December 1, 2008

Senator Christine McDonald
Secretary
Senate Finance and Public Administration Committee
Parliament House
CANBERRA ACT 2600

Dear Senator McDonald

SUBMISSION TO SENATE FINANCE AND PUBLIC ADMINISTRATION COMMITTEE – INQUIRY INTO RESIDENTIAL AND COMMUNITY AGED CARE IN AUSTRALIA

Please find attached a joint submission from both Western Australian peak bodies; Aged Care Association Australia WA and Aged and Community Services WA.

We thank you for the opportunity to contribute to this inquiry and we are available to present before the Senate if invited and required.

Please do not hesitate to contact me for any further information.

Sincerely

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AGED CARE SENATE REVIEW

The funding, planning, allocation, capital and equity of residential and community aged care in Australia, with particular reference to:

A. *Whether current funding levels are sufficient to meet the expected quality service provision outcomes*

In Western Australia the funding levels are not sufficient for providers to meet the ever increasing costs to be able to deliver quality care services. The funding levels are also the major impediment to future investment in the construction and development of services in this State.

Firstly, it is important to understand that the Commonwealth regulates not only what funding is provided, but also the fees and charges a provider can pass on to residents.

The introduction of the Aged Care Funding Instrument (ACFI) has skewed the funding toward the high care services and as a consequence the funding provisions for low care have been reduced.

Aged care services in WA are swiftly moving toward a dependence on specialist nursing services in the residential aged care with 72% of all new admissions being high care.

Aged care residents are living longer and their care needs are becoming far more complex. However, regardless of the skew in funding toward high care, without the funding provision to cover specialist services such as specialist wound dressings, providers are forced to reluctantly send residents back to the acute hospital system to receive this care.

The current funding for low care services is becoming a deterrent for future admissions and this will have a very serious impact on the capacity of community care services to continue to deliver care for the growing demand within our wider community.

Community care packages in Western Australia have been well subscribed to, however due to the limited funding and the increasing costs to deliver care such as fuel and the ability to attract and retain staff, some packages are currently not operational (offline).

This in turn will have a serious impact up the already struggling WA State Health System that must provide full time care for those who would have otherwise been accepted into residential aged care services.

Western Australia is in a unique position of having a growing demand for residential aged care services and an increasing rate of bed vacancies.

This anomaly has occurred as a result of the current funding provisions and the need for providers to become more discerning as to who enters facilities to receive care. In many cases it is more viable to leave a bed unoccupied than running it at a loss by providing underfunded services.

There are other factors that impact upon bed vacancies i.e. beyond the natural attrition rate, such as consumer choice. With the funding provisions as they are; aged care providers with multi-bed environments are not able to redevelop services to provide a supply of the preferred single bed with ensuite environments.

However, with effectively the same funding provisions applied regardless of the physical environment, some consumers prefer to stay in hospital at a cost of over $1000 per day to taxpayers as opposed to less than $200 a day in a residential aged care setting if they are unable to access a room of choice in an appropriate location.

As the funding currently stands, there is no business case for a provider to redevelop older residential aged care facilities or to develop new facilities given the increase in construction costs. Providers are required to build a maximum ratio of 1.5 beds per room, which means they must build a single room for every double room they build.

The reduced number of people entering low care in a residential setting is also reducing the capacity for aged care providers to attract bonds, for which the interest could have otherwise been retained.

The recently released Grant Thornton Aged Care Survey clearly states that the national average return on new facilities is as low as 1.1 per cent.

In Western Australia the average cost of construction per bed is in excess of $200,000 (plus land and fit out) and considerably more for regional and remote areas, yet providers are funded at $109,000 per bed.

In the recent Zero Real Interest Loan allocation, providers in Western Australia were allocated amounts well beyond the recommended $120,000 per bed. One regional provider received $5,600,000 for 25 beds ($224,000 per bed) and a metro provider $$6,600,000 for 40 beds ($165,000 per bed) clearly demonstrating that DoHA understands that the build cost in this State far exceeds the build rate providers are being funded for in WA and across the country.

Despite the fact construction costs in Western Australia have skyrocketed, the operational costs (including wages) are grossly out of step with the funding available. Even if you could establish a business case to construct a facility in Western Australia, you still need to have the financial resources to attract and retain appropriate staff to deliver services.

