

## CARING FOR OLDER AUSTRALIANS – REFORM TRANSITION ARRANGEMENTS

### Introduction

The Productivity Commission's draft recommendations for aged care reform would result in a significant liberalization of the current highly regulated system of aged care service provision, to one founded on the flexibilities and responsiveness of a more market informed system. The transition to the new arrangements not only poses risks for the providers of services, but also to the vulnerable population whose immediate and future welfare is dependent on the services, and to the Government which initiates the reform.

The aged care sector is no stranger to reform, and indeed the current reform proposals may be seen as the next steps in a line of reforms undertaken to date which have helped pave the way for further reform. However, the extensive nature of the current proposals must be acknowledged. This situation calls for a transparent and comprehensive implementation plan to transition to the new arrangements and to manage the risks involved.

### Objectives

The implementation plan should comprehend the following inter-related objectives:

- Ensure the continuity of quality services for consumers and their families while at the same time responding as soon as possible to community expectations for greater consumer choice and increased service flexibility.
- Allow service providers time and flexibility to adjust their operations and business models, and provide the incentive and certainty to invest in the sector.
- Address the underlying distortions in the current system which are threatening the sustainability of the sector as soon as possible
- Avoid the emergence of opportunities for price exploitation of consumers.
- Manage the potential for market failure.
- Ensure continuity of access for special needs groups
- Manage the Government's fiscal risk.
- Recognize the inter-dependencies in the reform measures and the lead times required for their implementation.

- Ensure community support for reform is not eroded by implementation stumbles and mistakes.

## Assessment of implementation risks

The following identifies the major risks which could arise during the implementation of the reforms, along with options to mitigate those risks (and some observations).

<i><b>Risk</b></i>	<i><b>Mitigation Options</b></i>
Threat to viability and valuations of residential aged care homes due to reduced occupancy rates, especially in relation to older multi-bed services.	<ul style="list-style-type: none"> <li>• Allow providers time to adjust by increasing the provision ratio for community aged care gradually, and delaying the lifting of residential care provision ratios and the removal of all restrictions – informed by scenario modeling, including of the absolute increase in the number of older due to an ageing population profile.</li> <li>• Move early to reflect the cost of care and accommodation in prices</li> <li>• Increase flexibility by removing the low/high distinction and allow residential places to be converted to community care</li> <li>• One off grants to eligible small providers to obtain financial advice on business prospects and options.</li> <li>• Move early to widen business model opportunities for aged care providers eg palliative care and sub acute restorative care (incorporating transition care).</li> <li>• Prices and co contributions for equivalent care needs in community and residential care to be aligned.</li> </ul>
Threat to viability of residential providers because of reduced bond sizes and a possible flight to rental payments	<ul style="list-style-type: none"> <li>• Move early to reflect market based costs of supply in prices for accommodation</li> <li>• Refinancing of bonds will occur over a couple of years and the pool from which bonds may be drawn will be larger. May impact most on providers who have based new developments on the availability of large bonds (compared with average bonds).</li> <li>• The extent of a flight to rental is not certain. Individual circumstances will vary and choice of rent or bond will involve judgments about CPI levels, likely care costs and risk (eg likely length of stay, care need levels, stop-loss limit etc).</li> </ul>
Continued under investment in residential high care which has been dependent on cross subsidies	<ul style="list-style-type: none"> <li>• Move early to implement market based rentals and to reflect regional costs of supply of accommodation for supported residents</li> <li>• The rate at which community care supply restrictions are lifted needs to be carefully modeled and calibrated.</li> </ul>

Under investment in services and accommodation for supported residents and special needs groups (market failure for residential aged care and community care packages)	<ul style="list-style-type: none"> <li>• Maintain existing capital programs and viability supplements until new funding arrangements are in place</li> <li>• Emphasize the commitment to introduce new funding arrangements which will recognize the additional costs of services for special needs groups</li> <li>• Maintain regional quotas for supported residents during the transition phase</li> <li>• Maintain capital program and block funding arrangements for MPSs and flexible Indigenous specific services</li> </ul>
Market failure of HACC services with introduction of entitlement based funding and choice of provider	<ul style="list-style-type: none"> <li>• The move to entitlements for basic community care and choice of service provider needs to be developed further and phased in carefully, including the identification of Lead Agencies, use of brokers, enablement approaches and any role for residual 'block funding'.</li> <li>• Piloting of arrangements and gradual roll out should be considered to minimize risk.</li> </ul>
Exploitation of consumers (accommodation payments and additional services) pending deepening of the market	<ul style="list-style-type: none"> <li>• Increase consumer choice by lifting the provision ratio for community care packages earlier than for residential places, noting that community care is relatively more responsive to change than residential care</li> <li>• Move early to update Specified Care and Services or equivalent</li> </ul>
Community resistance to increased copayments	<ul style="list-style-type: none"> <li>• Move early to increase community care and increase opportunity to age in place</li> <li>• Move early to introduce the Pensioner Bond Scheme and a Government-backed equity release scheme</li> </ul>
Consumer expectations regarding choice and flexibility not met quickly enough	<ul style="list-style-type: none"> <li>• Move early to increase the supply of community care places pending the development of the single integrated system of care provision, and allow community care recipients to age in place as their care needs change.</li> <li>• There is a case for moving early on entitlement based funding for higher levels of care need, especially if there is a decision to pilot entitlement for basic care services.</li> </ul>
Extent of change may compromise the quality of care	<ul style="list-style-type: none"> <li>• The system as it changes will continue to be underpinned by a mature and robust accreditation, compliance, unannounced visits, reporting and complaints review regimes.</li> <li>• Attune risk assessment processes for current quality assurance mechanisms to the risks posed by the changing environment.</li> <li>• Assist adjustment in the sector through short term financial assistance to small providers to obtain business planning advice.</li> <li>• Move early to expand the advocacy services.</li> </ul>

