

## ACAA BUDGET SUBMISSION 2006-07

### Australia's ageing population

In 2011, baby boomers of the world will begin to reach 65 years of age.

By making certain assumptions about future fertility, mortality and migration<sup>1</sup> in Australia, a clear profile of an ageing population emerges.

According to the Australian Bureau of Statistics<sup>2</sup>, in 2002 the proportion of the population 65 and over was around 13 per cent.

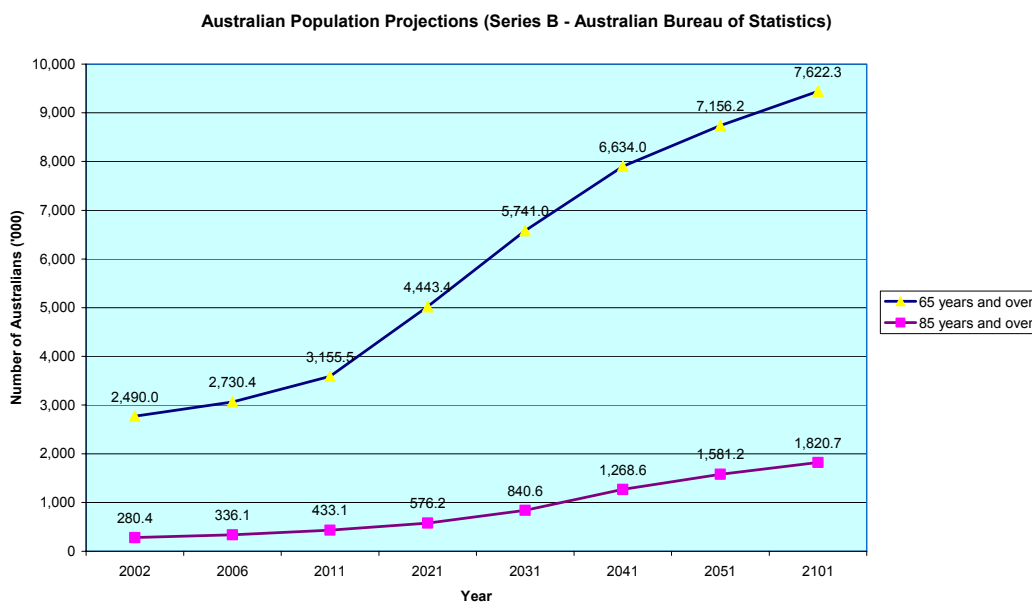
By 2051, this is projected to rise to 27 per cent.

Look forward another fifty years, and 6.1 million Australians will be over 65 (29 per cent of the population). This is virtually the entire population of NSW today.

However, the greatest growth is projected in the population aged 85 years or over.

This age bracket is expected to expand from 1 per cent of the total population in 2002 to between 6 and 9 per cent by 2051.

This is the age group of greatest consequence as it is this group which will need the Government's support in the areas of housing, health and disability services.



<sup>1</sup> ABS Population Projections Australia 2002-2101, Series B, page 1

<sup>2</sup> ABS Population Projections Australia 2002-2101

### **Implications for the nation's aged care system**

The implications of an ageing population for the nation are broad. The burden will be largely borne by the health, welfare and of course, aged care sectors.

It is not only the increase in the number of persons requiring aged care services in the future, which will have ramifications for the aged care sector, but also social changes such as changing family structures. With shifting work patterns, higher divorce rates, smaller families and a higher level of geographical scattering of families, 'informal' care is likely to become less viable for a growing number of people.

The *Aged Care Act 1997* imposed significant structural change on the aged care sector. Considerable reforms were implemented in the areas of funding and quality assurance. Providers were given more responsibility to raise capital, and residents with higher income and assets were required to contribute more to the cost of their care and accommodation.

The industry welcomed many of the reforms, however there was overall agreement from the outset that the Act restricts operations in key areas - to the extent that provision of care may be compromised. Since its introduction, the industry has gone to considerable lengths to highlight to Government some of the deficiencies within the Act, and to campaign for the changes the sector considers necessary to ensure long term financial viability and quality care.