The regulations prevent providers from increasing fees for residents that would otherwise enable them to pay competitive wages within the framework of the WA economic environment; let alone compete with the acute sector.

The industry also receives a Conditional Adjustment Payment of 1.75% per year compounding (currently frozen at 8.75%), however, considerable investment in reporting requirements needs to be done to receive these funds and the industry has been provided with no certainty that these payments will continue in coming years.

In Western Australia the diminishing returns, over regulation, funding constraints and continued compliance has inhibited the growth of the industry in this State.

Every year the Commonwealth allocates a specific number of bed licenses to match the determined need for the ageing population.

In WA there are currently thousands of beds offline i.e. provisionally allocated and not built or that have been decommissioned and not yet redeveloped.

Last year only 67% of the beds available were allocated, this has not happened before, but it is expected that this trend will continue in coming years. The upcoming 2008-09 round in WA has 1208 residential care beds available; in 2009-10 there are 1776 beds available and in 2010/11 2523 beds. However, from industry consultation it would appear that this year WA providers will apply for less than half if not third of the bed licenses available.

This has occurred in Western Australia for two reasons – 1. The cost to build is prohibitive and 2. The daily funding is not adequate.

The current provision of funding supplement and ratios for concessional (supported) residents does not support providers to meet the over 40% requirement (often not possible in many areas of Perth) and the heavy financial penalties that providers face for not meeting unattainable targets is a deterrent. In addition, the concessional payments are also grossly out of step with the real costs of care and construction.

WA providers should be supported and encouraged to provide services for the frail elderly who do not have financial means. Under the current funding supplement provisions, providers have payments reduced if they have 40% or less concessional (supported) residents.

If there is not a substantial injection in funding, providers in Western Australia will not continue to build new facilities at the rate required.

Recommendations:

- If the Commonwealth does not intend to increase funding it must uncap the daily accommodation charge for high income older people and increase it for those on a medium income so it is equivalent to the average previous year bond; and

- Provide real choice for those older Australians who want to pay an upfront refundable deposit (accommodation bond) for their high care accommodation; and

- Link government payments for concessional (supported) residents to the average bed costs. This measure is estimated to have a cost of $280m to government.

- If providers can not pay competitive wages to attract and maintain qualified staff the quality of care will reduce or the number of residents a provider can service will reduce.

- To encourage providers to take future low care residents who do not attract enough funding to make it viable, introduce a realistic floor of at least $30.00 per day to cover basic costs.

- The Conditional Adjustment Payment was originally only intended to be in place for four years while a suitable indexation method was considered and implemented following the Hogan Report, but now the industry needs these funds to continue and it requires a much needed change to the indexation of this industry to be implemented.

- The funding provisions do not stretch to cover the current operational activities, let alone future unknown amounts for the Emission Trading Scheme. Consideration needs to be made for these costs that the industry will struggle to meet.

- Community care funding needs to be increased to not only meet the growing demand for care packages in the community, but the increasing cost per package to ensure providers can continue to deliver services.

- Back payment of subsidies due to Aged Care Assessment Teams (ACAT) re-assessment requirements are needed - or require that ACAT assessments only relate to entry of care and not level of care.

Other related items:

In addition to funding provision considerations; other measures that could also assist the system at little or no cost to the government should not be over looked, such as:

- Allow family members to financially contribute to the care and wellbeing of their loved ones to ensure they have greater choice of facilities and services.

- Allow residents to increase bonds if they wish to transfer to a different facility.

- Allow the means tested fees that residents pay in aged care to remain in the system in the form of increased care subsidies instead of it going back into the government's purse.

- In regards to workforce solutions; temporary and permanent migration programs need to be maintained to supply sufficient workers to meet the needs of an ageing community.

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*

The indexation mechanisms of COPO (Commonwealth Other Purpose Outlays) and CAP (Conditional Adjustment Payment) 1.75% annual indexation underpin the current funding.

The aged care industry has been subject to COPO indexation since the Keating Government, yet in all this time the industry is yet to be provided with an explanation in regards to the formula and methodology behind this indexation model.

Nevertheless, COPO has proved to be an inappropriate indexation mechanism that continuously falls well behind the CPI and AWOTE (Average Weekly Ordinary Times Earnings) indexations that impact upon the industry's operational activities year after year.

