

# ACSA Submission



SUBMISSION TO THE ROYAL COMMISSION  
INTO AGED CARE QUALITY AND SAFETY

## FINANCING AGED CARE

AUGUST 2020

## ABOUT ACSA

---

Aged & Community Services Australia (ACSA) is the leading national peak body supporting not for profit church, charitable and for-purpose providers of retirement living, community, in-home and residential care for more than 450,000 older Australians.

ACSA represents, leads and supports its members to achieve excellence in providing quality affordable housing and community and residential care services for older Australians.

The aged care industry makes a significant contribution to the Australian economy, representing more than 1 per cent of Gross Domestic Product (GDP) with Australian Government expenditure on aged care in 2018-19 of \$19.9 billion and consumer expenditure on aged care around \$5.1 billion in 2018-19 (excluding refundable accommodation deposits). In 2016, there were over 366,000 paid workers in aged care with a further 68,000 volunteers<sup>[1]</sup>.

Mission-based and other not-for-profit organisations are responsible for providing services to the most disadvantaged and are a critical part of the social fabric of local communities – not only for the essential care and support they provide – but also as a valuable generator of jobs and growth.

ACSA members are important to the community and the people they serve and are passionate about the quality and value of the services they provide, irrespective of their size, service mix or location.

## ACSA CONTACT

---

**Patricia Sparrow**, Chief Executive Officer  
 Aged & Community Services Australia  
 Suite 3, Level 6, 24 Collins Street  
 Melbourne VIC 3000  
 [REDACTED]  
[Patricia.Sparrow@acsa.asn.au](mailto:Patricia.Sparrow@acsa.asn.au)

**Derek Dittrich**, Senior Manager Strategic Policy  
 Aged & Community Services Australia  
 Building 3, Level 1, 32-56 Sir Donald Bradman Drive  
 MILE END SA 5031  
 [REDACTED]  
[Derek.Dittrich@acsa.asn.au](mailto:Derek.Dittrich@acsa.asn.au)

[www.acsa.asn.au](http://www.acsa.asn.au)

---

<sup>[1]</sup> Aged Care Financing Authority, Eighth report on the Funding and Financing of the Aged Care Industry, May 2020, pages 7 and 8 (Word version)

## BACKGROUND

---

In June 2020 the Royal Commission into Aged Care Quality and Safety (the Commission) released a discussion paper titled *Financing Aged Care* (the Paper).

This is an important document generating much needed discussion on financing options for the future.

As the Commission has noted their role is not simply to recommend improvements to aged care, it is also about how any improvements they recommend should be paid for.

This is an important acknowledgement that there is no escaping the need to substantially reform and increase funding to deliver the care older Australians need and want.

Fundamental questions need to be asked about the role of Government, consumers and providers in financing aged care.

Recently released research by the Commission indicates that Australians place a high value on quality aged care, that they recognise there are deficits that need fixing and believe government should significantly increase funding to address this. Support is present for consumer co-contributions as is support for increased funding for aged care derived from higher taxes.<sup>1</sup>

The Interim Report of the Royal Commission found that the aged care system requires fundamental reform, and that the reforms necessary to improve the quality of aged care will require a 'significant injection of funding.'

The Paper poses three key options:

1. Minimal change;
2. Social insurance models; and
3. Private insurance models

A serious conversation about how to finance the aged care system Australia deserves is overdue and welcome. ACSA is pleased to contribute to this vital community discussion and present our views to the Commission.

---

<sup>1</sup> Research Paper 6 – Australia's aged care system, Royal Commission into Aged Care Quality and Safety, July 2020, p4



## CURRENT STATE OF THE SECTOR

Much has already been written about the deteriorating financial status of the aged care sector. These concerns have been well articulated by a range of commentators including [StewartBrown](#) and the [Aged Care Financing Authority \(ACFA\)](#). ACSA has commented on funding in our submissions to the Commission on [residential care](#) and [home care](#) and in a [witness statement](#) from Patricia Sparrow, ACSA CEO on financing issues.

Put simply, 60 per cent of residential aged care providers are experiencing an operational loss (rising to 74 per cent for outer regional and remote providers) with 34 per cent of homes recording an operating cash loss, and with the bottom 75 per cent of homes (a very large cohort) experiencing an operating loss of \$17.72 per resident per day<sup>2</sup>.

In home care, key metrics also continue to trend in the wrong direction with revenue per client per day decreasing by nearly 6 percent. StewartBrown notes that for the six month period October 2019 to March 2020 the performance of in-home care deteriorated to be a deficit of \$1.84 per client day.<sup>3</sup> We note that current performance is not a result of increased revenue, but is due to reduced staff costs resulting from reduced service delivery, this is not sustainable.

