



18 December 2019

The Hon Josh Frydenberg MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer

Pre-Budget Submission – 2020-21

I write in response to the call for submissions concerning priorities for the 2020-21 Budget.

As Australia's largest non-government provider grouping of health and aged care services, providing care to all those who seek it in fulfilment of the Catholic Church's mission, Catholic service providers have a vital interest in ensuring the sustainable provision of aged care services that meet community expectations for safety and quality of care and quality of life.

Accordingly, Catholic Health Australia welcomed the establishment of the Royal Commission into Aged Care Quality and Safety.

The Royal Commission's Interim Report highlights substantial long standing deficits in the current system, many of which concern the depth and quality of the current workforce, not to mention the future workforce. These deficits manifest, for example, in the quality of care for people living with dementia and challenging behaviours; the inappropriate use of physical and chemical restraints; the capacity to deliver wellness, social inclusion and relationship-based care to support quality of life; difficulties in attracting and retaining sufficient skilled staff; and barriers for aged care residents in accessing health services available to the wider community (including specialist end of life and palliative care services).

Taken together, these deficits will require long lead times and large budgets (public and private) to address, and will pose challenges for both Parliament and the community. Catholic Health Australia also recognises that a substantive Government and community response to these issues will be informed by the findings in the Royal Commission's Final Report.

While acknowledging that the Government is, in the meantime, progressing important reforms designed to strengthen the quality regulatory framework and to support greater consumer choice and control of services operating in a more competitive service environment, the Catholic aged care sector has identified two issues that should be given priority in the short term:

1. Addressing the financial pressures facing residential aged care services in an environment of declining revenues, increasing costs and rising community expectations.
2. Developing and committing to a strategy for releasing and funding the additional home care packages required to tackle the home care package queue and the growing demand for home-based aged care and support services.

Funding pressures facing the residential aged care sector

Catholic Health Australia welcomes the work the Department of Health currently has underway to develop and introduce a new resident classification tool (the AN-ACC) and funding model for residential aged care to replace the Aged Care Funding Instrument (ACFI). As is widely acknowledged, the ACFI has been totally discredited as a funding tool. The volatility in funding that has been a feature of ACFI serves neither the interests of the Government (as a major funder) nor providers (as business managers and service operators).

However, the introduction of the new funding model and payment system, supported by independent and transparent costing studies to inform price setting, is several years away.

In the meantime, the residential aged care sector is experiencing the negative financial consequences of the most recent Government measures (2017) to manage growth and volatility in outlays under ACFI.

These consequences not only stem from the indexation pause but, more importantly, from the low rate of real increase in average per resident per day care funding experienced since the 2017 changes to questions and scoring within the Complex Care domain in the ACFI. Real growth in 2017-18 and 2018-19 was only 0 per cent and 0.8 per cent respectively, compared with Commonwealth projected (Budgeted) increases of 2.4 per cent and 1.5 per cent (excluding the one-off increase of \$320 million in the last three months of 2018-19).

The changes to the ACFI scoring system, the pause in ACFI indexation and reduced real growth in ACFI payments also occurred when there has been continuing growth in wages in the aged care sector, with many providers impacted by the decisions by the Fair Work Commission to grant a 3.3 per cent, 3.5 per cent and 3.0 per cent increase in the minimum wage in 2017, 2018 and 2019 respectively. It is also coinciding with declining average occupancy rates which is reducing revenue, but not fixed costs.

These consequences have been exacerbated by an indexation formula that extracts an unrealistic productivity dividend which accrues directly to the Federal Budget. The indexation formula takes the dollar increase in minimum wages granted annually by Fair Work Australia and discounts its value by converting it into a percentage of average ordinary time weekly wages, which are considerably higher than minimum wages. As a result, for example, the Wage Price Index (Health and Social Assistance) has grown at twice the rate of ACFI subsidy indexation since ACFI was introduced, i.e. 35 per cent compared with 17 per cent.

In the past, providers – to different degrees depending on their ACFI claiming expertise - were able to compensate for this unrealistic productivity dividend expectation by maximising claims under ACFI

consistent with ACFI guidelines. This compensating 'safety valve' has not re-emerged since the 2017 changes.

With employee expenses accounting for 70 per cent of providers' expenses, continued growth in the largest expense item when income is being constrained inevitably is putting continuing pressure on the financial performance of the residential aged care providers.

