

***A strong voice and a helping hand
for all providers of age services***

LASA 2019-20 Budget Submission

February 2019

#  Leading Age Services Australia

Leading Age Services Australia (LASA) is the national peak body representing and supporting providers of age services across residential care, home care and retirement living. Our purpose is to enable a high performing, respected and sustainable age services industry delivering affordable, accessible, quality care and services for older Australians. We represent our Members by advocating their views on issues of importance and we support our Members by providing information, services, training and events that enhance performance and sustainability.

LASA’s membership base is made up of organisations providing care, support and services to older Australians. Our Members include private, not-for-profit, faith-based and government operated organisations providing age services across residential aged care, home care and retirement living. 57% of our Members are not-for-profit, 33% are for-profit providers and 10% of our Members are government providers. Our diverse membership base provides LASA with the ability to speak with credibility and authority on issues of importance to older Australians and the age services industry

# Aged care needs an urgent funding boost

## The problem

Aged care providers must take responsibility for failures in care that have been identified in the media and will be revealed by the Royal Commission.

However, the capacity of providers to deliver care is constrained by the resources that are available to them.

Some have accused providers of making excessive profits, but:

* the average margin for home care providers has dropped 45 per cent from its peak to just $3.49 per client per day (Chart 1), and
* more than 40 per cent of residential facilities are in deficit, with earnings declining (Chart 2) and forecast to turn negative.[[1]](#endnote-2)

Part of the problem is that public spending on aged care in Australia is:

* relatively low by international standards (Chart 3), and
* not keeping pace with rising wages and the ageing of the population (Chart 4).

Insufficient public funding means that in Home Care more than 126,000 people have been forced to wait – often more than 12 months – for care that they have been assessed to need.[[2]](#endnote-3) These long waiting times lead to unnecessary suffering, avoidable admissions to hospital and residential care and potentially reduced life expectancy.[[3]](#endnote-4)

The constraints imposed by relatively low public spending is compounded by the refusal of Government to more carefully means test benefits and seek higher private contributions from those who can afford to pay.

The modest funding increases announced in the 2018-19 Budget and Mid-Year Economic and Fiscal Outlook (MYEFO) provide some relief, but conditions will continue to deteriorate without a significantly larger intervention.

Waiting until the Royal Commission delivers its recommendations could easily delay action and there a number of urgent issues that can be addressed without prejudice to the Commission’s findings.

## Recommended measures

Low cost, or budget-neutral measures:

* Implement the Tune Review recommendations to increase consumer contributions for those who can afford to pay
* Set a fair interest rate on unclaimed lump sum accommodation payments
* Fast track home care for those with low-means
* Support those on the home care queue to use their home equity
* Commence integration of Commonwealth Home Support and Home Care programs
* Invest in research to build the foundation of long-term reform

Measures involving significant additional public support:

* Indexation correction for residential care
* Targeted relief for regional and remote facilities
* Boost to funding for behavioural and psychological symptoms of dementia
* Introduce maximum wait times for home care
* Maintain the real value of home care packages
* Begin investing in a skilled workforce

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| **Chart 1. Home care earnings** [[4]](#endnote-5)Average EBIT per client per day, $ | **Chart 2. Residential care earnings**[[5]](#endnote-6)Average EBT per bed per day, $  |
| **Chart 3. Expenditure on long-term care in selected OECD countries**[[6]](#endnote-7)Share of GDP, 2008 |
| **Chart 4 Funding per older person vs wages**[[7]](#endnote-8)Cumulative percentage change from 2012-13 |

# Low cost, or budget-neutral measures

There are a number of low-cost or budget-neutral ways that Government could provide additional support for aged care.

Implement the Tune Review recommendations to increase consumer contributions for those who can afford to pay

The most significant set of budget-neutral measures would be to implement the recommendations of the 2017 Aged Care Legislated Review (the Tune Review) to allow higher contributions from those who can afford to pay.

A good first step would be the recommendation to allow residential care providers to charge a higher basic daily fee to non-low means residents, with amounts over $100 to be approved by the Aged Care Pricing Commissioner.

