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Aged Care Strategies and Policies

by
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1. Strategic Choice

The aged care edifice associated with the 1997 Act and directed to implementing a Napoleonic Code of measures, has failed to offer choices for users and quality in performance. This rigidity should be abandoned for one allowing flexibility in arrangements and choices for providers and users of aged care services, residential and domiciliary. Government should stand between them to secure quality of service, support for the concessional and assisted residents and fostering investment spending to ensure an expansion in capacity for the growing proportion of elderly in the population.

The alternative strategy is one directed to flexibility and choice.[1] Flexibility is about granting authority to participants in the industry, most of all boards and management, to determine how aged care might be offered in light of immediate needs which may be local or regional rather than national. Choice is about the scope for users to have a basis for selection of locations when seeking residential facilities. Choice is about boards and management determining their investment outlays on new or replacement capacities as well as shifting between low care and respite care offerings in their facilities. The underlying purpose is for enhanced competition and stimulus to quality, the two going hand in hand.

[1] New approaches to strategies for aged care were offered in the reports from the Review of Pricing Arrangements in Residential Aged Care (Hogan, 2004a and b). These were supported the following year in a comprehensive effort from a Senate Committee (Senate,2005).

Mention of these possibilities is important for an understanding of the outcomes from the recent Aged Care Review.[2] Over two and a half years have elapsed since the main report from the review was submitted. This is a period twice as long as that taken by the review. In that my thinking has gone beyond what was conveyed in the report in the most important strategic aspects. Review. (See, for example, Hogan, 2005a and b)

2. Changes So Far

When speculating about future directions in aged care, some remarks may be directed to what has been achieved since the two reports from the Aged Care Review were submitted. Most responses so far were conveyed in the May 2004 Budget. The main focus was on the daily allowance for concessional and assisted residents otherwise thought of as pensioners and part-pensioners, and the additional pricing provisions over and above the regular COPO index adjustment.[3] The result was an additional funding of $1.7 billion into aged care. Other increases in that Budget could not be attributed to work of the Review. Subsequent commitments to research, education and training about neurodegenerative diseases may reflect the strong recommendations from the Review about these needs. Hence another $200 million for those spheres may be attributed to these efforts.

Subsequently, measures have been taken to carry forward some needed improvements especially in the monitoring and supervision of aged care entities as well as the guarantee for repayment of the balances associated with accommodation bonds when they fall due. The Australian Government chose not to accept the approaches advocated by the review. However the essential requirements recognizing the moral hazard to which the Australian Government had been exposed, have been covered.

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[2] The formal title of the inquiry, as mentioned in the preceding footnote, was the *Review of Pricing Arrangements in Residential Aged Care*. However, the words "price" or "pricing" do not appear anywhere in the terms of reference where the main focus is on longer term issues such as funding, productivity and efficiency, management and workforce themes.

[3] The Commonwealth Own Purposes Outlays (COPO) index was devised by the previous Australian Government to replace input pricing. The Conditional Incentive Supplement of 1.75 per cent each year for the following four years was devised to avoid the government-producer imbroglio over input or output pricing while providing a stimulus to technological betterment and managerial improvements for efficiency and productivity gains for which the Review's work showed there was much scope.

The Conditional Incentive Supplement became the Conditional Adjustment Payment. The shift of language gave further currency to the input-output indices controversy because the change in wording made the supplement appear as an adjustment for some shortcomings in the COPO arrangements. The intention from the Review had been the positive focus on betterment and give no hint as to judgements on the COPO arrangements.

When these measures and others of more recent vintage are looked at, the firm impression is a gradualist approach to aged care betterment. Some immediate issues should be addressed.

3. Accommodation Bonds

Accommodation bonds apply in low care, in extra service high care and are perpetuated in the processes of "ageing in place". Bonds are a form of corporate debt provided by the resident or resident's family which is repayable except for an annual charge, the retention sum. The interest on the bond accrues to the provider as a contribution to servicing the cost of capital embodied in the aged care facility as does this annual retention charge, itself limited to five years duration.[4] The bond is a loan contribution towards the costs of provision of a residence. Thus it has similarities to the minimum payment and servicing costs of a mortgage on an ordinary residence. But the bond requirements are subject to some minimum value of assets held by the resident. There is no compulsion and providers who seek otherwise from those with scant resources are liable to prosecution.

