Australian Government
Department of Health and Ageing

Second Submission to

the Productivity Commission Inquiry
Caring for Older Australians

from the Department of Health and Ageing

March 2011

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1. Introduction

1. The Department of Health and Ageing welcomes the opportunity to comment on the Productivity Commission's draft report *Caring for Older Australians*. The Commission's draft report includes proposals for far-reaching reform and significant structural change to the funding and provision of aged care services. The Department acknowledges the comprehensiveness of these proposals and the quality of the underpinning analysis, which is coherent and well thought through with a view to addressing the major challenges facing the aged care system. As the Commission itself acknowledges there are some areas of its proposals that require further development. This Submission seeks to assist the Commission's further consideration of these issues by providing an implementation perspective which identifies, without prejudice, issues that would benefit from further analysis or elaboration.

2. Encouraging more consumer-centred care

2. The Department notes that the Commission's proposal to establish a new Australian Seniors Gateway Agency is consistent with the Australian Government's current initiatives to develop a new front-end for the proposed new national aged care system, announced in April 2010. The Commission's proposals, like the Government's current reforms, are also underpinned by a focus on enabling more consumer-centred care, including greater choice for consumers and, where possible, the ability for consumers to direct their own care. While the Commission's proposal for the Australian Seniors Gateway Agency goes further than current plans for the new front end of aged care in also determining the precise level of subsidy that should be available for each care recipient as part of the assessment of need, it would provide a similar range of functions, including:

- information and referral, linking aged care with a range of other relevant services;
- basic needs assessments of care recipients and their carers;
- establishing eligibility for a range of residential and packaged aged care; and
- a range of care co-ordination and review functions.

3. Subsequent to the Commission's report, there has been another meeting of the Council of Australian Governments, on 13 February 2011, which has confirmed directions in this area. All jurisdictions have now agreed to pursue further reforms to consolidate funding and policy responsibility for aged care at the Commonwealth level, including managing the front-end to the aged care system. The Government's National Health Reform agenda places a strong emphasis on Medicare Locals and Local Hospital Networks in achieving integration between primary care, acute care and aged care services at the local level. In developing the new front end to aged care, a key area of focus is how to best link aged care services with these new structures in providing referrals to health care services and creating clear hubs, linkages and

transition points through which older people can access a range of health and aged care services.

4. Another area of interface with the wider health care system that requires further consideration is the role of aged care providers in the provision of psycho-geriatric and palliative care. The majority of older people with dementia or cognitive impairments are successfully cared for in both community and residential aged care settings. However, there is a small group of older people with more severe psycho-geriatric disorders who sit at the nexus of the acute, mental health and aged care systems, and who require high levels of care, including access to specialist psychiatric care. Concerns have been raised that recent developments in the acute and mental health sectors have increased pressure on the aged care sector to meet the needs of this group. Some states and territories have invested to different degrees in initiatives to assist aged care providers, although access varies significantly across the country.

5. Similar issues apply in relation to palliative care. Palliative care is provided through a complex set of arrangements, in a number of environments: hospitals, hospices, aged care homes and private residences. It is also delivered by a variety of providers such as specialist palliative care services and non-specialists such as GPs, home nursing services and medical specialists such as oncologists, geriatricians and pain management specialists. There is a significant variation in delivery approaches and access across jurisdictions. As the Commission has highlighted, older people are sometimes transferred to acute care hospitals for pain management and palliative care, due to insufficient expertise or support being available in the residential or home environment.

6. The Department considers that the Commission's report would be strengthened by further consideration of these issues and of mechanisms to ensure that older people receiving community or residential aged care services can access specialised psychogeriatric and palliative care services as needed, noting that many aged care providers do not have the capacity to provide these services and that, in any case, it may unnecessarily complicate the aged care funding arrangements for these services to be financed through the aged care system.

7. With respect to the Commission's proposals to enhance consumer directed care, the Department is currently undertaking and evaluating a trial of Consumer Directed Care in community care packages and the National Respite for Carers Program. These trials are revealing many of the positives for care recipients and their carers of a greater emphasis on consumer directed care as well as highlighting some of the significant challenges associated with the movement towards increased consumer-directed care, particularly for people who are not able to exercise that choice including those who access care on an emergency basis or have some cognitive impairment. A significant proportion of complex health assessments need to be urgently undertaken to address a crisis or breakdown in care arrangements for care recipients and their carers. In 2008-09, around 36 per cent of admissions into packaged community or residential care followed an aged care assessment in hospital, including around 42 per cent of admissions into residential care and 13 per cent into packaged community care.

3. Financing the increasing costs of aged care

8. The Commission's reform proposals recognise the need to finance the increasing costs of care into the future, through a new proposed co-contribution regime that would include the family home in the means test for determining what consumers contribute towards the costs of their care in both community and residential settings. They also provide for the impact of this change to be moderated through its proposed pension bond and home equity release schemes. This element is important in removing perverse incentives for consumers to pay higher accommodation bonds. However, it could also have a significant impact where there is a spouse or dependent also living in the home.