In response, as part of the 2001-02 Federal Budget, the Government announced the establishment of the Review of Pricing Arrangements in Residential Care, headed by Professor Warren Hogan. The main task of the review was to "examine the longer term prospects of residential aged care services with particular respect to future arrangements for private and public funding, performance improvement in the industry and longer term financing"<sup>3</sup>.

The review was conducted with four key principles for the sector in mind: quality of care; equity of access; efficiency and sustainability.

The industry continued to explain to Government that extra support was needed if operators were to continue to provide the standard of care that the community and Government expected.

A key feature of the 2004-05 Federal Government Budget was a \$2.2 billion (over 5 years) package for the sector aimed at increasing efficiencies in the short term and helping to ensure long term sustainability. The package was partly based on Hogan's findings and coincided with the release of his report.

These (and other) Government commitments to Aged Care have been broadly and publicly applauded by the industry. However, in reality, they still fall short of requirements and the recommendations made by Hogan.

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<sup>3</sup> *Review of Pricing Arrangements in Residential Aged Care - Final Report*, WP Hogan, Commonwealth of Australia, 2004

## **Aged Care Association Australia's priority issues**

On behalf of the industry, the Association will continue to work with Government on the following priority issues, critical for the sector to meet government and community expectations.

### **1. Up-to-date industry research and assessment**

It is unfortunate that the Hogan Review of Pricing Arrangements in Residential Care, failed to undertake a number of fundamental research projects for the sector, namely:

#### **1.1 Cost of Care**

There is no evidence that Hogan undertook an analysis of the real cost of care in the sector. This is fundamental to establishing a viable long-term funding model for the industry. What is the Government purchasing and what is it that Government and community expect aged care providers to deliver?

#### **1.2 Planning ratios**

Current ratios are based on the number of beds required per thousand people aged 70+, whereas statistics show that over 96 per cent of residents in aged care facilities are aged 80 and above. Additionally, ratios set for the percentage of high versus low care beds do not reflect current demand.

Thorough research into the demand for services and a review of ratios is necessary to ensure appropriate planning ratios are set. This research could then accurately drive the future allocation of places to ensure that supply matches demand and excess supply does not happen by accident.

#### **1.3 Dementia/Palliation**

To date, there has been no adequate assessment of the real cost of dementia and palliation to the aged care sector. There are currently no additional funds within the residential aged care budget to supplement dementia and/or palliation services. The burden of increased demand will therefore be borne by the aged care sector and will take funds away from already cash-strapped operators. The aged care sector cannot provide service of equivalent quality to the acute sector if funding is vastly different. The real cost of dementia and palliation care in the aged sector must be identified to ensure funding is realistic and adequate.

#### **1.4 Hotel & Accommodation Services**

There was considerable discussion during the Hogan Review into the possibility of separating care services from 'hotel and accommodation services' such as meals, linen, bedding and accommodation. In the end Hogan has remained silent on this possible reform.

The Association believes that research needs to be undertaken on this topic to determine whether such a change would be workable within the Australian context and whether it would bring any benefits to the existing system.



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**ACAA strongly advocates thorough research into all these areas to ensure that up-to-date analysis is available to assist decision-makers to set policies that are realistic and workable.**

## **2 Removal of unwarranted burdens**

### **2.1 Capital Creation**

Unfortunately, the 2004-05 and 2005-06 budgets did not adequately address the issue of capital creation in the aged care sector. While it was disappointing to see no further development of refundable accommodation deposits, The Association looks forward to working with Government in the future toward a sustainable solution to the issues of capital creation in the industry.

#### **2.1.1 Capital raising - High Care/Low Care**

The Hogan report recommended that the capital raising options for high care and low care be uniform and that refundable accommodation deposits for high care be introduced.

The Association supports Hogan's recommendation and believes that the options available to all residents should be:

Payment of a refundable accommodation deposit;

- Payment of a daily fee set as an equivalent to the current capital income stream available from the accommodation deposit, currently assessed at \$39.96 per day;
- A combination of both the daily fee and the accommodation deposit paid on a periodic basis; and
- A deferred fee attracting the variable treasury rate and paid on the assessed refundable accommodation deposit.