Accommodation bonds are not permitted in ordinary high care. The impact of this discrimination is to make investment in ordinary high care facilities less attractive than in any type of aged care facility. So long as this discrimination is maintained the handicap will be there. Yet high care needs will increase relatively to low care in coming years, especially so with the greater quest or reliance on various categories of domiciliary care which appears to be emerging.

The distinction drawn between extra service high care where bonds may be sought, and ordinary high care where they may not, brings a remarkable discrimination. Those with substantial assets may "buy" their way into high

[4] Note how the accommodation bond in the hands of the aged care entity is both a liability and an asset.

care by offering substantial bonds. Those lacking substantial wealth, not concessional and assisted residents alone but including those of relatively modest wealth, are not able to offer anything to support the provision of services for them. *Thus the discrimination is against the less well placed in Australian society.*[5]

There has been every prospect in the past few years for a general consensus to emerge in favour of abolishing this discrimination. The momentum has gathered pace in the past couple of years with every prospect of a full realization of consensus. However, aged care matters cannot escape past history.[6]

In this setting as in other aspects of aged care, the stage is set for gradualism rather than dramatic and sweeping changes. Uniformity in application of accommodation bonds is inevitable.

4. Aged Care Funding Instrument

Much work of the Review was directed to the funding mechanism familiar as the Resident Classification Scale(RCS). The bulk of submissions and discussions around Australia sought simplification of the RCS provisions. There were very serious and genuine worries about the confusion of the necessary care plans for supporting individual residents with the needs of validating the financial claims appropriate to their condition.

A comprehensive analysis of the evidence about the effectiveness of the existing provisions in the RCS arrangements and the scope for simplification was undertaken for the Review by the Australian Bureau of Agricultural and Resource Economics with guidance and help from the Australian Institute of Health and Welfare. There can be no question about the great quality of this work and the clarity of the results. The scope for simplification was shown very clearly.

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[5] The Review did not pay enough attention to arguments for treating accommodation bonds uniformly across all categories of aged care. The reasons for eliminating discrimination against accommodation bonds in ordinary high care were so obvious, the prospect for uniformity and the efficiency gains to be secured from that shift so apparent, the need for much greater specification was overlooked.

[6] Historically "for profit" providers were confined to offering high care facilities only until a little more than a decade ago. Thus the "not for profits" could draw upon accommodation bonds as well as their exempt tax status to secure established positions. That some "not for profits" may argue still against accommodation bonds in ordinary high care, does smack of special pleadings unmindful of the urgent needs in ordinary high care.

Subject to provisions for additional supplements for supporting residents experiencing neurodegenerative problems and needs for palliative care, the recommendations were for a simplified RCS system. Moreover there was no suggestion for these additional supplements to be incorporated within the existing funding structures of the RCS arrangements

What has emerged from a very lengthy process on new approaches to funding measures is different. Rather than simplification there has been a shift to a proliferation of funding categories with a potential for a very large number of funding permutations. What has brought this ever increasing thrust for complexity appears to reflect a quest for gradualism in the shift from one funding group to the next. Simplification has been lost from sight. Explanations for what has emerged are difficult to detect.

However, the critical feature of the new proposals is the reweighting of provisions taking much greater account of behaviour issues. This amounts to bring within the funding structure the quest for additional supplements relating to neurodegenerative afflictions. In short the request for additional funding has been set aside. The stance of these revisions lies in placing these additional provisions within the existing funding limits. The effect is to turn Category 7 in the existing RCS provisions into the same Claytons Category as the present Category 8 while Category 6 will be diminished for funding support.

