payments between different groups of aged care consumers, and, if so, how the inequity can be addressed

Currently there is an ***inequity in user payments between low and high care residential care recipients***. Older people that enter low care (hostels) can be paying significantly more than those entering ordinary high care as a result of the differing capital arrangements.

There is ***greater capacity for user pays contributions in residential aged care***. Whilst the majority of care recipients are income poor, many own substantial assets in the form of a family home that they may no longer need. Current policy only provides for these assets to contribute to cost in low care however there is opportunity for Government to obtain contributions from this source by establishing a 'fair rental' for aged care accommodation. This ideally reflects the diverse property costs in various localities around Australia, and applies this to all residents together with an assets test.

In Community Care the Government only sets a maximum client fee to be charged by the service provider with Centrelink having no role in this process as is the case for residential aged care. The process of financial assessment is left to the individual provider. The management of this process is complex as a client receiving care in his or her own home has varying degrees of financial commitments, so determination of capacity to pay is very difficult. Service providers also make decisions within their own organisation regarding the fees they charge for care recipients with a higher level of income. This results in a range of inequitable client fees operating across the services provided, even when the same amount of service is delivered.

The increasing cost of living is also impacting on the capacity of care recipients to pay fees at all. As a result, organisations are making decisions to reduce fees and so carry the loss of fees. The legislation for community care provision requires that service must be provided, even if no care recipient fees are received. This again allows for ***inequity in user payments*** to exist, depending on the organisations response to this situation and the care recipient's capacity to advocate for themselves.

e) Whether the current planning ratio between community, high and low care places is appropriate

The decision on the allocation of places requires more industry input to enable organisations to provide for their communities and strategically plan around that provision. The rudimentary figure of 113 places per 1000 people aged 75 years and over, 44 allocation for low and high care respectively and 25 for community care, does not enable responsiveness to community needs. The consumer choice is towards community care, rather than residential care and the current planning ratios may result in too many beds for an aged population resulting in reduced occupancy rates and subsequent viability issues

The move towards industry amalgamation also requires consideration in relation to the allocation of places. Both smaller and larger organisations have capacity to address and be more responsive to local community need.

<u>Recommendations</u>

- Development of a more flexible approach that is responsive to community demand.
- Provide the ACPAC with greater flexibility under the Aged Care Act 1997 to respond to consumer demand.
- A more transparent process for allocation of places, especially in community care.

f) The impact of current and future residential places allocation and funding on the number and provision of community care places

There is indication that access to low level residential aged care is being impacted by the new Aged Care Funding Instrument (ACFI). The demand on the need to access Community Aged Care Packages (CACPs) will increase as a consequence. The allocation of community care packages needs to be examined closely against these changes. It is also well documented that consumers prefer to receive services in their own home for as long as possible.

A higher proportion of aged people are being assessed as suitable for high level care than the planning ratio allows for. Recent ACFI data shows that 72% of residents are being classified as high, while 56% is the figure for new residents. This may lead to a further higher demand on high level beds. With expected increase in demand for higher levels of care in the community the allocation of Extended Aged Care at Home (EACH) or EACH Dementia (EACHD) would need to be increased. However changes in planning ratios will not be effective if the underlying recurrent and capital funding inadequacies are not addressed at the same time.

Recommendations

- Review of the allocation ratio to allow an increase in community places.
- Allocation of residential care places rather than specifically low and high places to allow beds to meet consumer needs.
- Ratio of EACH and EACHD be increased to meet community demand.

ACS believes that through opportunity for open and transparent dialogue between the key stakeholders this will assist in facilitating the development of mutual respect and understanding and enable an integrated approach to the provision of aged care in Australia. It is the cooperation, collaboration and partnership of key stakeholders that is pivotal to success for older Australians.