**ACAA believes the options available to persons entering residential care should be expanded and that residents who satisfy the asset test on entry be permitted to exercise a choice as to the option which best suits their financial circumstances.**

#### **2.1.2 Dedicated Financial Accounts Deemed Exempt for Pension Assessment**

An additional option that could be added to the above options is the creation of Pension Assessment Exempt Accounts which are dedicated to the purpose of funding a persons residential care needs.

Currently, approximately 90% of residents in residential care are full or part pensioners.



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The Government from 1 July 2004 and 1 July 2005 improved the current scheme by allowing residents paying an accommodation charge or a periodic

payment as an alternative to an accommodation bond to treat any income earned from a rented family home as exempt from asset or income assessment purposes for pension assessment.

However, if a resident sells that same home and invests the funds, then any balance not paid as a bond in residential care will attract asset and income test assessment for ongoing pension entitlement.

ACAA believes that a person entering residential care should not be discriminated against. If their choice is to sell the family home then they should be in no worse a position than if they decided to rent the family home.

ACAA therefore believes that Government should approve the creation of new residential care accounts which would be exempt from income and asset testing for income assessment purposes whilst the person is in receipt of care in a residential care setting.

**Government to approve the creation of a new category of financial account which is available only to residents of residential care and which will be exempt from income and asset test assessments for pension entitlement.**

### **2.1.3 Concessional Supplement**

Hogan recommended the concessional supplement be raised to at least \$19 per resident per day based on 2002-03 dollar values. The Government's response was to raise it to only \$16.25.

**ACAA believes it is in the interests of residents, their families, care providers and the industry for the Government and opposition to accept the recommendation to raise the concessional supplement to at least \$19.00 per resident per day based on 2002-03 dollar value.**

### **2.1.4 Accommodation Charge**

Similarly, Hogan recommended that the accommodation charge for high care be lifted to \$19.00 per day based on 2002-03 dollar value. The Government raised the charge to only \$16.25. The Association has modelled the impact of the \$16.25 as compared to \$19.00 and determined that the sector will be at least \$500 million short of the Government's own capital expenditure target for the next ten years of \$10.1 billion.

In the 2004-05 Budget, the Government set the concessional supplement and the accommodation charge at the same rate. The Association strongly recommends that while the accommodation charge remains the only option for residents in the high care sector then the index applied to both amounts should be the same to maintain symmetry between the two figures.

**ACAA strongly supports Hogan's recommendation for the Accommodation Charge and the Concessional Resident Supplement to be increased immediately to \$19 per resident per day and indexed based on 2002-03 dollar value thereafter.**

**ACAA also believes that further consideration of capital raising options for high and low care is vital to the sustainability of the sector.**

## **2.2 Forty per cent concessional target**

The 40 per cent concessional resident target was introduced as part of the 1997 reforms to ensure that adequate access was maintained for all persons entering the residential aged care sector.

Hogan recommended the abolition of the 40 per cent quota.

While there must always be a means of ensuring all aged Australians have access to care, regardless of their personal financial situation, the system cannot demand unreachable quotas and then impose severe penalties when quotas are not met.

Quotas of concessional residents, if at all necessary, should be based on regional targets, which reflect the socio-demographic of that particular planning region. If a penalty for not reaching the target is necessary, it should be only imposed on the shortfall in concessional residents, rather than the whole quota.

The penalties imposed by the existing system acts as a disincentive for aged care providers to even attempt to meet the 40 per cent target. If a provider cannot reach the target and suffers reduced funding for all concessional residents then that provider is better off accepting no concessional residents at all.

**ACAA supports equity of access for residents based on clinical need. This could be achieved if the Government removed the penalty and the requirement to achieve a 40 per cent concessional target and set the target at no more than the regional target for the planning region in which the facility is located.**

## **2.3 Red Tape**

In the 1980's, the existing three tier classification system for aged care residents was replaced, as the tool lacked the sensitivity needed to effectively grade such a complex resident population.

In his report Hogan recommended that the current eight level Resident Classification Scheme (RCS) be once again replaced with a three level RCS, plus two supplements; dementia and palliation.

