3 August 2020

Consultation paper two: Financing aged care

The Victorian Healthcare Association is the peak body supporting Victoria's public health services to deliver high-quality care. Established in 1938, the VHA represents the Victorian public hospitals, registered community health services, multi-purpose services, and bush nursing services.

Overview of the public aged care system in Victoria

The Victorian public health system is the largest provider of public aged care in Australia, with 178 public sector residential aged care services delivering approximately 10 per cent of operational places across Victoria. Run by small and rural hospitals as well as larger regional and metropolitan health services, public sector providers of residential aged care are often co-located with acute services.

Over 89 per cent of all Victorian public sector residential facilities are in regional and rural areas. In some of these communities, the public sector is the sole provider of residential aged care services. Without public sector aged care facilities, many older Australians living in these areas would not have access to residential aged care services that meet their needs in, or near, their homes, families and communities.

In addition to residential care, many public health services and all the state's 28 registered community health services deliver the Home Care Packages (HCP) and a significant proportion of the Commonwealth Home Support Program (CHSP) in Victoria. These organisations deliver services across the CHSP spectrum including community and home support, care relationships and carer supports, assistance with care and housing, and tailor responses to the unique needs of the communities in which they operate.

Introduction

The VHA accepts, as outlined in the consultation paper, there is likely to be a significant gap between current funding levels and the expenditure required to meet the needs of a population with a higher proportion of older people. There will also be additional costs associated with implementation of substantial improvements in the quality and safety of aged care and that financing these improvements will require changes to how aged care is currently paid for.

The VHA does not profess to holding expertise in aged care financing, and as such, this paper does not directly respond to the consultation questions. Rather, it presents commentary on the issues raised in the consultation paper and key considerations for financing the aged care system from the perspective of public health and community health services in Victoria.

This submission intends to support the Royal Commission to consider the diverse needs of consumers and public sector providers as it develops and undertakes further modellings on the final recommendations on the financing of the aged care system to government. The submission in presented across two sections:

- Section one: Alternative approaches to aged care financing
- Section two: Implementation and transition issues

Response & consultation

Section one: Alternative approaches to aged care financing

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Minimal change

While the VHA understands that minimal changes to the status quo offers the simplest 'quick fix' solution, it is an unsustainable approach to financing Australia's aged care needs into the future. Further, we don't have to wait until the future to see that a gap already exists between the current funding arrangements and the needs of older Australians. Given the ongoing sustainability challenges facing the sector, the VHA would strongly encourage the Royal Commission to consider alternative financing models to the 'status quo' that will provide the stability and certainty providers and consumers need and align more closely to community expectations about what a safe, high-quality aged care system should deliver. What we know from the current experience is that the simplest solution today will become a problem tomorrow. This inquiry is an opportunity to fundamentally reform the financing mechanism and mitigate the risks associated with an unsustainable model to provide for the future aged care system that all Australians deserve.

Social insurance models

The consultation paper presents many ways of financing aged care in Australia including social insurance models, involving mandatory personal contributions to pooled funds managed by an Aged Care Insurance Commission or by private providers. In principle, the VHA understands the merit of a social insurance model for financing the aged care system and considers that this option would overcome many of the challenges currently faced by aged care providers including, by minimising the influence of changing and competing government priorities over time and the susceptibility of financing to political influence.

More broadly, the VHA does not support financing mechanisms that create a KPI-focused model, often associated with the privatisation of health and social services. The VHA considers that government should continue to play a role in the financing of the aged care system to achieve a higher-performing aged care system. This is particularly important to safeguard the delivery of services for at risk and vulnerable communities and ensure that providers who deliver care to these communities are not left 'worse off' under the new financing arrangements. The VHA agrees with the observations of the consultation paper that arrangements would need to be developed to ensure all Australians are able to participate in the scheme and to benefit from the universal provision of aged care, regardless of whether they have contributed financially to the scheme or not.

This is to ensure the inclusion of people unable to work, account for the issues presented for those working in insecure employment whose income did not meet a defined threshold, those temporarily out of work due, for example, to caring responsibilities and to account for the employment gap between, for example, Aboriginal and Torres Strait Islander and non-Indigenous people. The cost of inequitable application of the scheme could end up being even more of a financial burden on the system and could result in increased strain on emergency and acute health care rather than preventative, long-term aged care services; as socially and economically disadvantaged people may have more frequent gaps in their employment records and be more likely to experience poor health.[1]

There already exists an over reliance on hospital-based care. The ongoing inappropriate and ineffective use of the hospital setting is complex and the result of several systemic drivers including financial drivers, at both the consumer and system level. For example, demand for hospital-based care is influenced by the financial barriers experienced by individuals unable to finance their primary care needs as well as a lack of coordination and integration across the primary, secondary and tertiary settings largely influenced by the siloed nature in which these settings are currently financed.

