31 January 2019

Senator the Hon. Zed Seselja
Assistant Minister for Treasury and Finance
PO Box 6100
Senate
Parliament House
CANBERRA ACT 2600

Dear Senator,

I write in response to your invitation for submissions concerning priorities for the 2019-20 Budget.

As Australia's largest non-government provider grouping of health and aged care services, providing care to all those who seek it in fulfilment of the Catholic Church's mission, Catholic Health Australia and Catholic service providers have a vital interest in policies aimed at ensuring the sustainable provision of aged care services that meet community expectations for safety and quality of care and quality of life.

Catholic Health Australia's pre-Budget submission for the 2018-19 Budget prioritised the Government's response to the recommendations of the *Legislated Review of Aged Care*, a mid-term report by David Tune AO PSM on the implementation of the *Living Longer Living Better* (LLLB) package of aged care reforms.

The recommendations of the *Legislated Review* are designed to move aged care further towards a sustainable and more consumer-focused demand-driven system. This includes by targeting a better understanding of demand and consumer preferences and greater flexibility to respond to consumer preferences; providing support for consumers to exercise informed choice of services that meet their needs; strengthening eligibility and needs assessment; requiring those with the financial capacity to contribute more to the cost of their home care and care in aged care homes; and supporting access by all who need care, especially special needs groups.

Catholic Health Australia acknowledges and supports the measures included in the 2018-19 Budget and the 2018 MYEFO that address many of the above matters. These include:

- increasing the proportion of higher level home care packages within the current overall service provision target,
- creating a single appropriation item for home care and residential care to enable greater flexibility to direct available funding in response to consumer preferences,

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- in-principle support for, and funding to plan the extension of 'funding following the consumer' for home care packages to residential care,
- funding trials of outreach service models to help consumers make informed choices about aged care services that meet their needs,
- a commitment to strengthen and simplify eligibility and needs assessment processes, including by integrating the workforces comprising Regional Assessment Services and Aged Care Assessment Teams,
- funding for a review of the Multi-Purpose Service model to improve its effectiveness in providing health and aged care services for small rural communities and additional funding for rural and remote services, and
- reform of the Pension Loan Scheme

Catholic Health Australia also notes that following the Carnell/Paterson Report, the Government is implementing significant enhancements to the regulatory quality framework for aged care.

As well as prioritising the implementation of the above Budget and MYEFO measures stemming from the *Legislated Review* and the Carnell/Paterson Report, more needs to be done to implement recommendations of the *Legislated Review* aimed at strengthening the sustainability of future aged care services. These measures do not need to await the report of the Royal Commission into Quality and Safety in Aged Care.

Sustainable aged care services

Although the *Legislated Review* found that there is currently insufficient data to make accurate estimates of future demand for aged care services, the *Review* concluded that as the baby-boomer generation ages, a significant growth in service provision and expenditure will be required. It noted that Australia's population aged 65-84 and 85 and over will, by 2054-55, increase by 4 million to 7 million and by 1.5 million to 2 million respectively.

Even based on the current service provision target, which will not meet demand, government spending on aged care services is estimated in the Intergenerational Report to almost double to be 1.7% of GDP by 2054-55.

Government currently funds 97% of the cost of home care packages, 94% of care costs in residential aged care and 90% of the cost of home support (the Commonwealth Home Support Program). It is unlikely that future governments will be able to continue to meet this proportion of costs while at the same time respond to increasing demand associated with the ageing of the population and rising community expectations about the quality of life and care for the frail aged.

Catholic Health Australia would support action to implement the recommendations in the *Legislated Review* designed to improve the sustainability of aged care services. A practical option would be to reciprocate increased government spending with increased contributions by those with the financial capacity to contribute more, complemented by increased consumer choice and control and an effective regulatory framework to support quality and safety.

The *Legislated Review's* recommendations in question include:

- Including the full value of the consumer's former home in the means test for residential care when there is no protected person in that home. Savings would accrue to the Budget and provide greater scope to meet the cost of increasing demand as Australia's population ages, and to support those with lesser means.

- Abolishing the annual and lifetime caps on income tested care fees in home care and means tested care fees in residential care.

- Allowing residential providers to charge non-low means residents a higher basic daily fee for everyday living services, with amounts over $100 per day to be approved by the Aged Care Pricing Commissioner. Fees for everyday living services for all residents are currently capped at 85% of the single age pension. The cap limits the quality of life for residents that can be supported and the ability of providers to respond to community expectations. The current regulations allowing fees for 'additional' services are confusing for providers and consumers, and are no longer fit for purpose.

- Requiring providers to charge the basic care fee in home care and make the value of the basic care fee proportionate to the value of the home care package.

- Introducing mandatory consumer contributions for services under the Commonwealth Home Support Program. Fees could be proportionate to the value of services, as recommended by the *Legislated Review* for home care packages.

Matters arising since the *Legislated Review*

There are also a number of issues that have gained prominence since the *Legislated Review* which require attention in the 2019-20 Budget. In particular the deteriorating financial performance of residential aged care providers, the queue for home care packages and the increasing amount of unspent home care package funding held by approved providers.

These issues also do not need to await the outcome of the Royal Commission.