The Association is concerned that the Hogan recommendation now adopted by Government will cause similar problems as those prevalent in the 1980's. The Association has always contended that the eight level RCS has been and continues to be a useful tool, which is reasonably reflective of resident acuity.

The problem with the existing system is not the RCS but rather the validation red tape imposed by the Department upon the sector to verify the appropriate expenditure of the aged care budget.

The Government has committed on numerous occasions to resolving the red tape issue in residential care with a firm commitment being set down for 1 July 2004. The 2005/06 budget has now pushed that date out to 1 July 2006 - two years later than promised.

The Association estimates that at least four million hours of nursing time is wasted each year on unnecessary red tape caused by the current validation process.

As red tape is one of the primary reasons for nurses leaving aged care or refusing to work in the sector, it is imperative that the problem is resolved immediately.

Further, between the industry's wasted effort and the Department's validation activities, approximately \$90 million is wasted on non-care activities.

*This is more than the sector received in indexation dollars for financial year 2004-05.*

A significant problem with the system as it exists is the Government's \$29 million per annum recovery target. The purpose of the target is to identify classification errors and to justify downgrades. The Association does not believe that the red tape issue can be resolved while the target exists as no matter how accurate the sector is in classification and subsidy claiming, the rules are changed regularly to ensure the budget target is met.

**ACAA believes the Government should solve the aged care red tape problem, which would allow \$90 million and four million nursing hours to be released back into the sector and used for resident care.**

As an interim solution ACAA recommends the Government remove the existing retrospective aspect of the financial penalty attached to validation downgrades. Because the retrospective penalty is so punitive and providers who have employed staff and provided services at the higher level for the six months of the retrospective period, providers are driven to maintain excessively detailed documentation to avoid validation downgrades.

**ACAA recommends the Government remove the retrospective component of the existing validation downgrade system.**

## **2.4 A fairer taxation system**

### **2.4.1 Depreciation period reduced from 40 to 20 years**

The taxation system for aged care providers contains a building depreciation period of 40 years. However, the timeframe for upgrading and replacing buildings is considerably shorter.

The conflict between the taxation regime and the industry's building requirements is a potential penalty for operators.

The depreciation period should be reduced to more closely reflect the lifetime of the buildings and be more aligned to the building standards required by government of the sector.

**ACAA supports the introduction of a building depreciation period of 20 years with an annual depreciation rate of 5%.**

## **2.5 Workers' Compensation**

The residential aged care sector is a single program funded by the Federal Government with a single subsidy covering all services across Australia. The scheme is highly rigid and providers have no flexibility with which to raise additional income to reflect state based variable costs such as workers compensation. State based costs such as workers compensation with premiums ranging from 3.8% to 7.8% across various states creates an inequality among providers all of whom are trying to provide the same quality of care and service on vastly different net income levels.

Prior to the introduction of the 1997 reforms government shared the risk of substantial premium rises with providers. The scheme pegged the exposure of aged care providers to a maximum of 30% of additional premiums incurred following the lodging of a workers compensation claim.

**ACAA believes that a 30% scheme should be re-introduced whereby any provider would incur the cost of higher workers compensation premiums to the extent of 30% with the Federal Government picking up the balance of the premium rise that occurs following a workers compensation claim being lodged**

## **2.6 Workforce**

ACAA recognises the difficulties that will be faced by many providers in coming years to attract and retain sufficient skilled staff to meet the needs of staffing in both residential and community settings.

ACAA believes that as the 9<sup>th</sup> largest employer in the country, aged care should be viewed as a separate and distinct industry.

Aged care is highly dependant upon people doing things for people. There are limited opportunities for gaining significant efficiency improvements. 70% of all costs are related to costs of labour.

## 2.6 Nursing Scholarships

ACAA was delighted with the workforce budget allocation in the 2004/05 budget. However, believes there should have been a much greater focus on the creation of aged care specific nursing scholarships, particularly in metropolitan settings.

The Rural Nurse Scholarship Scheme managed by the Royal College of Nursing Australia, has been highly successful. It has the added advantage of providing real incentives and support for the new graduates to commence in and stay working within aged care.

ACAA believes that an additional four hundred nurse scholarship positions should be created for deployment across all parts of the aged care system.