As the Commission notes in its Paper aged care needs secure and stable<sup>4</sup> funding 'now and into the future' and that the reforms necessary to improve the quality and safety of aged care will require a 'significant injection of additional funding'.<sup>5</sup>

The Royal Commission commissioned a research paper on international comparisons *Review of International Systems for Long-Term Care of Older People* which highlighted that Australia spends less than the OECD average on aged care and spends much less than the Scandinavian countries oft cited as aged care service exemplars<sup>6</sup>.

Currently the Government spends around one percent of GDP on aged care with Australian Government expenditure on aged care in 2018-19 of \$19.9 billion.<sup>7</sup>

While caution is required comparing GDP spends, given the different aged care systems in place in different countries, the Royal Commissions own research paper highlights these differences as an indicator that not enough is spent in Australia on aged care services. If we take that further and consider the actual financial spend, rather than a percentage difference, we can estimate what it would cost to bring Australia in line with those countries highlighted in the comparison

<sup>2</sup> Aged Care Financial Performance Survey, Nine months ended 30 March 2020, StewartBrown, June 2020, p4

<sup>3</sup> IBID, pp5-6

<sup>4</sup> The need for stable funding is also articulated in ACFA's report *Attributes for Sustainable Aged Care*, A funding and financing perspective, Australian Government, Aged Care Financing Authority, p4

<sup>5</sup> *Financing Aged Care*, Consultation Paper 2, Royal Commission into Aged Care Quality and Safety, June 2020

<sup>6</sup> *Review of International Systems for Long-Term care of Older People*, Research Paper 2, Royal Commission into Aged Care Quality and Safety, Commonwealth of Australia, January 2020

<sup>7</sup> Eighth report on the Funding and Financing of the Aged Care Sector, Aged Care Financing Authority, Australian Government, July 2020, pp7-8

report. The OECD<sup>8</sup> average spend on long-term aged care is 1.6 per cent<sup>9</sup>, if Australia increased its spend of GDP on aged care to the OECD average this would require a spend of approximately \$31.8 billion, an increase of \$11.9 billion.

While this is a crude and broad funding comparison and would need to be adjusted based on some of the different elements of the various country's systems to be taken into account, it does underline the underfunding concerns.

Even on a straight percentage basis, it is clear from the work of the Commission, and the many reports into aged care financing, that Government must expand the funding envelope so that:

- All older Australians can access their entitlements to aged care in line with their assessed needs;
- Providers are funded to a level that allows them to deliver care and services to the level expected; and
- There is an adequate return on assets providing for sustainability and the required investment<sup>10</sup> into the sector

---

<sup>8</sup> Organisation for Economic Cooperation and Development, [see here](#)

<sup>9</sup> Noting caution is required when comparing GDP spends across countries with different aged care systems

<sup>10</sup> The need for an environment conducive to investment is also articulated in ACFA's report *Attributes for Sustainable Aged Care, A funding and financing perspective*, Australian Government, Aged Care Financing Authority, p8

## ACSA'S AGED CARE VISION

---

ACSA and its members subscribe to the NACA vision for aged care in Australia that:

*Every older Australian is able to live well, with dignity and independence, as part of their community and in a place of their choosing, with a choice of appropriate and affordable support and care services when they need them.*

This requires a principles-based approach for aged care which would see the system underpinned by a human rights approach:

- Transparent, easy to navigate and straightforward to access
- Maximise independence, function and quality of life for older people
- Supported by a large, skilled and caring workforce
- Have transparent and effective interfaces with related systems
- Supported by a funding framework that is sustainable, equitable and cost-effective
- Enabled and enhanced by technology to improve consumer experience, safety and the cost effectiveness of services

Any financing model should also be underpinned by a principled approach. In 2017 when the Government began its review of the ACFI funding model ACSA along with a number of not-for-profit aged care peak bodies outlined the principles which should govern any newly developed funding system. [These principles](#) are still relevant today and sit equally over the services that support people receiving services in their own homes or in residential care.

Aged care funding should be outcomes focussed, address equity, support consumer choice and control, be flexible and scalable, address efficiency, provide for sustainability and funding certainty, be transparent and represent value for money and affordability for consumers and for government<sup>11</sup>. Aged care must be funded to achieve these outcomes, how the funding mix is finally made up (ongoing government funding sourced from general revenue, possible introduction of an earmarked levy, increased consumer co-contributions, and other financing options) is ultimately up to Government informed by the Australian community.

