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18 December 2007

Hon Wayne Swan MP
Federal Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer,

RE: Aged Care Association Australia - Budget Submission 2008/2009

Aged Care Association Australia (ACAA) has prepared the following document for the consideration of your Government when preparing for the 2008-2009 federal budget.

The financial position of the aged care industry has been deteriorating for three years. Despite statements to the contrary, the former Government failed to address this decline.

Due to the funding structure of the industry, only Government can address this problem. Continued failure to do so will result in severe and significant financial pressure on the industry.

ACAA believes that there are a number of long-term strategic issues that require urgent consideration and attention by Government and that the 2008-2009 federal budget is a perfect opportunity in which to address these issues.

ACAA believes that failure to address the fundamental strategic issues immediately, will lead to a significant decline in the performance capacity of the aged care industry. It will lead to failure in service delivery by the industry that is now expected by both Government and the community. In particular, the inability to construct and deliver sufficient capacity to meet the growing number of places and services required by the changing demographic profile of Australia and attract a workforce to work in it.

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Attachment A, lists a series of further reforms Government should address for the aged care industry. Listed below are our top five priorities which we believe must be addressed in the short term if the industry is to effectively deliver on its responsibilities to the community.

Maintaining the 1.75% CAP Index

ACAA is concerned at the prospect of Government removing 1.75% of care subsidy support currently provided to aged care services which is only committed till 30 June 2008. Attached to this submission at Attachment B is a report from Grant Thornton Accountants who were commissioned by the Department of Health and Ageing to review the financial viability of the whole industry. Their data was drawn from the audited financial accounts required by Government to be undertaken by all aged care providers annually. As you will see from their report the aged care industry is in a parlous state, 40% of the industry operated at a loss in the 2005/06 financial year. This situation is predicted to worsen. ACAA strongly recommends to Government that the 1.75% subsidy which was recommended by Professor Hogan in his report to Government in 2004 be maintained and that the estimate of \$105M per annum indexed be funded in the 2008/09 budget. Any analysis of the data shows that if Government does not maintain the 1.75% index for aged care providers, given their current financial state, many providers will not be able to continue operating.

Information Technology and Assistive Technology

ACAA is also strongly of the view that with the introduction of the new Aged Care Funding Instrument (ACFI) from 20 March 2008 there is a unique opportunity for Government to support the long term development of the IT capability for the aged care industry. Enabling electronic transaction with Medicare Australia when submitting the new ACFI documentation is planned from its commencement. Aged care providers should receive financial assistance to ensure their conversion to and enablement of their electronic capability. This is a unique opportunity to rapidly advance electronic capability and consequent enhanced efficiencies.

ACAA estimates that an allocation of \$70M over two years would be required to achieve substantial conversion of the industry by the end of calendar year 2010.

ACAA also believes that \$50M should be allocated over four years to support the continued uptake of IT systems throughout residential and community aged care.

Efficiencies in service delivery are essential if we are to maintain future service capability with a shrinking workforce. Innovative application of information and assistive technologies is essential to achieve maximum service efficiency in the future.

ACFI High Care Subsidy

The new funding instrument mentioned above is to be introduced in part to recognise the very significant costs being incurred by the industry in servicing a more complex and dependent client base in residential high care. This was acknowledged by the former Government and was a major objective in moving to a new funding instrument. However, the former Government decided to defer to fully implement the scheme and it will now take four years for the top end subsidy to be gradually introduced in \$10.00 tranches over the four year period.

The high care subsidy rates struck by the Government's contracted consultant was an attempt to make a realistic assessment within the bounds of the existing budget of the real cost of providing care to high care residents. Deferral of this payment ignores the service the industry already delivers and is a major factor in the declining financial performance of the industry.

ACAA calls on the Government to re-instate the full subsidy for residential high care effective 20 March 2008. The estimated cost in year one is \$82M, \$116M in year two and \$65M in year three, a total of \$263M over the three years with the two schemes costing approximately the same in year four.

High Care Capital

This issue has been ongoing since 1997 and has now reached a crisis point. We have a situation where aged care providers operating low care places and receiving a much lower Government subsidy are actually performing better financially than high care facilities receiving much higher funding streams through Government subsidy.

ACAA believes part of the reason for this failure, as is outlined above, is the quantum of the subsidy to match the escalating care needs of high care residents. The other cause is the very different treatment of the two sub sectors, high care and low care in respect to capital raising capacity. Attachment C prepared by PriceWaterhouseCoopers (PwC) for the industry umbrella body Aged Care Industry Council (ACIC) confirms the industry contention regarding lack of capital for residential high care. It also re-affirms the Hogan Report's estimation of a major funding shortfall if there is no reform to the capital raising capabilities of the industry.

PwC reports that over the twelve years to 2020, residential high care will suffer a capital deficiency of approximately \$5.7B if the current scheme and the changes proposed by the former Government come into effect from 20 March 2008 under the 'Securing the Future' package proceed without change.

ACAA is of the view that a solution must be prioritised for the issue of high care capital. We have offered a number of solutions in the past including:

- An aged care annuity
- A Government supported annuity
- An accommodation differential recognizing variegated rates for accommodation types
- Aged Care specific accounts with pension assessment exemption status
- A refundable accommodation lump sum payment

All of any of these options will enhance consumer choice and allow accommodation payments in a variety of forms that will best meet the needs of the individual.

ALP Election Commitments

ACAA believes that the above five priority issues need to be addressed in conjunction with the election commitments made by the Government during the election campaign, namely:

- \$300M in "zero real interest rate" loans to build or expand residential and respite facilities in areas of need (rural & remote and socially disadvantaged regions)
- \$158M over the next five years to provide an additional 2,000 transition care places
- \$6.6M over five years to encourage 1000 qualified nurses who have been out of the health workforce for more than 12 months to return to work in the aged care sector (RNs and ENs who re-enter the aged care industry will receive cash bonuses of up to \$6000 over 18 months, and aged care providers will receive \$1000 per re-entry nurse to assist with re-training and re-skilling)
- increased training places for personal care workers as part of the 450,000 additional VET places
- commitment to "consider the need to adjust the low asset/income concessional ratio in line with up-to-date Census and ABS data, and the ability to develop and implement a range of concessional ratios that reflect more accurately the local demographics"

- Review of the Aged Care Approvals Round ratio formula and allocation process
- Review of quality systems, accreditation standards, compliance and complaints investigation system
- Appointment of Ministerial Council on Ageing reporting to COAG
- Appointment of Ambassador for Ageing

We welcome the opportunity to discuss any of these initiatives and suggestions with you and look forward to your Government's favourable consideration of the recommendations contained within this budget submission.

Thank you for your attention to this matter.

Yours sincerely



Rod Young
CEO

Cc Lindsay Tanner MP
Cc Nicola Roxon MP
Cc Senator Jan McLucas
Cc Andrew Stewart
Cc Michael Lye