1. *The deteriorating financial performance of residential aged care providers*

Both the Aged Care Financing Authority (ACFA) 2018 Annual Report and the quarterly financial performance surveys undertaken by the accounting firm, StewartBrown, have identified a decline in financial performance of residential aged care providers since changes to the Aged Care Funding Instrument (ACFI) were progressively introduced since July 2016 and indexation was withheld for 2017-18. StewartBrown's survey indicates that the proportion of facilities operating at a loss (negative earnings before tax) increased to 45% in 2017-18 (from 33% in 2016-17), rising to 63% for outer regional and rural and remote services. This result largely reflects that the average daily ACFI for 2017-18 ($172.23) was the same in nominal terms as that for 2016-17, whereas direct care costs per bed day alone increased by 4.3%. As well, average ACFI expenditure is normally budgeted to provide for some real increase as the level of acuity of residents still continues to increase.

Catholic Health Australia notes ACFA's analysis (2018 Annual Report) that since it was introduced in 2008-09, the ACFI care funding tool has resulted in pronounced volatility in annual funding per resident per day above indexation, ranging from 2.1% to 8.1% which is problematic for government Budget management and financial management by providers. ACFA's analysis also shows that the indexation applied to care subsidies has been noticeably lower than growth in a range of cost price indices. In particular, wages (which account for 68% of total provider costs) as measured by WPI Health Care and Social Assistance have grown approximately twice as fast as ACFI prices since 2008-09.

In the absence of a market mechanism to determine care prices which reflect productivity gains driven by competition in the provision of services, the current indexation formula is intended to mimic the movement of prices in a competitive service environment. Not only is it failing to do this, but its premise is increasingly misplaced as the provision of aged care services is becoming more competitive as the supply of aged care places, especially the proportion that is home care, increases. Occupancy levels for aged care homes have been, on average, trending down.

The Government is currently reviewing alternative funding models to replace ACFI, including introducing independent external assessment of funding claims under any new funding model. Early indications are that the ACFI is likely to be replaced in the medium term, with the timing linked to the time needed to put in place a reliable external assessment workforce. In the meantime there is a need to address the deteriorating financial performance of residential aged care providers which, inter alia, is contributing to a decline in investment in residential aged care to build new stock and to refurbish older stock that meets current community expectations.

In the medium term, the government response to the current challenges facing the funding of care in residential care is likely to be in the context of implementing a new funding model and, if Catholic Health Australia's priorities for reform are accepted, in association with moves to increase consumer contributions by those who can contribute more to the cost of their care.

In the meantime, Catholic Health Australia recommends that the 2019-20 Budget includes:

- a commit, as part of a new funding model, to developing and implementing an indexation formula that more appropriately reflects the growth of costs, noting that the residential aged care sector is increasingly operating in a market that is as competitive as other sectors of the economy, and

- restoration of full indexation of the Complex Health domain of ACFI backdated to 1 July 2018 in order to relieve current financial pressures on residential care providers.

2. Home care package queue

Introducing the national prioritisation queue for home care packages in February 2017 is providing, for the first time, a measure of unmet demand for home care.

The latest available data indicates that at 30 September 2018, there were 69,086 people waiting for their approved level package, but who had not yet been offered a home care package, and 57,646 who had been offered an interim home care package while they wait for a package at their approved level. This compares with 91,847 people with a home care package at 30 June 2018, many of whom are holding packages below their assessed care needs, and a target provision ratio of 151,000 to be achieved by 2021-22.

Catholic Health Australia acknowledges that as a result of recent decisions, the balance of high and low level packages is on track to be 50/50 by 2021-22, and that the proportion of high level packages will be higher sooner than originally budgeted as a result of recent Government decisions.

However, Catholic Health Australia highlights that these measures, including achieving a provision target of 151,000 by 2021-22, do not address the immediate needs of the 69,086 people who have been approved for a home care package but who have not yet been offered a package. Catholic Health Australia considers that there is not only a case for re-balancing the proportion of higher and lower level packages, but also to bring forward the achievement of the 151,000 service provision target to address the large number of people waiting for an offer of a home care package.

3. *Unspent home care package funds*

The policy objective of allowing consumers to use their individual package flexibly, including to maintain a contingency amount, is appropriate. However, in practice, this flexibility is proving problematic for the following reasons:

- Unspent funds held by providers constitutes a large amount of Commonwealth funds that is not being used for care services, while adding to Commonwealth debt. Even as long ago as June 2017, unspent funds were estimated by the Department of Health at $329 million (or $4,600 per package). The September 2018 quarterly survey of home care providers by StewartBrown indicates the amount of unspent funds per package has increased to $6,720. Unless consumer behaviour changes, which is unlikely, the amount of unspent funds will grow substantially in the medium term as the total number of packages and the proportion of higher level packages almost doubles.

- The requirement for providers to administer and account for individual consumer's unspent funds, and to hold those funds securely in trust, introduces considerable regulatory-related costs that diverts resources away from service delivery. These regulatory costs will be featured in the service pricing comparability table to be included on My Aged Care.

- It may create a perverse incentive for package funds to be accumulated and used for purposes not germane to providing appropriate care and support.

- The large amount unspent funds held in trust by providers creates a significant contingent liability for the Commonwealth.

One option is to cap the amount of a package that may be held as a contingency. However, a more efficient ongoing solution would be to introduce a debit card, which could also include a cap on the amount that can be held as a contingency, if desired.

In the circumstances, Catholic Health Australia recommends that the Budget includes a commitment to the inclusion of debit card functional in the new aged care payments system which is currently being developed.

Thank you for the opportunity to put forward our ideas on aged care priorities and for considering our submission. If you or your staff wish to discuss matters we have raised, please contact our Director of Aged Care, Nick Mersiades, at nickm@cha.org.au or on 0417 689 626.

I am copying this letter to the Minister for Health, the Minister for Aged Care and the Minister for Finance.

Yours sincerely,

Suzanne Greenwood LLM LLB FAIM MAICD MCHSM
Chief Executive Officer