Baptist Community Services

- NSW & ACT

# Response to the Productivity Commission Draft Report

## *Caring for Older Australians*

*January 2011*

**Overall impressions:**

Baptist Community Services – NSW & ACT (hereafter BCS) believes that the aged care system described in the Productivity Commission Draft Report will improve the care of older Australians for both care recipients and carers. There remain 'unanswered' questions in the report and sections which remain vague in their detail. However, BCS believes that the overall framework presented would result in achieving improvements in the four focus areas of equity, efficiency, effectiveness and sustainability of care for older Australians.

One of the key issues identified in the report is that whilst the market supply restrictions are proposed to be liberalised, it does not appear evident in the Draft Report that the income stream for providers will be. This will have major implications in terms of pricing of risk, particularly for any capital developments, where providers seek to differentiate themselves in a free market, but cannot raise their incomes to support differentials in their models. Whilst BCS supports the liberalising of supply for its intended benefits for consumers, the loss of the long-term consistency and predictability of income from the change to allocated licenses will have a detrimental effect on the financial sustainability of providers and their willingness to invest in capital programs with currently assumed 40 year life-spans.

A further implication for many aged care providers of the liberalisation of supply is the erosion of certainty in their business models if they operate a direct staffing model. The labour force implications of this include the unpredictability of rostering to an uncertain client base where there is a vastly increased 'switch on-switch off' capacity for clients with an entitlement. Many providers have achieved a high level of administrative efficiency in this area and uncertainty would create a further higher pricing of risk in this area. This could be an unintended consequence of empowering consumers.

**Key pieces of the future system:**

BCS supports the concept of a Gateway and the Australian Aged Care Regulation Commission (AACRC). The break up of the roles of the Department of Health and Ageing and the retention of its policy function is also supported.

One of the critical enabling systems that will be required to support providers to interface with the Gateway and to bring care management into the 21st Century is the use of electronic client records for a range of indicators: health, financial, time, medication, prescription, transactions, discharge. The challenges of

implementing such a change may lead to industry consolidation with many small providers exiting aged care.

There may also need to be a Government led initiative around software roll-out to ensure that provider systems can send and receive client information with the Gateway software. It is felt that the benefits in efficiency and effectiveness would outweigh any upfront costs associated with such an initiative, although there are not many precedents for Government taking a lead roll in determining what software providers use.

One of the proposed functions of the Gateway, access to the system, will require a more equitable and effective means of assessment. This need is heightened by the requirement to link the assessment outcome to a casemix funding model. BCS' experience of assessments currently is that they rarely take into account the overall picture for the care recipient and carer, if they have one. It is imperative that assessors then actually visit prospective care recipients in their home to obtain an accurate picture of their needs. This will require resourcing above what is currently in place if it is to be done well and ensure the objective of equity is met.

BCS agrees with the perspective put forward by the Productivity Commission that in many instances, regulation has exceeded the boundaries of acceptable limits and intruded on providers' capacity to deliver person centred care. The concept 'dignity of risk' is not a universally well understood phrase, however, it is one that the disability sector is perhaps more familiar with. There are important learning's for the aged care sector in managing client care risks and delivering person-centred care.

It has been evident in the past that decisions by the Complaints Investigation Scheme and the Minister for Ageing have tended to go against providers where they have attempted to meet the expressed wants and desires of care recipients. It would be beneficial if regulation of the industry in the future started from the question 'was the provider attempting to deliver person-centred care and provide choice and control for them?' If the answer is yes, then dignity of risk has been practised and providers are creating a positive living environment for older Australians. To decide against providers in this situation leads to an environment where providers are fearful of the consequences of delivery care in a way that treats older Australians with dignity and respect. This describes the current state of the aged care sector. It needs to change.

The proposed scope of the new AACRC of ensuring safety and quality, protect the vulnerable and overcome market failure appears

reasonable, but there is some concern that it may be just another Aged Care Standards and Accreditation Agency with a new acronym and some additional functions such as the proposed data clearinghouse. Education and training of staff around a new approach to regulation will be needed if the ACSAA staff and assessors transfer to the new AACRC. There may be a need to recruit new staff to implement a changed approach to regulation.

