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Review of National Competition Reforms
Productivity Commission
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***SUBMISSION ON THE DISCUSSION DRAFT – REVIEW OF NATIONAL
COMPEITION POLICY REFORMS***

BACKGROUND

The Victorian Association of Health and Extended Care (VAHEC) is the largest peak body representing aged and community care providers in Victoria. Membership consists of over 300 organisations from the private, public and church/charitable sectors. VAHEC represents over 24,000 government funded residential aged care beds, 4000 community aged care packages, bush nursing centres and hospitals and a range of non government community care providers across metropolitan and rural Victoria.

VAHEC believes that major reform is required in the aged and community care sector to meet the needs of our ageing population. Continued tinkering around the edges of the current out-dated over regulated system will not enable the industry to achieve the levels of equity, efficiency and effectiveness required and desired by government and the community in the future delivery of aged and community care services.

REFORM IN AGED AND COMMUNITY CARE

The Review of National Competition Policy Reforms states that “the inevitable ageing of Australia’s population will greatly increase the demands on the health and aged care system”.

To meet these new demands major reform, including both competition-related and non competition related, is required in aged care.

Our aged care system was designed in the mid 1980s, when only 8% of the population was aged 65 and over. Over the next 40 years up to 25% of Australians will be in that age group. The current inflexible, over- regulated system cannot hope to meet its growing needs.

A number of reports commissioned by the Australian Government over the past 10 years have been extremely critical of both the funding structure and the level/complexity of regulation imposed on aged care services.

Current levels of red tape continue to stifle both innovation and competition in the industry. This reduces the capacity of the industry to pursue greater equity, efficiency and effectiveness in aged care provision as our population ages.

In the early 1990's Professor Bob Gregory found that:

- Existing administrative arrangements were incapable of responding effectively and efficiently to the changing needs of older Australians and the aged care industry.
- Supply side controls restricted choice and competition between services and created perverse incentives for both providers and older people
- The funding system did not provide sufficient incentive for the maintenance of the quality of nursing home buildings and the replenishment of nursing home capital stock over time
- There were financial disincentives for private investment in nursing home stock – unlike the hostel sector where hostels could charge variable amounts (accommodation bonds) according to the standard of accommodation they offered residents

In 1996 the National Commission of Audit was critical of the highly regulated nature of residential aged care which led to rigidities in service delivery which translate into a lower cost level of services or higher costs. It also argued that a large share of those currently working have the potential to prepare for their future health and care needs but faced a substantial disincentive through current government funding arrangements.

In 1999 the Productivity Commission (Inquiry into Nursing Homes) recommended that the government should specify its intended outcomes in terms of standards of care benchmark and pay a price adequate to meet the cost of providing that benchmark of care.

Despite the implementation of a number of reforms (including the introduction of accreditation and accommodation charges for high care residents) over the past 7 years, the fundamental issues around funding (e.g. access to adequate capital in high care/ appropriate pricing of services) and over regulation have not been addressed.

In May 2004 Professor Warren Hogan (Pricing Review of Residential Aged Care) recommended that options for making capital contributions in residential aged care should be consistent between low care and high care. All residents should have the option of paying a fully refundable lump sum bond or a daily rental charge applicable for the durations of the resident's stay. However, despite repeated criticisms the current inconsistency in available capital between low care and high care continues.

Professor Hogan described the characteristic feature of residential aged care activities as "comprehensive control" (by government) "over all operations undertaken by the board and management of each provider (e.g.:

- management have little scope for decision making;
- prices and revenues are determined by government
- investment proposals are subject to approval on the basis of funded bed allocations
- Initiatives for experimenting in alternative ways of offering care have been utterly dependent on support and authorisation in many instances of one government regulatory authority or more often reflecting federal and state concerns).

He concludes that “if this inflexible system were maintained, government and providers will remain embroiled in a bargaining folly perpetuating the immaturity of the current industry structure. Only with more flexible arrangements can improved strategies be pursued. This will require government to abandon detailed specification of activities in residential and other aged care and allow providers to make independent decisions about pricing and investment”(2004 Shann Memorial Lecture).

In its *Review of National Competition Policy Reforms* the Productivity Commission has broadly endorsed the Hogan Report. The Commission states that ‘without greater emphasis on charging those able to pay, especially for their ongoing accommodation needs, the community may simply be unable to afford the range and quality of residential aged care needed in the future.’

The Commission also states that it is incumbent on governments to specify what outcomes they are seeking from publicly funded human services and after making appropriate allowance for expected improvements in delivery efficiency, identify what levels of funding are required to achieve those outcomes.

To meet the needs of ageing population and to pursue greater equity, efficiency and effectiveness aged care needs:

- appropriate services, paid for by a mix of government funding and user-pays
- a reduction in the red tape stifling both innovation and competition in the industry
- more choice and less complexity in the Community Care system
- a serious injection of funds by government, and
- a realistic indexation system to ensure funding kept pace with the cost of providing quality care.

Without the implementation of the major reforms outlined above, governments, tax payers, older people themselves and aged care providers will not be able to afford to meet the growing needs and demands of our ageing population.

Regards,



Mary Barry
Chief Executive Officer

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