
1 Introduction

1.1 Why a study of trends in aged care?

Over the last decade or so there has been a growing realisation that aged care policy is facing considerable challenges. In particular, the need to provide aged care to a significantly larger number of older people (both in absolute and relative terms) over the next 40 years raises questions about the sustainability of current financing arrangements and regulatory settings. As recognised by the OECD (1996, p. 3), these challenges are not unique to Australia:

All industrial countries are experiencing demographic ageing, with considerable consequences for public policy. As the numbers in the oldest age groups grow, the level of resources devoted to the care of frail elderly people rises dramatically. Consequently, long-term care policy has assumed a far higher profile in recent years in OECD countries.

Significantly, the challenges will be magnified by the increasing diversity of older people in terms of their care needs, preferences and affluence. For example, the ageing of Australia's population will give rise to a significant increase in the number of older Australians with dementia and other disabling conditions, with flow-on implications for aged care services and the aged care workforce. At the same time, a growing number of aged Australians prefer independent living arrangements supported by a mix of formal community care services and informal care. Reflecting this, there is growing interest in the implications of these and other developments for the future range of aged care services, their flexibility and quality, and for the workforce who provide these services.

These developments have, in turn, led to a renewed debate about the adequacy of Australia's aged care system in its current form. Notwithstanding recent policy changes to improve the sustainability of aged care services, many observers believe that without further reform, Australia's aged care system may have difficulty providing quality services for the growing number of older citizens which meet their increasingly diverse care needs and preferences.

In this context, the Hogan Review (2004), which was charged with examining the long-term prospects of the residential aged care industry (particularly, in relation to sources of funding and pricing arrangements), proposed a series of immediate,

medium and long-term reforms. There remain some important areas of ‘unfinished business’ arising from the review’s proposed reform agenda, notably in relation to accommodation payments for residential care and the provision of greater choice for consumers.

In 2004, research and actions to strengthen community care were outlined in *A New Strategy for Community Care: The Way Forward* (DoHA 2004a). The strategy identified a number of areas for improvement including addressing gaps and overlaps in service delivery, providing easier access to services, enhancing service management, streamlining Australian Government programs and adopting a partnership approach. Complementing this initiative a *Review of Subsidies and Services in Australian Government Funded Community Aged Care Programs* was initiated by the Australian Government in September 2006. The review was charged with examining areas where the current structure of community care programs and funding arrangements could be refined and service delivery improved, with a view to developing a more integrated set of aged care services. The review is expected to be completed later this year.

The recent change of government has seen the commissioning of further reviews and investigations into other aspects of the aged care industry:

- the National Health Reform Commission is to report by June 2009 on a long-term health reform plan to, amongst other things, better integrate acute and aged care services and improve the transition between hospital and aged care
- the Department of Health and Ageing is to undertake a review of the ongoing need for and level of the conditional adjustment payment to residential care providers
- the House of Representatives Standing Committee on Family, Community Housing and Youth has announced a parliamentary inquiry to investigate how carers can be better supported in their vital role.

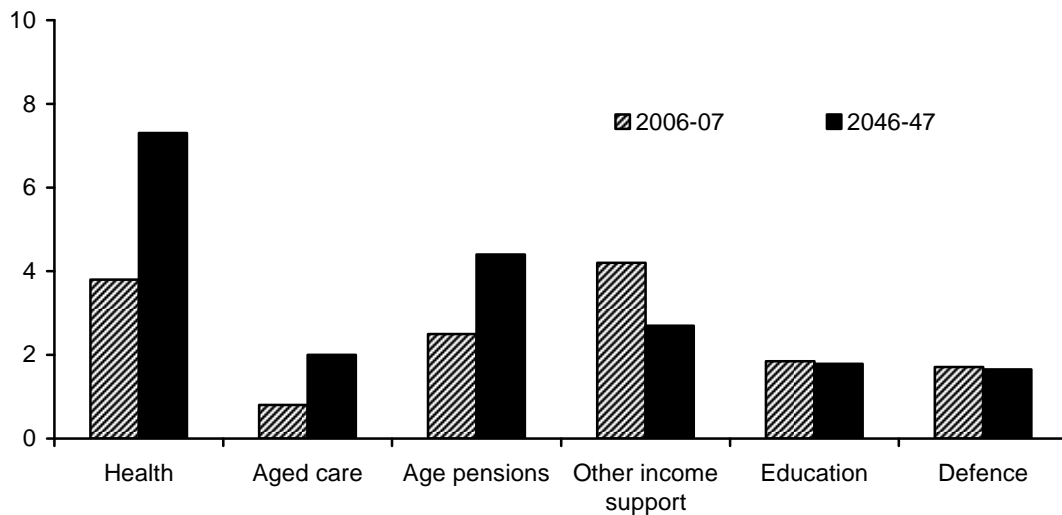
A new Ministerial Council on Ageing directed at facilitating ‘a consistent and coordinated approach to ageing and aged care policy across all levels of government, including reduced duplication of effort and better continuity of service delivery,’ was established following the March 2008 meeting of the Council of Australian Governments (COAG 2008, p. 8).