BCS is aware of the need to manage risks in any Government funded program, particular under the Westminster system of parliament. However, it is felt that one of the unresolved issues in the Draft Report is the tension between loosening up regulation and control and moving towards a more market based system. It is felt that there is potential for further movement towards a more market based approach and relaxation of regulation and compliance functions. In the proposed future system where care recipients have an entitlement and potentially more flexibility to move between providers, any breakdowns in quality and safety with a subsequent decline in reputation in the community would see providers occupancy levels fall and therefore they become unviable. Therefore, there is scope for reduction in external regulatory involvement in providers operations following a 'non-compliance event or notification' as the market will have a stronger influence over whether they continue to be viable or not.

This effect will only be realised if there is a well informed market. Whilst not specifically mentioned, a *MyAgedCare* website would further assist consumers make choices where the available services have a range of performance data by which they can make comparisons. The example provided on page 433 of the Draft Report from the United States is a useful model on which to base a similar product in Australia. This could be hosted on the Gateway website. Providers' accommodation and care charges should be included with the performance data to assist consumers in making meaningful comparisons.

Carers are 'key pieces' of the current and future care system for older Australians. The Draft Report certainly captures what BCS believes are the key issues for carers roles, the availability of carers in the future and the changing nature of caring relationships. One proposed component that BCS supports in relation to carers is their increased importance in relation to assessment and subsequent care planning and delivery. BCS has already made progress in this area, but its formalisation in terms of the entitlement would see further progress in implementing holistic solutions to care recipients and carers.

**Accommodation, Care and Support:**

*Residential aged care* – there remain some unanswered questions in the draft report about pricing residential aged care, whether that be from the accommodation side or the care side. BCS would not want to see capped pricing where the Department or AACRC prescribes a price for accommodation or care that prevents high quality accommodation or care being provided. The price determination should also not prevent providers from being able to offer a range of accommodation types which influence price (eg. 2 bed rooms, construction quality, ensuites, and room size). Older Australians will demand a wide range of accommodation types in the future with a great variety in their capacity to pay for it. The new system should not prevent providers from being able to meet this range through capping accommodation bonds. Accommodation prices should reflect the costs of provision so long as there is adequate provision of a range of options and equity of access is not compromised. If the recommendation to remove extra service is taken up, there needs to be flexibility in the policy settings to provide a broad range of accommodation types.

BCS supports the movement to abolish the binary structure of high and low care, which is largely artificial in practice and open to misuse in order to attract bonds. Subject to the above comments about providers still being able to provide a range of services, BCS would also support the removal of extra service status as proposed.

The proposed model of freeing up supply and care categories such as high/low, extra service/standard is supported if the industry is supported through freeing up its income stream in order to provide up to a five star equivalent standard, whilst also maintaining basic standards. A parallel industry with liberalised market supply is the hotel industry. The major difference is that hotel chains are able to position themselves in the market through targeting their customers through price signals, and matching the standard of accommodation and services to the price. If the standard of accommodation and service do not match the price charged, the reputation suffers, customers go elsewhere and the hotel becomes financially unviable. There would be value in understanding this industry more, particularly around its capacity to set prices for its customers who are able to make choices based on the information available to them.

The costs of care are also a bit vague as these can be influenced by a great number of variables independent of the care recipient (eg. Staff to care recipient ratios, qualifications of the staff, infrastructure costs to support care delivery and meals). Again, this

is an area where providers may be able to distinguish themselves in a competitive market place and should not be restricted by Government policy. If costs of care are funded at a prescribed ratio, with staff of a certain qualification, with certain software and IT requirements for electronically managing client care – then providers should also be free to offer higher staff ratios, more highly qualified staff, higher quality and more choice in meals. This happens in child care and parents are free to make choices about where their children attend knowing that the daily cost of care reflects the centre's staff to children ratio, the qualifications of the staff and the provision of ancillary services such as food, nappies and toys.

