Australian Government
Aged Care Financing Authority

ATTRIBUTES FOR SUSTAINABLE AGED CARE

A funding and financing perspective

EXECUTIVE SUMMARY

The remit of the Aged Care Financing Authority (ACFA) is to provide advice to the Government on the impact of funding and financing arrangements on the viability and sustainability of the aged care sector, the ability of consumers to access quality care, and the aged care workforce. There are many references in policy statements and other documents on the need for sustainable aged care, but there is little by way of an articulation as to what this may constitute.

Against the background of financial developments in the aged care sector outlined in recent ACFA annual reports, which includes commentary on the challenge of meeting the needs of an ageing Australian population, this report provides an overview of the attributes for sustainable aged care. These are observations from a funding and financing perspective and many of the attributes identified are closely inter-related.

Achieve an agreed objective

> *Attribute 1. There is a shared view by all stakeholders as to what is meant by sustainability and the aged care arrangements to be sustained.*

The various policy parameters of aged care, which are often considered in isolation, should all be contributing to a common objective. It is not evident, however, that stakeholders share a common view as to what constitutes sustainable aged care. As the largest source of funding for aged care, the Government's priority may be on ensuring its expenditure on aged care is consistent with the sustainability of the Government's fiscal position, which may mean that the supply of aged care will be below demand for such services. Consumers may focus on whether all aged care needs and expectations, both current and future, are being met. Aged care providers prime concern may be on whether the arrangements support their overall financial viability.

In establishing policy to achieve sustainable aged care, it is important to not only have a common view as to what is meant by sustainability, but perhaps more importantly, agreement on the aged care that stakeholders are seeking to sustain. To achieve this requires a reframing society's expectations for ageing and aged care.

Reframe society's attitude to ageing and aged care

> *Attribute 2: Society's attitude broadens from focusing on the cost of funding a largely self-contained aged care industry provides publicly subsidised care and support to older Australians, to seeing ageing as a continuum with individuals accessing a range of additional services to maintain the quality of their life as they age.*

There needs to be a community wide conversation that reframes the concept of ageing and aged care. The perception of aged care has to move beyond the concept of a self-contained and separately funded system that publicly subsidises the needs of older Australians at a certain stage in their life. Ageing is a continuum and rather than concentrating on Government funding of an industry or system that deals with the so called "burden of the elderly", the focus should be on what additional services older Australians may need from a range of providers (predominantly in a market-based environment), subsidised as appropriate, to maintain the quality of their lives. Attention also needs to be given to reducing the demand for aged care services. The focus has to move from being provider centric to consumer centric.

Clarify roles and responsibilities of Government, consumers and providers.

> *Attribute 3: The Government, consumers and providers are clear as to their roles and responsibilities in terms of aged care.*

Role of Government

In terms of funding, the Government has to clarify whether its role is to provide subsidised aged care to all Australians, with a limited contribution from consumers who can afford to do so, or whether the Government's primary role is to provide a safety net for those Australians who cannot meet some or all of the cost of essential forms of the support and care they may need in later life, while those who can take prime responsibility for their care costs as they age do so.

The Government has a key role in establishing and enforcing the maintenance of quality and safety standards in aged care through an effective quality regulatory framework. But there has to be consistency between the quality standards and their enforcement and the Government's role in determining the funding aged care providers receive.

The Government also has a role in ensuring that the conditions are in place for a competitive market, such as facilitating consumers' access to information so that they can make informed choices and preventing anti-competitive practices and abuse of power.

Role of Consumers

If there is to be a consumer directed aged care system, consumers should be enabled to actively exercise their choice in deciding what aged care services they want to receive and where they want to receive them, along with the 'price' they are prepared to pay. Consumers exercising their choice is a key ingredient to driving competition between providers, which will lead to improvements in efficiency, innovation and quality. But many consumers are vulnerable, poorly prepared, reluctantly accessing aged care and have no basis to make comparisons. Measures are needed to assist and support consumers in making informed choices and to protect them from exploitation. Consumers who can afford to do so have a responsibility to contribute to their care costs and be responsible for their accommodation and everyday living costs, as they have been throughout their lives. Consumers should also plan and prepare for their future support and care needs.