There are implications of this new ACFI which must be addressed. Foremost is the greater emphasis on domiciliary care rather than residential. This is not just a matter of shifting out of the lesser categories of low care but also the belief held by some in the community for offering more intensive care associated with more demanding requirements of high care. Whatever the relative balances in terms of needs greater reliance on living within the community will increase demands for respite care at residential facilities. This calls for a reconsideration of the existing arrangements for offering that care which, because of turnover of people, is more expensive than longer term residential low care. There is need for greater flexibility in arrangements whereby boards and management may make decisions about

relative balance of facilities on offer between residential low care and respite care. These matters should be addressed promptly prior to 1st July, 2007.[7]

5. Pricing Themes

There are myriad of pricing rigidities besetting performance in aged care services. These are referred to briefly though more extensive coverage has been offered in other places (Hogan, 2005b and 2006)

a. Extra service high care facilities owe their existence to the regulatory discrimination associated with the prohibition of accommodation bonds in ordinary high care. The rate of growth of these facilities points to a substantial demand for access and a capacity to pay. So long as administrative procedures hamper the expansion of capacity to meet the apparent demand, the need for their reconsideration is essential. By limiting growth in capacity the administrative processes are creating rents, or unearned increments of profit, to be enjoyed by providers. In so doing market distortions are perpetuated and users cannot secure access to the facilities they seek.

In this situation the aim should be to expand facilities to the point where prices can be left for users and providers to settle.

b. In parallel with these developments, the Australian Government should review the one specific impost on charges for extra service high care. This is the so-called "claw back " whereby the provider must repay to the Australian Government 25 per cent of the excess over scheduled prices which users of this type of facility pay. This in turn forces prices higher in a market where the administrative leadership controls supply.

c. The value of accommodation bonds has risen sharply in recent years reflecting high asset valuations across Australia rather than the ways in which extra service high care has been fostered. Yet the provisions about sums retained from those bonds to fund capital servicing has been stagnant in contrast to the values associated with bonds. The present retention limit around $2,600 per year arrived at long ago is trivial in relation to present

[7] With more emphasis on domiciliary high care, as being tested by Project Each and like measures, the ways to offer respite care in high care situations may become onerous in the next few years.

values however measured in asset or cost terms. Rather than rest on some fixed sum as at present, the maximum retention might be set as a specified percentage of the value of the accommodation bond, say 5 per cent.[8]

d. A major recommendation from the Review was about the need for the Australian Government to provide for the full costs of concessional and assisted residents rather than rely upon an administrative requirement for all aged care entities to take a specified proportion of them. In effect the provision calls upon the providers of aged care services to subsidise these residents under threat of loss of revenues should they not do so. Government should meet the full costs of these residents and thus eliminate the selection bias induced by this imposition. Initial steps to secure this outcome were realized in the 2004-05 Budget. It is timely for the process to be completed and bring about one less administrative imposition which is so remarkably crude in its application.

e. Timeliness bears upon the need for considering the Conditional Incentive Supplement known as the Conditional Adjustment Payment in officialese. This pricing measure had its origins in a recommendation from the Review. The purpose was to offer a price incentive over four years while the processes for restructuring and re-ordering priorities in policy arrangements for aged care were put in place.

These processes have taken longer than anticipated, at least by the Review. Effectively, the halfway mark has been passed. Gradualism in the implementation of strategies is likely to stretch beyond the four years. Hence the need to explore extensions to this supplement must be addressed soon. This is not an easy task when the basic COPO procedures remain in place and themselves have never been reviewed despite a commitment of the previous government to have that done soon after the initial programme was put in place.

f. The basis for bed allocations is not impressive. Work undertaken by the review was revealing of ineffectiveness. The control of bed allocations establishes a fiscal constraint not to be influenced by demand for beds.

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[8] Unfortunately any adjustment would not help ordinary high care but the increment of funding might provide a basis for boards and managements of aged care entities to bring a higher proportion of any new facility under construction or refurbishment into ordinary high care.

Users and their families bear the brunt of the rigidities perpetuated by these arrangements. Under present arrangements certification of need by an Aged Care Assessment Team(ACAT) is not a guarantee of a place in residential or community care. All it offers is a certification for entry should a place be available.[9]

Preparation for more competition and choice inevitable with users seeking wider selection across facilities and market influences essential to promote efficiency gains, initial steps should be to increase bed allocations. This is an important signal for longer term considerations. Asset pricing decisions must reflect, sooner preferably to later, an expectation of occupancy rates around 90 per cent capacity utilization rather than the higher historical experiences at 96 per cent. In light of the ACFI measures the weight should shift to a higher proportion in high care, most of all in extra service high care.

g. There are some groups in Australian society where the capacity to raise funds for investment in facilities is lacking altogether or is minimal. There is need to offer some specific clarification of general support for these groups and to include the additional group recommended by the Review being for the homeless in predominantly urban settings. These should not be dependent on administrative determinations.