If the AACRC is to regulate the subsidy of care, BCS would like to see that the value of the subsidy redresses the imbalance in wages between the acute sector and aged care nurses. The income providers receive should enable them to offer parity of wages with the acute sector.

The same level of choice could be built into aged care where care recipients are able to pay the 'gap' between the provider's daily charge and the current 84% of the pension rate – a basic standard. Care recipients may choose to access better care this way and if they are not happy with the care they receive they can take their entitlement elsewhere – similar to parents of child care centres. A basic standard of care funded through a casemix mechanism would ensure that those without capacity to pay are not denied access to a basic quality of service and substandard care. This approach could provide choice across the aged care industry with the AACRC regulating quality and safety to protect the vulnerable and ensure that basic standards are being provided where this is the level designated by the provider for a particular facility.

*Community care* – BCS supports the broad principles outlined for community care, particularly the emphasis on integrated and flexible care where there are building blocks of options, including respite, counselling and advocacy for carers. In its initial delivery of Consumer Directed Care packages in 2011, BCS has certainly found that this approach has merit in advancing the concept of building blocks or 'shopping lists' of available services and products and empowering consumers to make choices from these. BCS believes there is further progress that can be made in consumer directed care approaches through self-determination, self-direction, choice and control. The Draft Report captures these, as well as clearly documenting the limitations of the current packaged care and HACC Program in empowering consumers and creating equity across the industry.

In light of the above, the proposed option to separate case management from the provision of care is one which should not be subject to a 'one rule applies to all approach'. In disability services, there is certainly a valid philosophical view that no one provider should be responsible for all facets of an individual's life. This should not extend to the aged care sector and the role of case managers who will still play a vital role in guiding and assisting decision-making, supporting care planning and goal setting. Overseas evidence suggests that where individual payments or entitlements are provided, a case manager still is a preferred option for older people as there remains enormous information asymmetry between a care recipient and professionals who have a high level of knowledge and understanding of the sector which can assist them in making better choices and accessing services.

Case mix funding is certainly the most equitable and effective method of ensuring that people with like needs receive like services or care. The challenge in implementing this will be to set equitable prices. BCS' experience of Consumer Directed Care is that unit costs for some services are very easy to quantity and are quite stable eg. Any labour costs associated with in-home care. The difficulty is in determining unit costs for equipment, ancillary services and anything where there is a range of products to suit a client's need. An example of the complexity inherent in some conditions is that there are approximately 80 pages of unit costs for various products to support stoma care.

In addition, the implementation of the Aged Care Funding Instrument in residential aged care has not been without its difficulties. Of particular concern is that casemix funding models encourage providers to 'load up' care recipients with problems and issues and there is no incentive to implement a restorative approach. This would need to be rectified in any casemix funding model for community, particularly as this approach is gaining widespread traction eg. IMPACTS in NSW, ECH's positive and active lifestyle approach in SA.

Block funding does have its place in BCS' view, particularly around service types such as community transport, centre based day care and social support. Social support is particularly important given the large body of evidence on the importance of mental health, positive wellbeing and community connectedness that these services promote. There may be further risks in an entitlement model that consumers do not wish to purchase these services.

Where there is a readily available substitute available in the private market that can perform the service and be purchased through an entitlement based on an assessed need, BCS is of the view that Government funding services should not duplicate these. An example of this may be the Home Modifications and Maintenance service or community transport for individual journeys to medical appointments or shopping. The caveat to this is that there must be something in the private market – in some areas of market failure there may be a case to block fund these services.

*Housing and retirement villages* – BCS supports the recommendations in the Draft Report in Chapter 10.

In addition, BCS would suggest that the Australian Government and COAG give further consideration to removing disincentives that prevent older people from selling their family home and either down-sizing into more appropriate private accommodation or retirement villages. The major issue identified by BCS is the potential loss of the pension, which is regarded as sacrosanct by many older Australians, from the capital gain between the sale price of the home and the cost of the new dwelling. This may be less of an issue in the future with increased numbers of self-funded retirees. Transactional costs then become an issue for this cohort eg State stamp duty charges.