The basic daily care fee covers day-to-day living costs such as meals, cleaning, laundry, heating and cooling.

The Tune Review quotes CEO of LASA Member IRT noting that the gap between these daily living expenses and the basic daily fee has risen from $16.10 to $32.12 per day.[[8]](#endnote-9)

One benefit of a higher basic daily care fee would be increased funding for resident meals. Food in residential care has been a key area of concern in media reports.[[9]](#endnote-10) It is also an area of relative weakness in recent consumer surveys (though LASA notes that 84 per cent of residents are still reported as liking the food always or most of the time).[[10]](#endnote-11)

Government could also support more equitable consumer contribution by:

* adjusting upwards the current threshold value ($162,000) of the family home in residential aged care means testing calculations (Tune #13)
* increasing the annual fee cap for home care package income tested care fees (e.g. to $20,000 per annum), reviewing annual caps for means tested fees in residential care and abolishing lifetime caps for these fees in both home care and residential aged care (Tune #15)
* introducing mandatory consumer contributions for Commonwealth Home Support Program services – commensurate with an individual’s financial means (Tune #16)
* increasing the maximum accommodation (bond) payment to $750,000 (or equivalent daily payment) and implementing an automatic link between future maximum accommodation payment levels and median house prices, with possible adjustments to this for regional areas where local property values may not reflect the level of investment required (Tune #19).

Set a fair interest on unclaimed lump sum accommodation payments

Government could free-up resources in residential care by lowering the base interest rate (BIR) that providers are required to pay on unclaimed lump-sum accommodation payments following a resident’s departure from care.

Currently providers are required to pay a BIR of 3.75 per cent until 14 days after a valid request is made, after which a penalty rate of 5.72 per cent applies (known as the Maximum Permissible Interest Rate). The BIR is supposed to compensate the resident or their estate for the time that the lump sum deposit is held while care is no longer being provided. However, it is much higher than the typical rate on retail deposits, which the RBA lists at 2.15 per cent for Bonus Savings Accounts.[[11]](#endnote-12)

Members report that it is not uncommon for the estate of a deceased resident to delay requesting the return of their funds because the BIR is higher than what they could earn themselves.

According to StewartBrown the average Accommodation Bond/Refundable Accommodation Deposit was around $295,000 at June 2018. The difference between applying the current basic interest rate and the retail rate is around $4,700 per annum.[[12]](#endnote-13)

A 2017 ACFA report on this issue did not make a clear recommendation, noting that a reduction in the BIR would be at the expense of consumers.[[13]](#endnote-14)

However, ACFA did not recognise that resources that a provider must devote to paying an unreasonably high BIR subtract from the resources that are available to other residents.

LASA believes that the current arrangements create a perverse incentive that benefits the estates of some residents at the expense of other residents and the financial sustainability of providers.

Fast track home care for those with low-means

Government should fast-track the home care queue for low means individuals to address the fact that they are less able to pay for services privately.

LASA notes that around 39 per cent of people over 65 are on a full-pension, 24 per cent are on a part pension, 5 per cent are on a DVA pension and 32 per cent are fully self-funded.[[14]](#endnote-15) The proportion of self-funded retirees would be lower among older aged groups who are more likely to use home care. However, the bottom four deciles of households clearly have significantly less capacity to pay for their own services (Chart 5).

Government should consult on the procedure for determining who should be fast-tracked and how the process can be managed so that all older Australians on the queue progress equitably.

#### **Chart 5 Income Distribution for Older Households**[[15]](#endnote-16)

#### Equivalised weekly household disposable income by decile, reference person 75+, 2015-16, $

## Give those on the home care queue the option of using home equity

Government should give those on the home care queue the option of using their home equity to fund their home care needs.

A simple first step is to ensure that the options presented from 1 July 2019 by the revised Pension Loans Scheme (PLS) are communicated to all of those on the home care queue.

