



**Australian Nursing Homes
and Extended Care Association**

Aged Care Australia: The Future Challenges



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Australian Nursing Homes and Extended Care Association

PO Box 335 Curtin ACT 2605

Tel 02 6285 2615 Fax 02 6281 5277

www.anheca.com.au

Aged Care Australia: The Future Challenges

Aged Care in Australia will face increased demand in the near future.

More than ever, there is a need for political and industry bipartisanship to achieve long term objectives for the nation's ageing population.

The 2004-05 Federal Budget threw a lifeline to the Aged Care sector in Australia. However, the battle is by no means won.

There are numerous ongoing concerns for aged care providers which will worsen as pressure on the sector increases.

ANHECA will continue its work with relevant government and industry bodies to build a secure and sustainable future for the aged care sector to ensure the best possible standards in facilities and care are achieved.

Crucial for the future of the industry are:

1. up-to-date research into the cost of care and the demand for services;
2. the removal of unwarranted burdens to operations, particularly in the areas of capital raising, unnecessary red tape, accreditation, complaints resolution and taxation; and
3. appropriate funding and capital raising potential to enable the aged care sector to pay competitive wages and therefore attract high end nursing staff to the sector.



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 migration¹ in Australia, a clear profile of an ageing population emerges.

According to the Australian Bureau of Statistics², in 2002 the proportion of the population 65 and over was around 13 per cent.

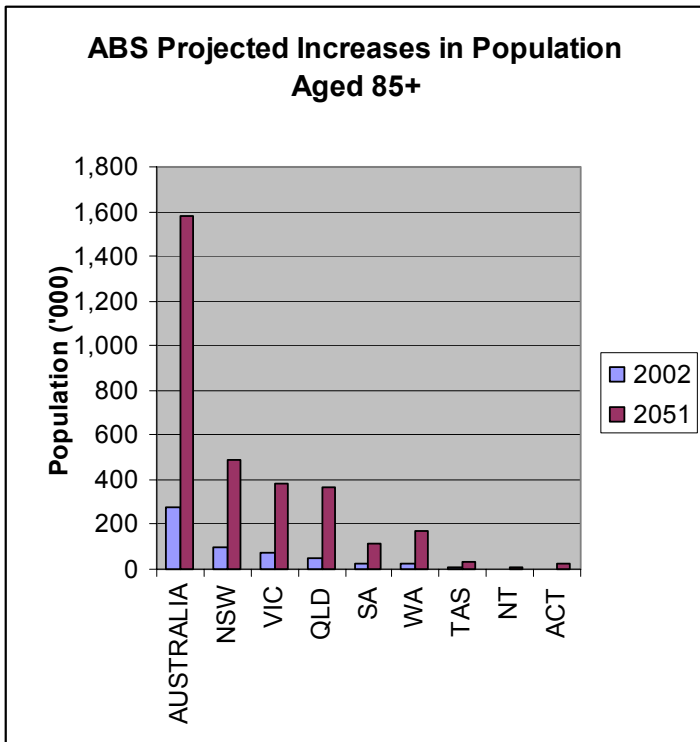
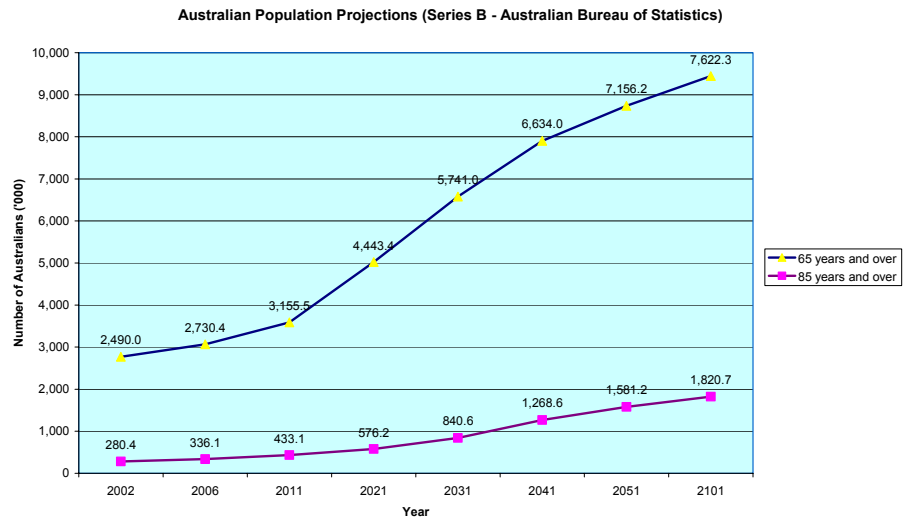
By 2051, this is projected to rise to 27 per cent.