BCS is a passionate supporter of the benefits of service integrated housing in supporting older Australians to live independently in their communities. This model can operate where there is a separation of care and accommodation and is of increasing importance to older Australians with the decline of low care in the residential aged care setting. A greater emphasis on embedding this approach in the aged care system would be a positive.

**Other components of the proposed system:**

*Supported residents* – As a not-for-profit, BCS sees the focus provided by the Draft Report on supported residents as a positive that they are a key consideration in terms of building an equitable system in the future. BCS is enthused by the potential of the market trade mechanism proposed for supported residents and sees that this could add value to the work of not-for-profits with a charitable purpose and a focus on meeting the needs of financially and socially disadvantaged care recipients. BCS would also like to see this extended to community care in terms of the care recipients with capacity to pay and those whose fees are waived currently. There is a widely shared view amongst the not-for-profit providers that they care for all community clients who are financially

disadvantaged with for-profits declining to provide service to this cohort. BCS would like to see more detail about how this proposed approach might work described in the Final Report.

**Transition arrangements:**
BCS supports the conclusion that quantity restrictions should be liberalised before price and agrees with the methodology explained in the Draft Report. In saying this, early signals of price would be beneficial to the industry to make decisions about whether they wish to remain in the aged care industry in a liberalised market. This is particularly the case for supported residents and as stated above, BCS is interested in developments around trading and pricing for this cohort of the population.

In terms of phasing the transition arrangements, there may be merit in embarking on the necessary legislative changes first in order to create the Gateway and AACRC functions first. This would significantly improve the knowledge and understanding of care recipients and the industry of the changes to price, quantity and quality. Given that these two functions have been identified as key pieces of the future architecture, it may be ill advised to make any changes without these in place to support liberalisation.

BCS believes that the removal of licences distributed through the Aged Care Approvals Round or purchased on market to be replaced by an allocation of entitlements to care recipients will contribute significantly to empowering consumers of aged care services. Initially it may be detrimental for some providers, however, in the medium term this will be a broader positive for the industry as good providers will be more likely to attract care recipients and their funding entitlement. The change from a competitive tender process to a consumer choice process will undoubtedly lead to a different form of competition between providers which results in improvements in the effectiveness and efficiency of care and support for older Australians.

BCS supports the proposed transitional arrangements of over-allocating above the existing Departmental benchmarks of service. However, the stated figure of 120% may be a little high in terms of the fiscal exposure for the Government and in terms of any ‘unwinding’ which may occur through sector consolidation. Given the uncertain operational environment for providers that the removal of licenses will bring, it is unlikely that providers will apply for licenses in an ACAR and embark on capital projects to build residential care services to a level of 120%.

It is felt that this figure may be more attainable for community care services where there isn't a high risk exposure from large-scale capital investment. Despite the transition arrangements indicating a 'grandfathering' arrangement for bonds, it is unlikely that new residential facilities will be constructed in the timeframe proposed and would therefore be exposed to risks of meeting debt servicing requirements without bonds.

A potential consequence of the recommendations made by the Productivity Commission may be industry consolidation. This is already evident with many providers of single site, or small geographic scale exiting the aged care industry. This has been prompted by a range of push factors and BCS anticipates that the care industry described in its Draft Report will lead to further industry consolidation. Whilst there may be medium term benefits through some lower quality or unscrupulous providers exiting, there is value in having a range of providers in which to facilitate effective choice for care recipients in the future. At particular risk are rural and remote areas where economies of scale are not available. The uncertain future of Multi-Purpose Services indicated in the Draft Report also puts rural and remote areas at potentially greater disadvantage from any proposed changes to license allocation arrangements.

BCS' final comment on the transition period is that it would recommend the implementation team include a broad representation from across a range of sectors and groups. This includes: peaks – industry and consumer, unions, for-profit and not-for-profit providers. It is important that the effect on providers, and thus consumers, of the Government adopted recommendations are able to be articulated and managed in the proposed transition period to avoid adverse consequences.