If publicly funded and universally applied, the social insurance model could be a sound solution to the current aged care financing challenges. A hybrid scheme like that in Japan, as outlined in the consultation paper, is particularly relevant to Australia's public/private funding streams. Adapting a hybrid model to the Australian context may be a

[1] World Health Organisation, Social determinants of health, available at https://www.who.int/social_determinants/en/

preferable alternative to the community, providing greater stability and buffering against the influence of changing political priorities and commitments.

Private insurance and financial products

The consultation paper presents several private financing mechanisms to fund aged care including superannuation, private insurance, gap cover and other financial products such as annuities and reverse mortgages. Options such as these are already used in relation to retirement incomes and health insurance.

Generally, the VHA does not support an equivalent private insurance approach in financing the aged care system. The VHA considers that the financing of the aged care system must provide wide coverage to all Australians. However, as outlined in the consultation paper, the coverage of such a scheme could be narrow and the viability of a large private insurance market would depend on enough numbers of people taking up the product to allow pooling and risk sharing.

In the case of health insurance, the Grattan Institute working paper, *The history and purposes of private health insurance*[2] released into 2019, identified the private health insurance system was already experiencing a 'death spiral' and that if current trends continue, more younger people will drop their cover. This will put insurers under more pressure to contain costs, and governments under still more pressure to tackle rising premiums and out-of-pocket costs. The risks identified in the consultation paper, as they relate to a private insurance model for aged care financing along with the experience of the private health insurance system, highlight the potential of such a model to sacrifice value for both consumers and taxpayers, and would be unlikely to result in a viable model for the long term.

Combinations of financing mechanisms

The VHA is unable to comment on the best mix of financing schemes for aged care. However, the VHA considers that if it is possible to design an aged care financing system that uses a combination of several mechanisms discussed throughout the consultation paper such an approach must be equitable and as simple as possible to navigate for the community. If recommended, a mixed approach must ensure no unnecessary barriers are put in place as a result of the different components impeding access to the different elements of aged care.

Section two: Implementation and transition issues

The VHA considers that all decisions regarding the introduction and implementation of a new financing mechanism must be underpinned by the principles that:

- the same high-quality standard of aged care is available to all Australians
- financing must ensure equity of access for aged care services, not only improved efficiency
- the financing model must protect the interests of consumers
- operation of any scheme must ensure a level of oversight and a clear governance framework that covers the powers, functions and limitations of the regulator
- any regulator is efficient, effective, transparent in its processes, fair and well-resourced to undertake its responsibilities
- there is community confidence and certainty for aged care providers in future funding allocations.

Recognising that significant work has been progressed to test and refine a new residential aged care funding model, the findings of the independent pricing review of the National Disability Insurance Scheme (NDIS) conducted by McKinsey & Company,[3] acts as a warning for the aged care sector and highlights the importance of accurate price

[2] Duckett, S & Nemet K 2019, The history and purposes of private health insurance, available at: https://grattan.edu.au/wp-content/uploads/2019/07/190715-WP-The-history-and-purposes-of-private-health-insurance-ISBN-Updated.pdf

[3] McKinsey & Company 2018, Independent pricing review, available at: file:///C:/Users/ageorgalas/Downloads/PB%20mckinsey%20report%20PDF%20(1).pdf

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setting for a sustainable and viable aged care system. The VHA considers that the government must utilise the significant evidence generated as part of the resource utilisation and classification study and any evidence from the proposed trial of the Australian National Aged Care Classification. This will aid government decision-making about pricing and enable broad consultation with relevant stakeholders to set fair, transparent and accurate pricing for residential aged care.

Irrespective of the final financing mechanism, arrangements for payments to providers, pricing and payment systems need to be developed. The VHA would urge the Royal Commission to consider learnings from the implementation and transition to the NDIS in its approach to recommending a financing mechanism for aged care including the impact of price setting and payment mechanisms.

The independent pricing review also warned that many NDIS providers were unprofitable because the price caps for services were too low. A continuing concern is that the National Disability Insurance Agency has made disproportionate use of pricing as an avenue to manage costs. The VHA considers that the inadequacy of the NDIS pricing arrangements has had a detrimental impact on the financial sustainability of the disability sector and the delivery of high-quality supports to NDIS participants. The McKinsey & Company review also found that NDIS prices 'incentivise cost cutting' and 'are not fully enabling disability support workers to deliver services which are personalised, coordinated, responsive or safe'.