Under the revised PLS all older Australians will have access to a regular payment equal to the difference between their current Age pension payment, if any, and 150 per cent of the maximum pension rate. For self-funded retirees this equates to about $35,700 per annum for single individuals and $54,000 for couples. For those on a full pension this falls to $12,000 for individuals and $18,000 for couples. Repayment is only required when the property is sold, or when the individual and their partner pass away. Individuals also cannot be asked to repay more than the value that the property is sold for.

The PLS is only available to those with real property for security. However, in 2015-16, the average net value of owner occupied housing for those over 75 was about $535,000 and 82 per cent of households owned their own home without a mortgage.[[16]](#endnote-17)

In theory, the maximum amounts under the revised PLS will be enough to fund a significant proportion of the unmet home care needs of those on the queue.

Unfortunately, LASA understands that only a few thousand people are expected to take-up the pension loans scheme across the full range of eligible individuals.

Directly presenting the option to those on the queue – while noting the need to seek financial advice – may help to boost take-up.

However, LASA also believes that the terms of the PLS could be made more attractive.

In particular, LASA is concerned that the PLS interest rate of 5.25 per cent is too high. This rate has been in place since 1997 when the RBA cash rate was 5-6 per cent, whereas it is currently at 1.5 per cent. The PLS rate is now well above the Government’s cost of borrowing. Indeed it seems likely that the only reason why the PLS has a negative cost to the budget is that volumes are too low to cover the fixed costs of administering the scheme.

LASA believes that there is a strong case for the creation of a ‘Home Care Loans Scheme’ with more generous terms, including a heavily concessional interest rate (probably linked to CPI) and a maximum borrowing amount that is linked to an individual’s unmet need for home care.

For example, if they are assessed to need a level 4 package and are on a level 2 interim package they should be allowed to borrow the difference between these amounts. This should be on top of the standard Pension Loans Scheme.

Amounts borrowed through the Home Care Loans scheme should be distributed in the same way as ordinary home care funds to ensure that they are used for eligible expenses.

LASA notes that the Productivity Commission also recommends an equity release scheme in its 2011 “Caring for Older Australians’ Report. However, this was linked to the inclusion of the principle place of residence in means testing and was rejected by Government.

LASA believes that it is crucial that any Home Care Loans Scheme be an additional option for older Australians to deal with the unfortunate reality of the queue, rather than something that they will be forced into using.

Commence integration of CHSP and HCP

The current inconsistency between Commonwealth Home Support Packages (CHSP) and the Home Care creates significant inefficiency and inequity in Government funding for care at home. For example, Members report that they have clients who are able to access services worth significantly more than the value of their home care package by accessing multiple services through CHSP. With current CHSP contracts expiring in July 2020, having already having been rolled over once, it is vital that Government urgently work with the sector to determine a pathway for transition to a unified care at home system.

## Invest in research to build the foundation of long-term reform

Government should invest in the foundation for long-term to move from ‘aged care’ to ‘ageing well’. This should include:

* Research to develop more robust outcome based measures of life satisfaction and clinical quality that are robust and cost effective enough to act as quality measures across the system and at an individual service level in both home care and residential care
* Research building on the Resource Utilisation Classification Study (RUCS) to identify the resources required to deliver care that achieves agreed benchmarks against these indicators, including staffing and skills needs
* Research on the interface between aged care and the health care system to identify opportunities to improve efficiency and effectiveness

# But significant additional public support is needed

Significant additional public support is urgently needed to address the pressures on the aged care system.

## Residential care needs an indexation ’correction’

Residential care providers need an urgent funding boost to offset increasing financial pressures and make-up for the fact that the rising cost of providing care has not been matched by Government subsidies.

The base indexation rate applied to Government subsidies is well below increases in input costs, particularly wages and this has been compounded by recent Government decisions to pause or cut indexation.

The argument that indexation pauses were needed to offset over-claiming by some providers is hard to sustain when increases in ACFI revenue have been matched or exceeded by increases in ACFI related costs.[[17]](#endnote-18)

To the Government’s claims that some providers were over-claiming subsidies via inappropriate application of the Aged Care Funding Instrument (ACFI), LASA previously recommended to Government an alternative approach to effectively administer the claiming system, identify anomalous claiming behaviours, investigate these instances and apply penalties where appropriate. However, by changing the ACFI scoring protocols and cutting indexation, the Government reduced funding for all providers and residents.