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.



In 2051:

- NSW and Victoria can both anticipate a fivefold increase in the size of the over-85 years age group. By 2051 this will be approximately 871,600 Australians;
- Queensland, Western Australia, the ACT and NT, the age group is projected to expand to over seven times its current size – a total of 563,000 Australians;
- there will be over four times the number of South Australians aged 85 or over, as in 2002; and
- 31,900 Tasmanians will be 85 or over, compared to 7,500 in 2002.

Across Australia this age group is projected to be over five times larger in 2051 than in 2002 – approximately 1.6 million Australians may need aged care of some description.

¹ ABS Population Projections Australia 2002-2101, Series B, page 1

² 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.

Greater demand for aged care facilities is inevitable.

In June 2002, 29.5 per cent of people aged 85 or over (the age bracket of the majority of aged care residents) were in residential care or receiving an aged care package or service. A further 121,000 Australians aged 85 and over received a HACC³ service each year.

It is inevitable, that as the number of Australians in this age bracket increases, the demand for residential and community aged care services will also increase. A growing preference for at-home care will place additional pressure on the community care sector.

However, for a large number of older Australians, at-home care is not a realistic option.

Admission to nursing homes generally occurs as a result of falls, dementia, incontinence and discharge from an acute episode in hospital.

About 5 per cent of people 65 years and over and 20 per cent of 80+ year olds suffer some form of dementia.

As a consequence of the growing number of aged Australians, the number of dementia sufferers is projected to increase significantly. By mid century, over 580,000 Australians (2.3% of the population) will have dementia⁴. The demand for dementia services will increase respectively.

It is imperative that industry and governments continue to work together to prepare for the significant increase in demand on aged care services in 2011 (and beyond) and put in place long term solutions to cope with the population change.

This will take time. Appropriate steps are needed now. Solutions must be long term.



³ Home and Community Care

⁴ *The Dementia Epidemic: Economic Impact and Positive Solutions for Australia* Access Economics, Canberra 2003

The story so far

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"⁵.

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.



The budget package was welcomed by the sector, but it is only the first step to long term sustainability.

Three significant initiatives were included in the Federal Government Budget package:

1. An immediate cash injection of \$3,500 per resident (\$513.3 million) to assist operators meet improved safety and building standards for certification by 2008, with a focus on fire safety requirements.
2. A Conditional Adjustment Payment (CAP) in addition to COPO indexation amounting to a 1.75% increase for the financial year 2004-05, and increasing annually by 1.75% to a total increase of 7% by 2007-08 (approximately \$2000 per resident per year).
3. An increase in the maximum rate of the concessional resident supplement from \$13.48 per day to \$16.25 per day.

⁵ *Review of Pricing Arrangements in Residential Aged Care - Final Report*, WP Hogan, Commonwealth of Australia, 2004

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.

Of the \$2.2 billion package, \$3,500 per resident was distributed immediately to providers – a total of \$513.3 million in the final days of 2003-04. While the cash injection was certainly welcomed, as a one off it is not enough to resurrect the industry.

Forward estimates allocate only \$262 million to the industry for the 2004-05 year.

The total additional operational funding to providers amounts to less than a 2% increase, which does not even approach the recent and pending wages cost increases.

The \$262 million in 2004-05 will be allocated as follows:

Budget Allocation Target	National Allocation	Proportion of Budget Allocation
Buildings	\$123.4 million	47%
Operational funding & care provision	\$83.5 million	32%
Government bureaucracy	\$41.4 million	16%
Training Places	\$14.2 million	5%

From the revised budget allocations, providers are also expected to meet 2008 building certification standards for aged care residences, imposed by the Federal Government in 1997. These standards specify that:

- existing facilities can have an average of no more than two beds per room with a maximum of 4 beds in any room; and
- new facilities must average no more than 1.5 beds per room with a maximum of 2 beds in any room.

Unfortunately, when the Government set the certification standards, no provision was made for the increased operating costs associated with reducing the number of residents per room. Meeting the certification standards will place further strain on operators.

Virtually all the budget allocations come with extra red tape and extra cost involved for providers.

ANHECA priority issues

On behalf of the industry, ANHECA 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 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.

ANHECA 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.

ANHECA 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 Budget 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, ANHECA 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 the same and that refundable accommodation deposits for high care be introduced.

ANHECA 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;
- 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.

ANHECA 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. Concessional Supplement

Hogan recommended the concessional supplement be raised to at least \$19 per resident per day. The Budget response was to raise it to \$16.25 only.