---

<sup>11</sup> Principles for Aged Care Services Funding, ACSA et al, Published by Aged and Community Services Australia, November 2016, [see here](#)



## PROPOSED FINANCING OPTIONS

Public and private contributions to aged care are estimated to be \$27 billion in 2018-19. Around 75 per cent of funding of funding comes from the taxpayer with about 21 per cent coming from consumers.

The Commissions Financing Paper indicates that Government spending on aged care will increase in real terms by 4.3 per cent per annum over the next decade and that aged care will be one of the faster growing program areas over that period, growing at more than twice the rate of all government spending. It is predicted that by 2029-30 aged care will account for 5.4 per cent of all Government expenditure.<sup>12</sup>

This growth is against a backdrop where Australia's economy is likely to be more constrained<sup>13,14</sup> as a result of the pandemic.

Over coming months we will doubtless see policy debate around whether the current funding approach is reasonable and sustainable in an environment of an ageing population, of higher deficits and debt<sup>15</sup> and a shrinking tax base caused by the falling proportion of working age Australians<sup>16</sup>.

Despite the significant impact of the global economy on Australia's budget, Australia is said to be well placed relative to other countries.<sup>17</sup> There are some positive signs in the economy (acknowledging there is significant uncertainty around global and domestic recovery) with GDP expected to increase by 2.5 per cent in 2021, driven by Government support measures, easing of health restrictions and the unwinding of containment measures leading to an opening up of the economy. Global rating agency Standard and Poor has also confirmed Australia's AAA credit rating.<sup>18</sup>

<sup>12</sup> Financing Aged Care, Consultation Paper 2, Royal Commission into Aged Care Quality and Safety, June 2020, p7

<sup>13</sup> The International Monetary Fund predicts Australia's income with contract by 4.5 per cent, with predictions that Australia's debt could reach \$1 trillion which could 'take a generation' to repay. (COVID chipping away at life as we knew it, Inquirer, The Weekend Australian, June 27-28, 2020, p13)

<sup>14</sup> The Treasurer's Economic and Fiscal update to the nation outlined stark numbers resulting from the impact of the pandemic on the nation's finances

- In 2020 the Australian economy is expected to endure its largest annual fall in economic activity on official record. Real GDP is expected to fall by 3.75% in 2020
- Projected decline in taxation receipts of \$31.7 billion in 2019-20 and \$63.9 billion in 2020-21
- The underlying cash balance is forecast to decrease from balance in 2018-19 to a \$85.8 billion deficit in 2019-20 and a \$184.5 billion deficit in 2020-21
- Net debt is expected to be \$488.2 billion (24.6% of GDP) at 30 June 2020 and increase to \$677.1 billion (35.7% of GDP) at 30 June 2021
- Unemployment is forecast to peak around 9.25% in the December quarter

<sup>15</sup> IBID

<sup>16</sup> Financing Aged Care, Consultation Paper 2, Royal Commission into Aged Care Quality and Safety, June 2020, p7

<sup>17</sup> Economic and Fiscal Update, Overview, Australian Government, 23 July 2020

<sup>18</sup> The Weekly Source, Editorial, DoComeMonday Media, Published 24 July 2020

It is in this environment that aged care must be funded to deliver the reforms needed and, in a manner that allows for the outcomes described earlier in our *Aged Care Vision*.

These cannot be achieved by doing more of the same.

### Options listed

The Paper broadly identifies three financing options for discussion:

1. Minimal change
2. Social insurance models
3. Private insurance and financial products

ACSA offers commentary on the options listed and questions posed in the Paper.

### Option: Minimal Change

The Paper recognises that at present aged care is financed through general pay-as you-go (PAYG) taxation<sup>19</sup>, supplemented by personal contributions determined by income and means tests and additional voluntary contributions to extra services or supports.

We recognise that a PAYG approach is relatively simple to administer, and that the current generation of taxpayers pays for the care of its elderly. This is fair to the extent that the current generation of taxpayers also benefits from the contributions and sacrifices that earlier generations have made. However, as demographic changes significantly reduce the proportion of working Australians, consideration needs to be given to the ongoing sustainability and equity of the current mix of taxpayer funding and consumer contributions. We acknowledge the pros and cons of a PAYG approach as outlined in the Paper.