Put simply, COPO is grossly out of step with all other indexation mechanisms that the industry must meet for wages and daily activities such as providing food, utilities, laundry, cleaning, continence aids and care related ancillary supplies.

Regardless of operational efficiencies implemented by Western Australian aged care providers, it is still not adequate to meet the increasing costs given the ever increasing indexation gap for the industry.

Recommendations:

- The COPO needs to be replaced with an appropriate indexation model to ensure the industry remains viable. One suggestion for a preferred and more appropriate indexation would be along the lines of 75% AWOTE and 25% CPI, if AWOTE reflects the increase in aged care salaries.

- If the indexation applied to the cost of care and operational activities outstrips the indexation applied to the industry's funding, the industry is simply not sustainable.

- Given the years of disparity in indexation, productivity is exhausted and a major reform is required to not only bring the industry in line with current indexation, but to keep it up to speed with the ongoing economic changes to ensure quality can continue to be delivered.

- *As previously noted:* The Conditional Adjustment Payment was originally only intended to be in place for four years while a suitable indexation method was considered and implemented following the Hogan Report, but now the industry needs these funds to continue and it requires a much needed change to the indexation of this industry to be implemented.

- Appropriate indexation must also be applied and extended to community care.

- Without appropriate indexation the industry cannot offer competitive wages to attract and retain health professionals and other appropriate staff. Without appropriately skilled staff, the industry cannot continue to deliver the much needed and expected quality aged care services.

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

In regional and remote Western Australia the delivery of care and the construction of aged care facilities are considerably higher than the metropolitan areas.

The provisions for residential and community aged care in regional and remote Western Australia are not sustainable under the current blanket approach to funding and regulation.

The current workforce, construction and funding challenges are placing regional and rural aged and community providers under extremely difficult operating conditions.

While the metropolitan building cost now exceeds $200,000 per room, the cost of building can exceed $600,000 per room in remote areas. In the recent round of Zero Real Interest Loans, there was not one application from regional and remote areas of Western Australia.

This building crisis has resulted in greater pressure on the community care sector and given the physical distances that need to be covered the current funding does not adequately support these services.

As a result there are many frail elderly who require residential care but there are no places and they exist in a rotation between the hospital and their home.

Unfortunately due to the lack of resources, appropriate infrastructure and the capacity to deliver services in some areas; long-standing members of regional and remote towns and communities are forced to move away from their friends, family and home to receive much needed care services.

The existing Viability Supplement is a ‘one size fits all’ approach based on remoteness rather than on need. It would be more advantageous to have a Viability Supplement that is based on actual costs.

Regional and remote Western Australian providers experience enormous cost burdens compared to urban areas. Basics like food have inflated prices due to transport costs and staffing shortages due to cost of living, availability of housing and competition from the resources sector.

Recommendations:

- To ensure Rural and remote aged care services in WA can continue to operate they should receive a subsidy supplement that reflects the additional cost of supplying the service in that area. An additional supplement should be based on the additional cost per bed for wages and costs based on the number of beds in the facility.

- Regional variations would also be greatly assisted by uncapping the accommodation charge and allowing bonds in high care.

- Due to the unprecedented construction costs in regional and remote Western Australia the Commonwealth may need to consider investment in infrastructure to ensure aged care services are available to all Australians.

- Provide practical support and guidance to maintain viability in regional and remote areas of Western Australia via a realistic approach to ‘local’ conditions when considering the Viability Supplement for both residential and community care services.

- Provide more rural and regional training opportunities.

D. *Whether there is an inequity in user payments between different groups of aged care consumers and, if so, how the inequity can be addressed*

There are numerous inequities in user payments and as a result consumer choices are impacted upon.

Government regulation is discriminatory against those who wish to pay larger accommodations bonds.

Under the current system, aged care residents cannot choose to increase their bond to move or upgrade to another facility.

This should be amended to ensure residents and families can have a choice of services and location without having being removed from care 28 days to become eligible to increase the bond amount.

In regards to resident accommodation charges, at present residents can only pay $26.88 a day, yet those who seek premium accommodation are not allowed to pay for the standard of accommodation they want and can afford.

Aged care residents are required to pay the same accommodation charge if they are in a single room with ensuite, a double room or in a four room environment and the current funding is also applied to beds not to the standard or number of beds in a room.