ANHECA 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 in 2004 dollars.

2.1.3. Accommodation Charge

Similarly, Hogan recommended that the accommodation charge for high care be lifted to \$19.00. The Government raised the charge to only \$16.25. ANHECA 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. ANHECA 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.

ANHECA strongly supports Hogan's recommendation for the Accommodation Charge and the Concessional Resident Supplement to be increased immediately to \$19 per resident per day for 2004-05 and indexed at the same rate each year thereafter.

ANHECA 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.

ANHECA 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.

ANHECA is concerned that the Hogan recommendation now adopted by Government will cause similar problems as those prevalent in the 1980's. ANHECA 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 budget has now pushed that date out to 1 July 2006 - two years later than promised.

ANHECA 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. ANHECA 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.

ANHECA 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.

2.4. Accreditation

Accreditation of aged care facilities in Australia is monopolised by the *Aged Care Standards and Accreditation Agency* established in the 1997 reforms of the sector.

ANHECA does not believe that the sector is well served by the monopolistic position given to the Agency.

In addition, ANHECA does not believe that a quality improvement organisation can also undertake the task of being an effective compliance monitoring organisation.

An organisation can either be one or the other, not both.

ANHECA supports the redesign of the existing accreditation arrangements and believes the sector should be opened up to competition from among those JAS-ANZ accredited organisations that can deliver the necessary service (in accreditation only).

2.5. Improved complaints resolution practices

The Aged Care sector tends to the needs of a vulnerable section of the community, who must be protected. However, it is vital that they are protected by a system or scheme, which is transparent and offers procedural fairness for all parties.

The Complaints Resolution Scheme (CRS), introduced as part of the 1997 legislative reforms, is a service provided by the Department of Health and Ageing, which allows any individual to lodge a complaint against a government funded aged care residential service, flexible service and community aged care package.

The current scheme very much favours the complainant. Complaints can be made anonymously, which invites abuse from disgruntled ex-employees, unions or families in dispute with each other.

Accreditation standards for the industry require internal complaints resolution procedures and processes. In those instances where complaints cannot be resolved internally, an objective, neutral external body should mediate.

The complaints process must allow the provider the opportunity to respond to the matter in the first instance. After that, the complaint management service must fulfil an investigative function to ascertain the facts. Due process must then be observed and this process must be well defined to all parties.

ANHECA believes there should be a complete overhaul of the existing complaint resolution scheme to ensure that the scheme provides procedural fairness to all parties.

ANHECA supports external arbitration of complaints (where internal resolution is not possible) under a fair and transparent process.

2.6. Extra Services

The Government currently has a ceiling/target to increase the number of extra service places to 15 per cent of the sector. After eight years the number of extra service places is below four per cent, which begs the question – why has there been such a poor uptake in this part of residential care?

The simple answer is that major barriers have been placed in the way of providers who have tried to develop extra service facilities.

Though an effort has been made to reduce some of these barriers over the past year, for which ANHECA commends the Government, there remain a number of unnecessary impediments.

ANHECA calls for the further liberalisation of extra service places and in particular, supports the removal of the current five year period of approval limitation.

2.7. Aged Care Approvals Rounds

The Government announced in the 2004-05 budget that an additional 27,000 aged care places would be allocated over the next three years. They also announced that, in future, the Government will indicate to the sector where the allocations are likely to be, on a regional basis, three years in advance.

ANHECA welcomes this improvement to the allocation process however does not believe that it goes far enough. For some time ANHECA has called for allocation of places to be made in principle three years in advance. Providers who are approved in principle would be required to meet agreed milestones (such as local government approval, land purchase, building contract and finance) by set dates. Provided these milestones are met, the approval in principle would be converted to full approval.

Failure to meet the milestones would mean removal of the approval in principle in favour of the second placed candidate.

ANHECA believes that such a scheme would have the benefit of removing much of the lottery element that currently surrounds the system. It would also have the benefit of allowing providers to plan with much greater certainty and assurance.

ANHECA supports approval in principle of new aged care places three years in advance, with the proviso that agreed milestones must be met or the approval in principle will be lost in favour of another applicant.

2.8. A fairer taxation system

2.8.1. 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.

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

2.8.2. Streamlined treatment of FBT

Government pays a single subsidy to aged care providers no matter their ownership type and expects exactly the same quality of care and service from all aged care providers.

In 2000, when the GST was introduced, Government was able to apply the tax on the same basis to all providers of Government funded residential care.