As a result, a significant overall decline in the financial performance of residential care providers in 2017-18 was reported by the Aged Care Financing Authority (ACFA), with average EBITDA per resident falling by 24 per cent in 2017-18 compared with 2016-17. A further deterioration is expected to be reported for 2018-19 in ACFA's 2020 Report, consistent with the more contemporary results of the StewartBrown Residential Aged Care Financial Performance Surveys. The latest Survey shows that, putting aside the one-off Government grant announced in February 2019, approximately half of the nation's residential care facilities are operating at a loss, climbing to around 70 per cent in rural areas.

Clearly the sustained period of losses that is in prospect until at least the implementation of a new funding model will threaten the viability of many aged care services.

This was, in effect, recognised by the Commonwealth when it agreed to the one-off payment made in 2018-19. But a repeat ad hoc one-off payment is not favoured as it is not amenable to sound budgeting and service planning. An increase in ACFI prices is required.

Therefore, CHA recommends instead that increased care-related revenue be delivered by a change to wage price indexation that compensates for the unrealistic productivity expectations of the current formula. This approach would deal with the revenue pressures pending the implementation of the new funding model without the need for any disruptive structural changes to ACFI.

This approach would also fit with concerns about the competitiveness of salaries for care-related staff in aged care homes, noting that both the Royal Commission into Aged Care Quality and Safety and the Government's Aged Care Workforce Strategy Taskforce have concluded that the aged care workforce is under-rewarded compared with other sectors of the economy.

CHA is also mindful of the Government's overall Budgetary pressures.

Accordingly, as indicated in last year's pre-Budget submission, Catholic Health Australia would also provide public support for the implementation of some or all of the recommendations in the *Legislated Review of Aged Care 2017* designed to improve the sustainability of aged care services and the fairness of contributions based on capacity to pay, viz. including the full value of the consumer's former home in the means test for residential care when there is no protected person in that home; abolishing the annual and lifetime caps on income tested care fees in home care and means tested care fees in residential care; and allowing residential providers to charge non-low means residents a higher basic daily fee for everyday living services, with amounts over \$100 per day to be approved by the Aged Care Pricing Commissioner.

Increases in user contributions could be facilitated by making the Pension Loan Scheme more attractive by reducing the interest rate for drawdowns directed to subsidised aged care services.

Home care package queue

CHA acknowledges that the Government has taken a number of steps since the introduction of the national prioritisation queue for home care packages to bring forward, within the target provision ratio, the number of home care packages and to increase the proportion of higher level packages. Nevertheless, the latest data indicated that 119,524 people were waiting for home care services at their approved level.

The Royal Commission's Interim Report identified this issue as one of its "inconvenient truths" about the current system, describing the home care package queue as "a cruel lottery in which some people can die before they ever find out if they have, in fact, 'won'".

CHA notes that in its response to the Royal Commission Interim Report, the Government has re-committed to create a unified system of care in the home by combining the Home Care and Commonwealth Home Support Programs. CHA submits that the 2020-21 Budget should announce a strategy for releasing and funding the additional home care packages required to tackle the home care package queue and the growing demand for home-based aged care and support services.

Conclusion

In summary, Catholic Health Australia submits that the following should be aged care priorities for the 2020-21 Budget:

1. Pending the introduction of the new funding model, address the immediate financial pressures facing residential aged care services in an environment of declining revenues, increasing costs and rising community expectations, and which threaten the viability of many services, by changes to wage price indexation which compensate for the current unrealistic labour productivity expectations.

This approach would also address the competitiveness of salaries for care-related staff in aged care homes, noting that both the Royal Commission into Aged Care Quality and Safety and the Government's Aged Care Workforce Strategy Taskforce have concluded that the aged care workforce is under-rewarded compared with other sectors of the economy.

2. Including in the Budget a strategy for releasing and funding the additional home care packages required to tackle the home care package queue and the growing demand for home-based aged care and support services.

Thank you for the opportunity to put forward our ideas on aged care priorities and for considering our submission. If you or your staff wish to discuss matters we have raised, please contact our Director of Aged Care, Nick Mersiades, at nickm@cha.org.au or on 0417 689 626.



I am copying this letter to the Minister for Health, the Minister for Aged Care and Senior Australians, the Minister for Finance and the Secretary of the Department of Health.

Yours sincerely



Pat Garcia
Chief Executive Officer
Catholic Health Australia