There has also been a recognition of the broader public policy challenges posed by population ageing. The Australian Treasury has highlighted the implications of population ageing for Australian Government expenditure through its Intergenerational Reports. The first report (Treasury 2002) identified seven priorities for ensuring fiscal sustainability — including developing an affordable and effective

residential care system that can accommodate the expected growth in the number of people aged 85 years and over.

The latest report (Treasury 2007) estimated that, under current policy settings, Australian Government expenditure on aged care (including for people aged less than 65) will increase from 0.8 per cent of GDP in 2006-07 to around 2.0 per cent in 2046-47. The report also observed that spending on health and aged care will account for much of the projected rise in overall spending over the next four decades (figure 1.1).

Figure 1.1 Projections of Australian Government expenditure by category
Per cent of GDP



Data source: Treasury (2007, p. 77).

The Commission's objectives in undertaking this study

The Commission has played a role in contributing to an improved understanding of the aged care sector and the challenges it faces. Specifically, it has undertaken inquiries and commissioned research such as *Nursing Home Subsidies* (PC 1999) and the *Economic Implications of an Ageing Australia* (PC 2005b), as well as supporting research including *Long-Term Aged Care: Expenditure Trends and Projections* (Madge 2000) and the *Productivity Commission Submission to the Review of Pricing Arrangements in Residential Aged Care* (PC 2003).

In light of the challenges outlined above, the Commission considers there is an opportunity for it to further contribute to informed debate in this important area of social and economic policy.

The focus of the present study is on trends in the demand for, and supply of, aged care services and their implications. Specifically, the study's objectives are to:

- analyse key demand and supply influences and the likely consequences of emerging trends for the future structure and mix of aged care services (the range, flexibility and quality of formal and informal services)
- examine the implications of changes in the structure of services for the future aged care workforce (nurses, doctors, ancillary staff, carers and volunteers)
- draw on overseas experiences covering consumer centred care arrangements to help identify approaches that may be worth further consideration in the Australian context.

It is intended that the study will inform governments and the broader community about likely developments over the next four decades. However, while it is anticipated that the research results will feed into policy debate, the study does not make any recommendations.

During the course of the study, the research team consulted a number of industry stakeholders to assist it to explore challenges associated with providing aged care services in Australia.

1.2 Some key terms

As a backdrop to the remainder of this study, this section clarifies the meaning of some key terms — such as the ‘the aged’, ‘aged care services’ and the ‘aged care system’.

Typically, ‘**the aged**’ are defined as those persons aged 65 years or over, and this broad definition is used in the current study. However, people included in this population grouping are far from homogeneous. For example, there are significant differences in living arrangements, family circumstances, income and wealth, social practices and health status. Reflecting these differences, there are important variations in the needs of the aged and in their use of aged care and other community and health related services. Although age itself is far from an accurate guide to these differences, it can be useful to distinguish between different age groups among the aged when examining trends in demand for aged care services. Reflecting this, the study sometimes draws a distinction between three subsets of the aged: those aged 65–74 years (the ‘young old’), those aged 75–84 years (the ‘middle old’), and those aged 85 years and over (the ‘old old’).

‘Aged care services’ are generally taken to include a number of care modes, the main forms of which are:

- community care, which is provided mainly in the care recipient’s own home, often with the assistance of informal carers in concert with formal community care service providers
- residential care (encompassing both low care ‘hostel’ and high care ‘nursing home’ facilities).

In providing these and other services, the **‘aged care system’** incorporates many different players, governance arrangements, layers of regulation and payment and incentive mechanisms. In common with other complex social product systems — such as the health and education systems — there are a number of subsystems within aged care (for example, community care, residential care and respite care). There are also important interfaces between aged care and other social policy areas.

Wherever possible, the Commission has sought to take a system-wide perspective in this study, looking at aged care in a holistic way. The study also considers the interaction between care modes, and between the aged care system and the health, disability and housing systems.

1.3 Guide to the study

The study comprises a further six chapters as follows:

- a profile of the aged care system which provides a snapshot of the sector and summarises some important changes over the past decade (chapter 2)
- a consideration of factors shaping the future demand for aged care services and what they imply for the future provision of care (chapter 3)
- an examination of emerging challenges in securing desired outcomes in relation to equity, efficiency and sustainability in aged care (chapter 4)
- issues associated with quality and choice notably in relation to challenges arising with securing a more consumer oriented approach to aged care (chapter 5)
- challenges in adapting the workforce to changes in the makeup and composition of aged care services (chapter 6)
- opportunities to secure future productivity improvements (chapter 7).

An overview of recent initiatives aimed at improving the financing and provision of aged care services is presented in appendix A.