We note the following:

- Funding for aged care must be a combination of Government funding and significant consumer co-contributions – those who are able to contribute to the cost of their care must do and those who cannot, must be protected. A consistent approach to co-contributions must be put in place across the continuum of aged care services<sup>20</sup>.
- ACSA supports the implementation of the Tune Review recommendations as they relate to user contributions<sup>21</sup>:

<sup>19</sup> Recent research released by the Commission appears to indicate strong public support for increasing funding to aged care, with the 'majority' of survey respondents (survey size 10,000+) indicating support to increase funding from the current 4 per cent of income tax collected to around 8 per cent on average, effectively doubling the current percentage of taxpayer dollars allocated (Research Paper 6 – Australia's aged care system, Royal Commission into Aged Care Quality and Safety, July 2020)

<sup>20</sup> Community Home Support Programme, Home Care Packages program and residential aged care

<sup>21</sup> Legislated Review of Aged Care 2017, Commonwealth of Australia, Department of Health, 2017, p14



- Require providers to charge the basic daily fee in home care<sup>22</sup>, making it proportionate to the value of the home care package and require providers to charge the income tested fee in home care
- That the government include the full value of the owner's home in the means test for residential care, with protections for protected persons
- Require providers to charge the minimum basic daily fee in residential care, retaining the cap for low-means residents and allow providers to charge a higher basic daily fee to non-low means residents
- That government abolish annual and lifetime caps on income-tested fees in home care and means-tested care fees in residential care
- That government introduce mandatory consumer contributions for services under the Commonwealth Home Support Programme, standardised to an individual's financial capacity
- ACSA supports consideration of an 'earmarked' levy designed to contribute to financing aged care akin to the Medicare or NDIS levy noting that it would not fully fund aged care and would likely be one of a number of sources funding the overall cost of aged care<sup>23</sup>. We acknowledge the pros and cons of earmarked taxes as described in the Paper and add the following points for consideration:
  - An earmarked tax may be 'saleable' to the taxpayer<sup>24</sup> when it is understood to be marked for aged care, noting that characteristics of this type of tax are said to include transparency and accountability. The introduction of a new levy will require Government to have a conversation with the Australian public
  - Government is best placed to determine whether an earmarked aged care levy is hypothecated or not
  - An earmarked levy could be modelled on the approach used for Medicare or the NDIS, that is based on personal income tax. Again like these levy's, monies raised through an aged care levy could be managed through a specialised fund similar to the [DisabilityCare Australia Fund](#) managed by the [Future Fund](#)

---

<sup>22</sup> ACSA notes and supports StewartBrown's funding reform consideration regarding increasing the basic daily fee by \$10 per bed per day, including the recommendation to fully deregulate the basic daily fee (Aged Care Financial Performance Survey, Nine months ended 30 March 2020, StewartBrown, June 2020, p18)

<sup>23</sup> Noting the Paper indicates that an additional 50% investment in care costs would initially require a 1% increase in personal income tax rates, p19

<sup>24</sup> Commission's recent research indicated survey respondents would be willing to support aged care improvements by paying more tax, with 61% of respondents indicating they would be willing to pay an additional 1.4 per cent income tax per year on average to ensure that all Australians in need have access to a satisfactory level of quality aged care (Research Paper 6 – Australia's aged care system, Royal Commission into Aged Care Quality and Safety, July 2020, pp3-4)

### Option: Social insurance models

The Paper describes social insurance as compulsory contributions to a dedicated, pooled fund which is used to finance the aged care costs of a defined group. The mandatory element of social insurance schemes allowing long term risks to be pooled across a large group.

Of note in the Paper is the reference to an argument put forward by the Productivity Commission in their 2011 Report that indicated that a social insurance scheme would not be an improvement over the current system of financing for as long as the current system was complimented by higher contributions from individuals with a capacity to pay. Again, we note the pros and cons of a social insurance model as described in the Paper and offer the following points for considerations:

- A move to adopt a social insurance scheme would be more complex for Australia requiring complex actuarial processes based on insurance principles, and there would need to be appropriate regulatory and prudential mechanisms in place<sup>25</sup>
- There would be an extensive transition period required to move from the current approach to a fully funded scheme. Government would need to resolve some key issues during the transition period including how to respond to a cohort of Australians who would be asked to both fund the aged care of the current generation of older Australians (the current PAYG approach) as well as fund their own future aged care (the future pre-funded approach)
- Government would need to continue to pay for the unfunded portion of aged care costs for those people who have been in a new scheme for only a short period
- The Paper indicates with this option Government would need to address the matter of 'pricing' of aged care, where pricing would be set by an independent authority using insurance principles actuarially calculated. ACSA has previously supported the introduction of an annual costing study and independent price setting as described in the proposed AN-ACC funding model, [see here](#)