Role of Providers

Beyond the specific requirements imposed on providers to deliver aged care that aligns with the responsibilities, standards, quality and safety requirements as specified in *the Aged Care Act 1997* and associated Principles, there is a community expectation that providers will operate efficiently, effectively and ethically in meeting the care needs of older Australians. More specifically, the financial performance and viability of each individual provider crucially depends on its management skills, internal governance arrangements and business acumen. Government subsidisation of consumers should be structured in a way that promotes the delivery of services by the most efficient providers.

Establish confidence in policy settings

> *Attribute 4: Providers have confidence in the Government's policy settings, consumers have confidence in the quality of care they can access, and the Government has confidence in the robustness of its policy measures.*

While the Government is the main source of funding of aged care, the services are primarily delivered by the non-government sector – for-profit and not-for-profit providers. These providers will be reluctant to operate and invest in a sustainable manner unless they have confidence in the Government's funding and regulatory arrangements, understand the rationale for changes and are assured that their evidenced-based views are taken into account.

Aged care will not be sustainable if consumers and their families do not have confidence in the quality of support and care provided, for this will influence the preparedness of consumers to seek the support and care they need, which, in addition to having a major impact on their lives, will impact on the viability of providers and could increase pressure on the health system. It is clear that for most consumers “quality” is not just a high level of clinical care, though that is essential, but is fundamentally about their quality of life, including choice and control in their lives.

The Government must have confidence in the robustness of its policy settings, both funding arrangements and regulatory oversight, for if it does not this will lead to pressure for change and in turn result in responses that are likely to be ad hoc, leading to an ongoing cycle of change and uncertainty.

Ensure appropriate overall funding and a sound arrangement for allocating subsidies

> *Attribute 5 (i): The overall funding pool – both Government subsidies and consumer contributions – for the support of Australians as they age is sufficient to deliver the level and quality of services sought on an ongoing basis.*
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> *Attribute 5 (ii): The funding tool for allocating subsidies is stable, efficient and equitable and adjusts in line with increases in costs.*

The overall funding pool – both Government subsidies and consumer contributions – for aged care services has to be sufficient to deliver the level and quality of services sought by older Australians and the community. But subsidies should not support inefficient providers nor be more than necessary. The overall funding pool is unlikely to be sufficient and consistent with the Government’s fiscal objectives unless those consumers who can afford to make a greater contribution to the cost of their care and everyday living expenses are required to do so.

The Government’s tool for allocating subsidies needs to be stable, efficient and equitable and not incentivise outmoded or inefficient care – indeed it should incentivise innovation and improvement. The review of alternative residential aged care funding arrangements and the trial of the Australian National Aged Care Classification (AN-ACC) is important in the context of achieving sustainable aged care. The funding available to residential providers for support and care services, whether direct from Government or via consumers, needs to not only cover the cost of providing care, but also allow providers to achieve an adequate rate of return which will support further investment.

Given the diversity of providers and their business models, and recognising that the financial performance of each provider will depend on its management skills and business acumen, it is not a straight forward matter for Government to set the overall ‘price’ for aged care services – but it is central to the overall viability of aged care providers.

Ensure incentives that deliver high quality care

Attribute 6: The incentives created from Government funding and regulation are consistent with the objective of sustained, high quality aged care, and avoids creating an environment where providers see the Government as their main client, and consumers having the mentality that they are entitled to Government support as they age.