Fiscal risk to the Government if needs based assessment is not effective	<ul style="list-style-type: none"> <li>• Full implementation of entitlement-based funding not to proceed until Gateway Agency, the new assessment tool and the integrated care funding classification system has been developed and piloted in selected regional assessment hubs.</li> <li>• There is a case for moving early on entitlement based funding for higher levels of care need.</li> </ul>
Risks associated with the development and implementation of assessment tools and care funding classification system across residential and community aged care and carers, and the roll out of the Gateway Agency eg navigation not improved, blockages and delays in processing, enablement approach ineffective, administrative complexity and inefficient processes	<ul style="list-style-type: none"> <li>• The success of the reforms will depend on the successful roll out of the Seniors Gateway Agency and the effectiveness and efficiency of its operations.</li> <li>• Successful and robust Gateway operations to precede any substantial liberalization of the current system.</li> <li>• Because of the complexity of this task, it will require its own detailed project planning and risk assessment process.</li> </ul>

## Implementation plan

An indicative high level implementation plan for the transitioning of the reforms which takes into account the above objectives and analysis of implementation risks is attached. As well as having to be adapted to the package of reforms which the Government may endorse, there will also need to be more detailed project plans developed for most of the activities.

A key decision for the implementation team with implications for the success of the transition process is the timeframe and rate at which restrictions on the supply of aged care places are lifted. The effects on supply of lifting the restrictions on residential and community places at different rates, compared with the overall growth in the number of older people, need to be modelled in order to help make the transition as risk free as possible.

The timeframes below have been prepared without the benefit of such modelling, and are therefore subject to further analysis.

Activity	Year 1 (2012) <sup>1</sup>				Year 2 (2013)				Year 3 (2014)				Year 4 (2015)				Year 5 (2016)				Year 6 (2017)			
Government announces reforms, implementation plan and timetable <sup>2</sup>																								
Complete the takeover of HACC and ACATs in relevant States and implement 'one stop shops' (pending creation of Gateway Agency with wider scope)																								
Increase the provision ratio for community aged care packages gradually, allow community aged care package recipients to age in place																								
Expand advocacy services																								
Independent cost of care study to inform prices for 2013 pending AACRC																								
Develop new funding classification, assessment, entitlement and review arrangements and processes for integrated care system																								
Develop national home modifications and aids scheme																								
Develop new specified care and services or equivalent																								
Progressively increase supported resident supplement to reflect cost of supply of agreed standard of accommodation																								
Introduce new regional quota arrangements for supported residents																								
Remove low/high distinction and implement market based and flexible accommodation payment arrangements																								
Introduce pensioner bond scheme and equity release scheme																								
Allow 'additional services' for all new residents and discontinue issuing Extra Service bed licences																								
Introduce case mix payment for palliative and end of life care and sub acute restorative care																								

<sup>1</sup> Calendar years

<sup>2</sup> Assumes a Budget announcement

Activity	Year 1 (2012)				Year 2 (2013)				Year 3 (2014)				Year 4 (2015)				Year 5 (2016)				Year 6 (2017)			
Establish AACRC																								
Establish Gateway Agency																								
AACRC issues first recommendations for prices and subsidies (for 2014 Budget)																								
Introduce new AACRC-informed prices, co contributions, subsidies and stop-loss limit																								
Gradually increase residential aged care provision ratio																								
Discontinue capital programs (except for eg MPSs and certain Indigenous specific services)																								
Identify pilot assessment hubs and lead agencies to introduce new integrated care arrangements and progressively roll out in relevant states.																								
Review pilot arrangements for integrated care system, including entitlements for basic care																								
Review need for regional quotas for supported residents and access by special needs groups																								
Remove provision ratios for higher level community and residential aged care, and caps on basic care (subject to review)																								
Risk assessment by existing quality assurance arrangements to be attuned to changing environment and transition issues																								
Grandfather arrangements for existing residents																								

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