As noted above, StewartBrown is predicting that the average residential care facility will deliver a negative financial result in 2019, with an estimated 41.4 per cent of facilities currently operating at a loss.[[18]](#endnote-19) Over this period of deteriorating financial performance StewartBrown reports that providers have also continued to increase care hours, but this cannot continue indefinitely.

Setting an appropriate rate of indexation is a structural issue that may be difficult to resolve until the Royal Commission issues its report. However, providers and those that they care for need urgent support.

Accordingly, LASA is proposing a $670 million a year boost in residential care funding. This estimate reflects a range of factors, including the value of foregone indexation. This is approximately a 5.2 per cent increase in residential care funding in 2019-20 (noting that this is difficult to calculate as forward estimates for residential and home care are no longer separately reported). Looked at another way, it is roughly an extra $10 per resident per day[[19]](#endnote-20) or the equivalent of around 15 minutes of additional staff time.[[20]](#endnote-21)

From LASA’s perspective this is a down-payment and a significantly larger funding boost may be needed following the findings of the Royal Commission.

## Additional targeted relief for facilities in regional and remote areas

Government should provide additional targeted relief for facilities in remote and outer regional areas where financial pressures are particularly high.

According to StewartBrown, the average result per bed per day is already negative outside of major cities, with facilities in inner regional areas losing $0.68 cents per bed per day and facilities in Rural and Remote areas losing $7.73 per bed per day.

LASA notes that the boost to the viability and homelessness supplements of $111.2 million over four years will be of some assistance to these facilities. However, analysis for LASA by StewartBrown in August 2018 estimated that additional funding of around $130 million per year was likely to be needed to put regional and remote facilities on a sustainable footing.

## Boost to funding for behavioural and psychological symptoms of dementia

In residential care, most providers make every effort to provide quality care for those living with dementia and at time presenting with severe behavioural and psychological symptoms of dementia **(**BPSD**),** but unfortunately funding for BPSD is viewed as inadequate.[[21]](#endnote-22)

The Severe Behaviour Response Teams (SBRT) provide some support for acute incidents, but they do not provide broad based or ongoing assistance. The planned establishment of Specialist Dementia Care Units will assist in care for some severe cases, but they will only help a small proportion of sufferers and will not be fully operational for several years.

The Specialist Dementia Unit Consultation estimated that caring for those with the severe to extreme behaviours (Brodaty *et al* model[[22]](#endnote-23)) would cost $150-300 extra per day[[23]](#endnote-24).

With this in mind it is clear that a significant additional supplement is needed. This funding could be used by facilities for psychological and emotional support provision, design of the environment, education and pastoral support for families and care recipients. It could, for example, be used to employ an in-house Dementia Champion to help maintain a home-like environment and applying, individualised de-escalation techniques such as taking someone who is becoming disruptive outside for a walk.

LASA notes that at the time the previous dementia supplement was removed it was costing the Government around $100 million a year.[[24]](#endnote-25) A new supplement within a similar funding envelope would provide much needed temporary relief in relation to this issue while the Royal Commission considers whether more structural changes are needed. Any concerns with regards to subsidy claiming behaviours would be managed through a strong regime of external validations.

## Introduce maximum wait times for home care

The Government should phase in maximum wait times for the home care queue for both final and interim packages. This will provide certainty and stability and establish a clear expectation that those in need of home care will not be forced to wait an unlimited period of time. Compared to people who waited 30 days or less for a home care package, individuals who waited more than 6 months had an almost 20 per cent excess risk of death within 2 years of entry to home care.[[25]](#endnote-26)

Based on the data available, LASA estimates that the total value of unmet demand on the home care queue has recently stabilised, even as the number of people on the queue continues to increase. However, the total value of unmet demand remains very large at perhaps $8-9 billion over three years. [[26]](#endnote-27)

To smooth the costs of meeting care needs and reducing the queue, LASA recommends a phasing in of gradually smaller maximum wait times, until the maximum wait time for any package is no more than three months.