9. The distributional impact of the proposed new co-contribution regime relative to current arrangements may also need further consideration. While the proportion of care recipients making a significant contribution would increase from around 15-25 per cent to 70 per cent under these proposals, charges for residents on higher incomes would decrease due to the proposed stop-loss mechanisms. For example, current arrangements allow for residents with very high incomes to pay up to $50,000 per year towards their care costs, and potentially several hundreds of thousands of dollars over their full period in care, significantly higher than the Commission's indicative lifetime stop-loss limit of $60,000.

10. The Commission may also wish to give further consideration to the implications of its proposals for residents entering care on an emergency basis. Residents admitted to high care services are more likely to enter care in an emergency situation following an acute incident, with more than 60 per cent of admissions coming from hospitals. In such cases, prospective residents and their families are likely to face additional pressures in rearranging their financial affairs and accessing appropriate care and accommodation. There is also a significant group within that population who stay in care only for a very short time and who are less well placed to benefit from improved choice in accommodation, and may be more vulnerable in negotiating entry to care in an environment with less price controls.

11. The Department also notes that the Commission's proposal that residents have the choice to pay an accommodation charge through a period rather than lump sum payment is already part of the current accommodation bond arrangements for low care. Even with such a requirement, there is a risk that care recipients who choose to make a periodic payment may be less 'attractive' to providers and face additional difficulties in negotiating access to care.

4. Transition issues and potential areas of market failure

12. Implementation on the scale proposed by the Commission always poses many categories of risk. While the Commission has presented an outline of a transition plan which it acknowledges is not fully developed, the Department would like to see a more comprehensive transition plan developed, noting that further work will inevitably be required. In outlining the transition plan the Commission is encouraged to include a clear statement of risks.

13. In particular, as supply grows, there would be potential for increased pressures on existing providers, with the Commission acknowledging the likelihood of increased turnover among providers. How to manage the impact on industry will be an important consideration. The closure of just one aged care service, for whatever reason, can create a range of practical problems. As well as the need to relocate and ensure continuity of care for residents, which can require considerable resources to manage, there are financial risks to consider, given the Government in effect underwrites providers' accommodation bond liabilities through the current bond guarantee scheme. Current holdings exceed $10 billion. Given that mismatches between the refunding and receipt of accommodation bonds can give rise to cash-flow and liquidity problems, there are potentially significant risks here.

14. Clearly, an important element underpinning the Commission's reform proposals is that the changes will engender a positive response from the market, with competition leading to greater consumer choice and efficient pricing. However, as the Commission acknowledges, some areas of market failure are inevitable. Further consideration could be given to how to address these issues. In particular it is worth noting that almost 40 per cent of aged care services, representing more than 30 per cent of places, are located in such areas, which is a significant achievement noting that these areas account for around a third of the population. Effectively, residing in a rural and remote area does not constitute a significant disadvantage in terms of accessing aged care services.

15. The current planning framework plays a critical role in supporting these outcomes, by enabling the government to target growth in services to those areas with the highest need in terms of available services relative to the target population. While the Commission acknowledges the need for alternative mechanisms such as tendering to be considered in some locations, the possible scale of such issues and logistics involved in developing such arrangements warrant further consideration. Another strength of the current planning framework is that it takes into account the capacity of providers to meet special needs in allocating new places, complemented with other strategies such as capital funding and service development at the local level. In some cases the Department has had to work closely with communities and providers over a number of years to develop services, including in remote Indigenous communities. It would be useful if the Commission could give further consideration to how the strengths of the current arrangements might be maintained under its reform proposals and to developing a broader set of strategies to ensure special needs groups continue to have access to appropriate aged care services in a more deregulated environment.

16. The Department also notes that the proposed grand-parenting arrangements would constrain the ability of existing providers to respond to a more competitive market environment at least in the short to medium-term, and potentially place them at a disadvantage in having to compete with new entrants to the market who will not be subject to the same controls particularly on price and user charges. This would be an issue for a number of years, noting that there is a significant group of residents that are in care for long periods of time. As at December 2010, around 21 per cent of residents had been in care for more than five years and around 5 per cent for more than 10 years. A third of aged care homes had more than 25 per cent of residents who had been in care for more than five years. There are also practical limits on the capacity for residents of aged care homes to consider alternative service providers and significant transaction and other costs involved in making a decision to move to another home.

5. Other issues

17. Another critical issue is quality and the extent to which considerations and information related to quality are taken into account in the broader administration of the aged care program including in approving and allocating new places to providers. There are also currently strong linkages between complaints and compliance processes that support early identification of risks and problems relating to quality. Close linkages with policy and regulatory functions can also help in identifying and responding to emerging issues on an industry wide basis. It is not clear from the draft report that these linkages and how to best facilitate intelligence sharing between the various regulatory and policy functions have been sufficiently taken into account in the Commission's proposed new governance arrangements.

18. Finally, while the Commission has acknowledged that its proposals would have significant workforce implications, the Department considers these could be given greater emphasis. A key challenge, in particular, is how to respond to increasing acuity of residents, not only their physical but also more complex mental and behavioural needs. Other key issues include implications for training, how it is delivered and what investments in critical infrastructure may be needed, including implications for the role of Health Workforce Australia (HWA) and other existing agencies, noting HWA's focus is currently primarily in the tertiary arena. Another area that could be explored is implications for workforce roles and the role and scope of practice of different health professionals working in aged care.