Further, the variation in cost structures and drivers that exist between public sector and non-government providers and the impact of location, size, and demographics on the cost of delivering care must be accounted for in both residential and community-based aged care financing.

A significant issue around the transition to a new financing model is whether government payment systems are adequate. There have been ongoing problems with the current system and adding further complexity may have negative consequences for providers. The VHA considers that to avoid unnecessary challenges and issues for providers, the government payment system must be comprehensively tested prior to the transition and implementation of the proposed financing model to ensure the payment system is fit for purpose.

The consultation paper recognises that any revised financing mechanism would take years to achieve the desired benefits. In the meantime, the VHA recommends that government could finance immediate improvements in the public aged care sector by:

Abolishing the Adjusted Subsidy Reduction (ASR) for public sector residential aged care providers

The ASR is applicable for residents in an aged care service, or part of a service, that is determined to be an adjusted subsidy aged care service. Only services that are operated by state or territory governments are subject to this determination which is indexed annually and represents about a nine per cent reduction of the daily high care ACFI subsidy.[4] This leads to funding inequity for residents of state and territory government aged care beds compared with those operated by for-profit or not-for-profit aged care providers.

The Commonwealth classification and ASR in 'S' class beds, a hangover from the 1987 CAM/SAM/OCRE funding system, is currently indexed at a reduction of $13.21 per bed per day.[5] The result of this is that each resident in an ASR

[4] Department of Health 2019, Aged care subsidies and supplements: new rates of daily payments from 20 March 2019, https://agedcare.health.gov.au/sites/default/files/documents/03_2019/aged_care_subsidies_and_supplements_new_rates_of_payment_from_20_march_2019_-_schedule_of_fees_and_charges.pdf019

[5] Department of Health 2019, Aged care subsidies and supplements: new rates of daily payments from 20 March 2019, https://agedcare.health.gov.au/sites/default/files/documents/03_2019/aged_care_subsidies_and_supplements_new_rates_of_payment_from_20_march_2019_-_schedule_of_fees_and_charges.pdf019

bed receives approximately $4,800 less in care funding per year than a resident in a non-government bed. In 2014-15,[6] the annual funding shortfall as a result of this classification was $16.7 million per annum across Victoria. [7]

A sample of Victorian public sector residential aged care facilities was included in the Australian National Aged Care Classification fixed cost analysis. The study concluded that the subsidy reduction should be discontinued and that public sector facilities should be funded in the same way as non-government facilities,[8] however, no action has been taken to date.

Redressing the funding shortfall of the flexible aged care subsidy to ensure it reflects the current cost of delivering care to an increasingly complex cohort of older people.

Indexation of the base rate for the funding of flexible care within multi-purpose services has been insufficient to keep up with changes in resident acuity. Whilst rates may have been appropriate when the model was conceived in the 1990s, the flexible subsidy has not been adjusted to reflect the increase in resident acuity or complexity. This contrasts with the Aged Care Funding Instrument which includes a schedule of increasing subsidies in line with changes in acuity and which is used to calculate care subsidies for other Australian Government approved residential aged care services.

As acuity increases, so do the costs of care provision; consequently, the financial sustainability of Victorian multi-purpose services is being adversely affected as a result of the inadequacy of the flexible subsidy to meet the costs associated with delivering care to residents of higher acuity.

Modelling completed in 2014-15 revealed that the lack of indexation resulted in a $2.2 million loss of federal funding. Extrapolating this figure to 2017-18 reveals an annual estimated loss of $2.9 million of federal funds to Victorian multi-purpose services. Preliminary modelling indicates a marked difference in the flexible subsidy revenue of multi-purpose services and the revenue of other providers of residential aged care. The collective impact for these multi-purpose services is estimated to range (depending on each scenario) from approximately $7.4 million to $9.7 million per annum based on 2018-19 data.

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[6] The latest accurate published data available on ASR funding is in the 2014-15 Productivity Commission Report on Government Services. Since 2014/15 the state/territory government expenditure on agedc are services has been included as onne funding amount rather that as separate amounts: ASR, Enterprise Bargaining Agreements and rural small nursing homes.
[7] Report on Government Services 2016, table 13A.9
[8] McNamee J, Snoek M, Kobel C, Loggie C, Rankin R and Eagar K (2019) *A funding model for the residential aged care sector. The Resource Utilisation and Classification Study: Report 5*. Australian Health Services Research Institute, University of Wollongong. ISBN: 978-1-74128-299-3