To limit the level of unmet demand, this phasing in of maximum wait times should be supplemented by prioritising the queue based on individuals’ means and giving people the option of using their home equity to fund their care needs.

LASA does not have data on the distribution of current wait times, so it is difficult to estimate what implementing such a measure would cost. However, LASA believes it would be reasonable to invest around $500 million a year in additional funding until wait times fall to an acceptable level.

## Maintain the real value of home care packages

Indexation is also inadequate for home care packages, with the real value of services that can be purchased at given package level falling as wages rise. This is also reflected in the dramatic drop in the surplus of home care providers as the large number of new entrants increases competition and forces down margins. Longer-term, LASA believes that indexation rates should be adjusted to reflect cost growth. However, in the short-term LASA recommends an investment of $60 million per year to boost the value of home care subsidies.

LASA has also urged the Government to pay close attention to emerging tensions within the home care market, noting that some Members are reporting pressure not to charge individuals the income tested basic daily care fee, and/or to use funds for potentially inappropriate purposes. LASA has also sought assurances from Government to ensure appropriate and timely compliance with quality standards, across HCP providers, is maintained.

## Begin investing in a skilled workforce

The Workforce Strategy Taskforce Report has made it clear that significant additional investment in workforce training will be needed. This additional investment should begin as soon as possible so that staff can begin upskilling to deal with growing issues, such as dementia, palliative care, and medication management. In the first instance, a funding pool of around $30 million a year would be a reasonable down-payment. This is similar to the amount that was allocated to aged care under the Workforce Development Fund,[[27]](#endnote-28) and it is roughly enough money for one staff member in each aged care service to attend a single day of appropriate training.

# Conclusion

Aged care is an issue of national importance. It matters just as much as health and education, and it is vital for this to be recognised in the Budget. Aged care is too important not to get right.

We all want a safe, high quality and high performing aged care system. Older Australians need it and older Australians deserve nothing less.

The aged care sector is in a state of transformation and seeking to meet:

* the growing and changing needs of an ageing population;
* whilst working to ensure appropriate supply of services and accommodation;
* whilst seeking to maintain affordability and quality;
* whilst striving to attract, develop and retain an appropriately skilled workforce;
* whilst responding to an innovation imperative (productivity pressures, new models of care, technological advances, and business model disruption), and
* whilst also managing through regulatory and legislative changes supporting the reform agenda.

Meeting all of these challenges will only be possible with appropriate support from Government.

The Royal Commission provides ‘once in a generation’ opportunity to make the aged care system better for all older Australians, now and into the future.

However, the measures proposed in this pre-budget submission support making the system better right now, while laying foundations for the potential outcomes of the Royal Commission process.