ACAA believes the existing rural scholarship scheme and the proposed expanded scheme should attract additional financial support to provide the new graduates with mentoring and positive work placement during their first post graduate year.

**ACAA recommends the Government fund an additional 400 undergraduate aged care nursing scholarships for deployment across the aged care system.**

**ACAA recommends the existing rural nurse scholarship scheme and the enhanced nurse scholarship scheme receive additional funding to support a graduate mentoring and employment placement support during their first post graduate year.**

## 2.7 Aged Care Career Pathways

The Aged Care Career Pathways scheme has proved effective in supporting undergraduates and post graduate first year employers to obtain positive clinical placements and workplace experience in aged care settings.

ACAA believes this type of program needs to be created in all states and in many regions.

**ACAA recommends that funding be allocated to support the creation of Aged Care Career Pathway models in all states and major regions with the objective of supporting undergraduate nurses gain a positive aged care clinical placement and mentoring graduate nurses in a positive employment environment during their first post graduate year.**

## 2.8 Nurse Practitioners

A Nurse Practitioner trial has been underway in the ACT to assess the applicability of the role in an aged care setting.

One difficulty in developing the role in a residential care setting is the scarcity of resources to experiment with new staffing structures. One obvious benefit of Nurse Practitioners is their ability to supplement and support the role of general practitioners.

However, obtaining support for such a scheme will in the first instance prove difficult unless such arrangements can be funded separately and conducted as a pilot pending confirmation of veracity.

**ACAA recommends government fund a number of Nurse Practitioner trials to ensure aged care providers have the capacity to pilot various structural models including potential GP supplementation.**

## 2.9 Centralisation of Registration

The Aged Care Industry operates substantially within a single Federal Government policy and funding framework.

Unfortunately, when trying to develop new workplace structures or obtain national agreement of competencies for enhanced staff skills such as medication management for enrolled nurses, it requires negotiations with six registration authorities.

ACAA believes that the current registration process is extremely inefficient. That the current inefficiency could be considerably reduced by moving to a national centralised registration process for all licensed health professionals.

**ACAA believes the efficiency of the Australian health system would be considerably improved if the registration process of all licensed health professionals be centralised.**

## 2.10 Information Technology

The Aged Care sector has traditionally been a poor adapter of information technology. However, this situation is changing rapidly.

The Government's one off payment in June 2005 which could among other things be used to procure and implement IT systems, was warmly welcomed by the industry.

At the same time, Government is working towards the implementation of a new funding instrument which has a major objective, the reduction of unnecessary red tape associated with government validation of the industry's subsidy claiming process.



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While any of these processes remain paper based, it is going to prove extremely difficult to overcome much of the negativity attached to the red tape seen by the industry as necessary to overcome the highly intrusive validation process.

ACAA believes that another round of IT support funding specifically targeted at electronically enabling the documentation associated with ACAT assessment, resident assessments and the funding instrument would have significant efficiency benefits for Government and industry, substantially improve the effectiveness of the accountability regime and improve the attractiveness of aged care as a proposed place of employment for health professionals.

**ACAA recommends government fund the electronic enablement of ACAT assessment documentation.**

**ACAA recommends government fund the electronic enablement of the Aged Care Funding Instrument Assessment tools.**

**ACAA recommends government fund the electronic enablement of the Aged Care Funding Instrument tool.**

**ACAA recommends government fund the electronic gateways to ensure electronic lodgement and transfer of the above documents can occur.**

## **2.11 Advocate for Ageing**

The issue of ageing and the broader community response to ageing and ageing issues is a matter that is rapidly evolving.

At the same time, many of the issues relating to ageing and an ageing society are poorly understood.

ACAA believes that the time is ripe for the engagement of a high profile person to be engaged in an apolitical role with the objective of speaking for and educating the broader community on the myriad of issues that impact upon ageing and the many ways our ageing demographic will impact upon society over the next five decades. The model which we believe may best suit a person in this role is the Beyond Blue model.

**ACAA recommends government endorse the creation of an Advocate for Ageing and undertake to consult with the various stakeholders regarding the implementation and funding of the Advocate.**