The Government has regulated that all new buildings must have a maximum of 1.5 beds per room, however, the funding, fees and charges are not supportive to encourage providers to investment in this process.

In regards to accommodation bonds, it is discriminatory for those who would like to pay bonds in high care are unable to do so. This should be a choice for the individual and their family to determine how they will manage their assets and financial arrangements.

Recommendations:

- If the Commonwealth does not intend to increase funding it must uncap the daily accommodation charge for high income older people and increase it for those on a medium income so it is equivalent to the average previous year bond; and

- Provide real choice for those older Australians who want to pay an upfront refundable deposit (accommodation bond) for their high care accommodation; and

- Link government payments for concessional (supported) residents to the average bed costs. This measure is estimated to have a cost of $280m to government.

- Allow family members to financially contribute to the care and wellbeing of their loved ones to ensure they have greater choice of facilities and services.

- Allow residents to increase bonds if they wish to transfer to a different facility.

E. *Whether the current planning ratio between community, high and low care places is appropriate*

The current planning ratios are determined by a Government formula that is reflective of the ageing population.

Although the ratios have shifted over time to reflect statistical population changes, it is not reflective of shift in the demand for services and the provisions of care.

Given the success of community care packages more people have the opportunity and choice to receive aged care in their home.

However, this has also changed the make up of those entering residential aged care services with 72% of all new entrants being assessed as high care.

The current 44 high care and 44 low care ratios are not reflective of the demand for services and appropriate planning should be undertaken.

Recommendations:

- Planning ratios are currently determined by the Government and set on large regions. The planning rations should be reflective of the market demand and local area requirements.

- Greater flexibility should be made available for providers to convert places to meet shifts and changes in the demand for services.

- A review of the current planning process should be reviewed in consultation with the industry and the industry Associations.

F. *The impact of current and future residential places allocation and funding on the number and provision of community care places*

As previously noted:

Every year the Commonwealth allocates a specific number of bed licenses to match the determined need for the ageing population.

In WA there are currently thousands of beds offline i.e. provisionally allocated and not built or that have been decommissioned and not yet redeveloped.

Last year only 67% of the beds available were allocated, this has not happened before, but it is expected that this trend will continue in coming years. The upcoming 2008-09 round in WA has 1208 residential care beds available; in 2009-10 there are 1776 beds available and in 2010/11 2523 beds. However, from industry consultation it would appear that this year WA providers will apply for less than half if not third of the bed licenses available.

This has occurred in Western Australia for two reasons – 1. The cost to build is prohibitive and 2. The daily funding is not adequate.

In addition:

Therefore without the provisions of residential aged care services being built at the rate required, serious consideration for alternative care delivery and more specifically community care services must be considered.

The majority of older Western Australians will prefer to stay at home as long as possible and wish to have greater choices about their accommodation needs and care delivery.

Community care services deliver care to nearly three times the number of people who receive full-time care in a residential care setting.

However, the success of the community care services has resulted in a shift of 72% of new entrants into residential aged care being assessed as requiring high care. As consumers will stay in their home as long as possible, the demand for high care residential places will grow.

As the development of residential aged care services in Western Australia is slowly grinding to a halt, this will have an enormous impact on the demand for community care services.

Without future provisions for higher levels of care in the home the community will be forced to turn to the State Health system for care.

Recommendations:

- There is a need to develop more innovative models of residential care and funding including a greater amount of short term usage of residential care for services such as respite and rehabilitation, dementia and palliative care.

- It is imperative that both residential and community care funding be linked to the actual cost of delivery to ensure that Australians are going to receive a level of care that the community expects.

- Community care funding needs to be increased to not only meet the growing demand for care packages in the community, but the increasing cost per package to ensure providers can continue to deliver services.

- To stimulate growth of the residential care industry: If the Commonwealth does not intend to increase funding it must uncap the daily accommodation charge for high income older people and increase it for those on a medium income so it is equivalent to the average previous year bond; and

- Provide real choice for those older Australians who want to pay an upfront refundable deposit (accommodation bond) for their high care accommodation; and

- Link government payments for concessional (supported) residents to the average bed costs. This measure is estimated to have a cost of $280m to government.

- If providers can not pay competitive wages to attract and maintain qualified staff the quality of care will reduce or the number of residents a provider can service will reduce.