6. Strategic Choice

Central to future developments are provisions about investment for the expansion in the number of beds. In the report from the Review possibilities for the allocation of funded beds were conveyed by way of two options. One approach was the introduction of an auction technique whereby providers made bids for bed licences. The alternative was a contracting agency negotiating prices of beds across different categories of residents with the bed authorizations going to those offering the lowest prices for service. There are problems with both these proposals.

[9] The costs of an unrequited demand for support are concentrated on families and friends. These costs may be reflected in income foregone by supporting family members owing to withdrawal from the workforce, as well as direct costs of help provided in various ways.

Foremost, with both proposals the number of beds remains determined centrally with the funding still attached to the beds. The auction system does allow some competitive influences in that bidding thwarts reliance on administrative determinations alone between suitably qualified entities. However, the suggestion suffers from taking funds out of the industry being the values established by the auction prices. This would be occurring at the very time the quest for expansion should mean maximizing the funds available to support investment outlays. The number of beds to be put to auction would still be determined centrally. The contracting agency approach would not foster substantial competition between entities other than opening up possibilities for gaining lowest cost services because the numbers of beds allocated would still be determined administratively.

The solution to these dilemmas rests upon the abandonment of any regulated procedure for bed allocations leaving the investment decisions to boards and management of entities providing facilities. They would be responsible for making investment decisions and determining the range and quality of services they might offer.

Some reservations may be expressed about the applicability of these arrangements in remote and those rural spheres where supporting services are lacking.[10] In these circumstances there are grounds for implementing an auction system with bids sought on the fiscal support needed for capital outlays and operating budgets were facilities to be established in those locations. This approach has the advantage over the existing administrative bed allocation device in that existing regional providers and potential newcomers may bid on equal footing. A further advantage accruing from this approach would be to thwart a proliferation of very small-scale facilities, much less than thirty beds, perceived to be the common experience in too many locations and an ineffective means of funding aged care services.

The accompanying major change must be to shift the authority to fund aged care services to the users of those services and their families by issuing vouchers to residents and potential residents for the value of the care to be

[10] This wording reflects the misgivings emerging from work during the Review pointing to the unsatisfactory ways the term "rural" was used to depict some aged care facilities and circumstances in which they operated. Some of these facilities were close to substantial support services such as acute hospitals and other medical and health care provisions. Others were not being more akin to remote facilities. These are the ones where incentives are most likely needed to ensure their continued existence.

met by government. The recipients might then take the vouchers to aged care facilities to judge the best place in which to secure that level of care. The determination of need would be made as at present through the Aged Care Assessment Teams(ACATs). The difference would be simply granting the users of services in aged care the same basis on which they secure health care, namely through a government voucher known as Medicare.

Reservations may be expressed about this arrangement when those in need lack capacities for choice. In practice this is no different than applies now where the seriously incapacitated unsupported by families are dependent on staff in hospitals, aged care entities, charitable service places and similar community groups to bring succour.

This shift in arrangements changes the relative balance of interest and commitments between the major participants. Government will be exposed to greater fiscal risk but this will not be novel being the common experience in all health commitments. Aged care vouchers would be a modest increment to what is in place in the health and pharmaceuticals spheres now. Providers will be treating directly with users of services rather than government. This should afford relief from the duality of existing government-provider contretemps.

The priority for growth applies no less forcefully to workforce issues, have been spelt out in terms of education and training but not exclusively so. Boards and management must be imaginative, as some already are, to attract more and younger RNs and ENs especially, into aged care. For the various categories of personal care workers career paths should be traced out; systematic training activities may open opportunities to gain qualifications and advancement in aged care activities. The application of satellite technology embodied in the Aged Care Channel has permitted the widespread dissemination of programs for continuous improvement and specific training needs at very low costs. This development owes everything to the initiatives of a former Minister for Ageing, Hon Kevin Andrews,

What has been specified so far is fundamental to the application of new strategies emphasizing flexibility in the provision of services and choice for providers and users of services. Without these major shifts in place, any reformulation of pricing and other measures will not bring improvements in quality or services.

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