Consideration of the impact of the setting of 'prices'<sup>26</sup> for aged care services is one that needs to be considered carefully by Government in consultation with the sector. Attention should be paid to the learnings from the implementation and ongoing operation of the National Disability Insurance Scheme, where NDIA pricing of services and supports for inclusion in a participant's package remains an ongoing challenge for service providers. Pricing considerations under this model include:

- Pricing would need to be set using a case mix approach

<sup>25</sup> The Paper states that a social insurance scheme would need to be subject to the same planning, regulation and cost control as currently applies to long-term care programs for the aged (p29). For entities acting as the social insurer, several roles would need to be developed, including underwriting, claims management, investment management and prudential regulation (p29)

<sup>26</sup> Noting that the setting of prices by an independent body is addressed in the proposed AN-ACC funding model developed by the University of Wollongong, [see here](#)

- The relationship between price and quality must be understood
- There must be provision for annual cost reviews with subsequent price setting
- Pricing must be set on the cost of delivering care, not on meeting a funding envelope
- Consideration would need to be given to how to arrive at a fair price for services, assumptions used need to be robust
- The setting of price must be undertaken by an independent authority, the funder should not be the price setter. The price set must be independent of Government and not open to Ministerial change
- Processes around cost reviews and price setting must be transparent

Any lessons that can be gleaned from NDIS in relation to price setting for services must be incorporated into considerations of price setting in aged care<sup>27</sup>.

- In such a scheme where people contribute to the cost of their future care needs there would need to be a raft of protections in place:
  - For those who have not been able to contribute, or contribute consistently, to the scheme i.e. those who have been long term unemployed, those who have worked intermittently (i.e. have been caregivers during their lives), or have been under-employed, or worked on a casual basis. For these people government would need to intervene
  - The scheme must be available to all regardless of their contribution history
  - Experience in other countries is that insurers take an increased interest in the 'performance' of providers and with some insurers entering into arrangements with providers<sup>28</sup>. The impact of these risks on aged care in Australia would need to be fully considered and guarded against

The questions regarding whether a social insurance model would better provide for funding certainty in the future and whether such a scheme should be provided by a government provider or via a competitive market are best answered through Government undertaking appropriate reviews and studies.

---

<sup>27</sup> We note that in a recent *State of the Disability Sector Report* 'half the respondents are worried that they won't be able to provide NDIS services at the current price' and that 'longer-established organisations were significantly more likely to indicate that they are concerned about the NDIS pricing structure'. (State of the Disability Sector Report 2019, National Disability Services, Centre for Applied Disability Research, p8)

<sup>28</sup> Financing Aged Care, Consultation Paper 2, Royal Commission into Aged Care Quality and Safety, June 2020, p34



### Option: Private insurance and financial products

The Paper describes private insurance products for long-term aged care as existing in various countries but uncommon, not very successful and historically 'eschewed' by Australia<sup>29</sup>.

The Paper goes on to describe private insurance products, private aged care gap cover and other financial options such as tax deductions for donations for investments in aged care.

Given the commentary in the Paper on these approaches much more work would need to be done before they could be considered as an overall funding approach, or stream, for aged care services.

### Option: Combinations of financing mechanisms

The Paper outlines to the possibility of funding streams within aged care (daily living supports, care, accommodation) and each being funded through different funding approaches (general revenue, co-contributions).

ACSA considers this worthy on further consideration, noting the following points:

- Government funding for 'care delivery' from general revenue must recognise and fully fund all aspects of care including palliative care and behavioural supports;
- Consumer contributions must be addressed and consistent across the care continuum, and private insurance or financial products could play a role here; and
- Funding for accommodation does need to be addressed with the Commission considering the Accommodation related funding reform proposed by StewartBrown<sup>30</sup>

### Conclusion

Any of the options the Commission has highlighted, either in isolation or in combination could work as a financing model for aged care. ACSA is not an economist or actuarial with specialist knowledge about taxation and other matters critical to the choice of an overall mechanism. As provider representatives we know that the current model doesn't provide enough funding to deliver the quality of care the community deserves and expects or to ensure the community can rely on a viable and innovative care system.

The current financial state of the sector and the comparison with OECD spend clearly highlights that change is needed and the quantum must be increased. Government, as the system governor, is best placed to determine the overall approach to financing aged care and whether it is one or a mix of funding streams.

What is vital is that there is an adequate quantum of funding to achieve quality care and service outcomes for all older Australians.

<sup>29</sup> Financing Aged Care, Consultation Paper 2, Royal Commission into Aged Care Quality and Safety, June 2020, p36

<sup>30</sup> Aged Care Financial Performance Survey, Nine months ended 30 March 2020, StewartBrown, June 2020, p23