In contrast, FBT arrangements within the residential care sector allow the voluntary sector, which is not subject to FBT, greater scope to enhance employee salary and wages through salary sacrifice.

ANHECA supports the extension of FBT arrangements to any provider of Government funded aged care services whatever their ownership type.

3. Making Aged care a better place to work

3.1. Restructuring the work force

The 2003 National Institute of Labour Studies survey of the aged care workforce revealed a highly motivated workforce, dedicated to the provision of high quality care. However, the survey also clearly indicated a workforce demographic, which is ageing rapidly. Unless solutions are found soon to alleviate the attrition caused naturally from an ageing workforce the problem will become endemic.

In addition the survey also clearly demonstrated that particularly among registered nurses, the major deterrent to working in the sector is the volume of red tape with which nurses must contend. Nurses coming from the acute sector cannot believe the red tape environment that exists in residential care and in fact many immediately flee back to the acute sector, having experienced this aspect of residential care.

ANHECA considers this aspect of our workforce situation doubly perplexing when one of the major issues for staff turnover is substantially caused by the Government's own validation processes imposed on the industry to satisfy accountability for the expenditure within the residential care programme.

Other parts of the Australian health care system with much larger government outlays do not have imposed upon them this highly intrusive, subjective and inspectorial process.

ANHECA recognises that workforce planning is not a short term issue, however, we also recognise that it is unlikely that the status quo will deliver the necessary staff with the appropriate skills mix for the future.

ANHECA supports a radical review of the structure and form of the future residential workforce to ensure the long-term viability of the sector and its capacity to deliver adequate care.

3.2. Competitive wages for aged care workers

Until aged care facilities are receiving the appropriate levels of funding, wage rates in the sector will suffer. While this is the case, top end nursing staff will not be attracted to work in aged care.

The aged care sector must have the financial strength to offer competitive wages to nursing staff. Until this time, there will continue to be an overall shortage of registered nurses in the industry.

The 2004-05 budget provided \$101 million over four years for the development of additional aged care nursing scholarships, training of enrolled nurses particularly in enhanced medication management and the development of language skills among general staff.

These budget measures are to be applauded.

However, the nurse training scholarships are unlikely to deliver one additional registered nurse in less than five years and even then there is no absolute guarantee the these nurses post graduation will take up positions within the residential care sector. Every attempt will need to be made to secure mentors and quality clinical placements, which will ensure a strong positive experience for each of these undergraduates.

We must build an industry that can afford the best possible staff and resources to provide the highest level of care.

ANHECA believes that nurses and carers require competitive remuneration in recognition of their unique skills. Government must support the payment of competitive wages in the sector by paying sufficient subsidy. COPO indexation is insufficient to meet this requirement.

3.3. 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.

ANHECA 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

4. Cabinet portfolio for Aged Care

The radical changes in the Australian population demographic over the next fifty years means that all future governments must ensure a whole of government approach to aged care issues covering retirement incomes policy; social security services; housing for the elderly and residential care.

ANHECA believes that to achieve this whole of government approach and to ensure that related aged care issues are captured during debate on policy issues at the highest levels of government there is a real need for the creation of a senior cabinet position encompassing all aspects of the ageing population.

ANHECA supports the creation of a senior cabinet position, charged with the responsibility for aged care, retirement incomes policy; social security services, housing, health and transport for the elderly.



ANHECA Contact Details

Federal

PO Box 335
Curtin ACT 2605
Telephone: 02 6285 2612
Facsimile: 02 6281 5277
Website: www.anheca.com.au

NSW

ANHECA NSW
PO Box 7
Strawberry Hills NSW 2012
Telephone: 02 9212 6922
Facsimile: 02 9212 3488
Website: www.anhecansw.com.au

South Australia

ANHECA SA
5/259 Glen Osmond Road
Frewville SA 5063
Telephone: 08 8338 6500
Facsimile: 08 8338 6511
Website: www.anhecasa.com.au

Victoria

Aged Care Association of Vic
2/1949 Malvern Road
Malvern East VIC 3145
Telephone: 03 9885 0388
Facsimile: 03 9885 0347
Website: www.agedcarevic.com.au

Western Australia

ANHECA WA
6/11 Richardson Street
South Perth WA 6151
Telephone: 08 9474 9200
Facsimile: 08 9474 9300

Queensland

Aged Care Queensland
PO Box 995
Indooroopilly QLD 4068
Telephone: 07 3725 5555
Facsimile: 07 3715 8166
Website: www.acqi.org.au

Tasmania

ANHECA TAS
PO Box 198
Kings Meadow TAS 7249
Telephone: 03 6344 5701
Facsimile: 03 6343 1035