1. <http://www.stewartbrown.com.au/images/documents/AgedCareFinancialPerformanceSurvey_September_2018SECURED.pdf> [↑](#endnote-ref-2)
2. LASA calculations based on <https://www.gen-agedcaredata.gov.au/Resources/Reports-and-publications/2018/November/Home-care-packages-program-data-report-1-July-%E2%80%93-30> [↑](#endnote-ref-3)
3. <https://link.springer.com/article/10.1007/s12603-018-1145-y> [↑](#endnote-ref-4)
4. StewartBrown ACFPS Dec-16 to Sep 18, compiled by LASA [↑](#endnote-ref-5)
5. <http://www.stewartbrown.com.au/images/documents/AgedCareFinancialPerformanceSurvey_September_2018SECURED.pdf> [↑](#endnote-ref-6)
6. based on OECD data compiled by the Productivity Commission see <https://www.pc.gov.au/inquiries/completed/aged-care/report/26-aged-care-appendixd.pdf> for sources and notes [↑](#endnote-ref-7)
7. LASA calculations based on data from <https://www.pc.gov.au/research/ongoing/report-on-government-services> for aged care spending and <https://agedcare.health.gov.au/sites/default/files/documents/08_2018/acfa_sixth_report_2018_text_fa3.pdf> for aged care award wages. Real aged care spending reported by the Productivity Commission has been reinflated by the Government Final Consumption Expenditure deflator to allow the calculation of nominal growth. [↑](#endnote-ref-8)
8. <https://agedcare.health.gov.au/sites/default/files/documents/08_2017/legislated_review_of_aged_care_2017.pdf>, page 82 [↑](#endnote-ref-9)
9. <https://www.abc.net.au/news/2018-09-17/food-in-aged-care/10212880> [↑](#endnote-ref-10)
10. <https://www.agedcarequality.gov.au/sites/default/files/media/AACQAConsumerExperienceReportTrends.pdf> [↑](#endnote-ref-11)
11. <https://www.rba.gov.au/statistics/tables/xls/f05hist.xls?v=2019-02-01-10-19-27> [↑](#endnote-ref-12)
12. <http://www.stewartbrown.com.au/news-articles/26-aged-care/166-june-2018-aged-care-sector-reports-released> [↑](#endnote-ref-13)
13. <https://agedcare.health.gov.au/reform/report-of-the-base-interest-rate-project> [↑](#endnote-ref-14)
14. <https://www.actuaries.asn.au/Library/Events/Insights/2018/MichaelRicePaper.pdf> page 17 based on DSS and DVA data [↑](#endnote-ref-15)
15. <http://www.abs.gov.au/AUSSTATS/subscriber.nsf/log?openagent&65230do001_201516.xls&6523.0&Data%20Cubes&D855CA80E6B4C593CA2582D5001333CC&0&2015-16&26.07.2018&Latest> [↑](#endnote-ref-16)
16. <http://www.abs.gov.au/AUSSTATS/subscriber.nsf/log?openagent&65230do012_201516.002.xls&6523.0&Data%20Cubes&65DB44D4461F26D7CA2582D5001335D9&0&2015-16&26.07.2018&Latest> [↑](#endnote-ref-17)
17. <http://www.stewartbrown.com.au/images/documents/AgedCareFinancialPerformanceSurvey_September_2018SECURED.pdf> page 7 [↑](#endnote-ref-18)
18. <http://www.stewartbrown.com.au/news-articles/26-aged-care/171-aged-care-financial-performance-survey-quarter-ended-september-2018> [↑](#endnote-ref-19)
19. LASA calculation based on number of residents from <https://www.gen-agedcaredata.gov.au/Resources/Reports-and-publications/2018/November/2017%E2%80%9318-Report-on-the-Operation-of-the-Aged-Care-A> [↑](#endnote-ref-20)
20. LASA calculations based on cost of average staff costs per resident per hour from <http://www.stewartbrown.com.au/images/documents/StewartBrown---Aged-Care-Workforce-Strategy-Taskforce-Submission-June-2018.pdf> [↑](#endnote-ref-21)
21. LASA response to Specialist Dementia Care Units Consultation Paper <https://lasa.asn.au/aged-services-in-australia/lasa-submissions/> [↑](#endnote-ref-22)
22. <https://www.mja.com.au/journal/2003/178/5/behavioural-and-psychological-symptoms-dementia-seven-tiered-model-service> [↑](#endnote-ref-23)
23. <https://agedcare.health.gov.au/programs/specialist-dementia-care-program> [↑](#endnote-ref-24)
24. https://formerministers.dss.gov.au/15592/cessation-of-the-dementia-and-severe-behaviours-supplement/ [↑](#endnote-ref-25)
25. https://link.springer.com/article/10.1007/s12603-018-1145-y [↑](#endnote-ref-26)
26. This estimate is based on multiplying the value of each level of home care package by the number of people waiting for that package level, less the value interim packages and CHSP services that they are likely to be receiving, multiplied by the average length of stay in home care and less the average value of unspent funds. [↑](#endnote-ref-27)
27. <https://docs.education.gov.au/system/files/doc/other/skillingyourbusiness.pdf> page 10 [↑](#endnote-ref-28)