Government intervention in the aged care industry creates incentives that influence the behaviour of all stakeholders – some are intended, but some can be unintended with consequences that are not consistent with sustainable aged care. The extent of Government intervention, including being the major source of revenue, means the Government will have a significant influence on the performance of providers, but it can also lead to a 'dependency' relationship where providers consider the Government as their client and concentrate excessively on increasing Government funding at the expense of doing all in their control to lift the quality of their services and improve their financial performance and viability. Similarly, the extent to which aged care is subsidised for all older Australians can contribute to a sense of 'entitlement' by consumers and a reluctance for any contribution by them to the purchase of goods and services for their ongoing support and care.

Other incentives resulting from the funding and regulation of aged care that can be inconsistent with the objective of sustainability include:

- Provider's reliance on refundable accommodation deposits (RADs) as a source of financing can introduce complacency and inefficiency because there is no scrutiny on how effectively the funds are used;
- over reliance on RADs also represents a financial risk to both Government and efficient providers who can be levied for the prudential failures of their failed peers;
- the Aged Care Funding Instrument (ACFI) arrangements can incentivise providers to maximise ACFI payments rather than improve the health and wellbeing of residents;
- the fee structure in home care can deter consumers from taking low level packages because the fee is a high proportion of the value of the package;
- the fee structure between CHSP and HCPs is not consistent and not mandatory and leads to disincentives to take lower level HCPs and to a culture of non-contribution by consumers; and
- the assets test component of residential means testing does not represent a progressive level of contribution based on overall capacity to pay, but is in fact regressive.

Achieve a skilled and motivated workforce

> *Attribute 7: The training, diversity, skill mix, career pathways, remuneration and community recognition attracts the workforce needed to support older Australians.*

Aged care is a labour intensive industry and the quality of care provided to consumers and their quality of life experience crucially depends on the knowledge, skills, number and commitment of aged care workers. Projections based just on historical average staffing levels indicate that the aged care workforce will have to triple by 2050 to meet the demands of an ageing Australian population. The Aged Care Workforce Taskforce developed a strategy for growing and sustaining the aged care workforce. The implementation of this strategy will need to involve all stakeholders, although providers will have to take a leading role, including through the ongoing commitment to a voluntary code of conduct and declaration of leadership and responsibility for reform. The strategy highlights the importance of ensuring the overall funding pool for aged care is appropriate, because bridging existing pay deficiencies and achieving the required growth in the size and skills of the workforce will have significant implications for the funding of the sector.

Promote competition to drive improvements in productivity, quality, innovation and efficient providers meeting consumer needs

> *Attribute 8: Providers have the opportunity to compete for all aged care services in a market-based environment, against the background of measures to protect the safety and quality of services available to older Australians, such that well managed, innovative providers that respond to consumer preferences expand and lesser performing provider's contract.*

Drawing on the Aged Care Roadmap, a future is envisaged where consumers are able to purchase the types of care and support they want and where they receive it, assisted by public safety net subsidies as appropriate, and the market will respond to consumer demand. At the core of this response is providers having the freedom and opportunity to compete, against the background of measures to maintain safety and quality standards. In such an environment, better performing providers – those that have sound governance structures and are well managed, innovative and more responsive to consumer preferences – will expand and lesser performing providers will contract or leave the market.

The challenge facing the Government is ensuring that its regulation of aged care does not inhibit competition and innovation but facilitates it while maintaining quality standards. Government subsidies or regulations should not protect lesser performing providers. In this context, the Government has made an in-principle decision to transition the Aged Care Approvals Round (ACAR) process to alternative arrangements that provide real choice for older Australians. An impact analysis has been commissioned to fully explore the effect of such changes, and any consequential measures that may be required. Such a change to the method of allocating residential aged care places would encourage a more consumer demand driven market. If a competitive market is going to be more responsive to the needs of consumers, then there should not be limitations on the services available to consumers, nor restrictions on the price consumers may be prepared to pay for higher level services, subject to having a comprehensive safety net for consumers who cannot afford to pay or live in high cost areas, and appropriate consumer protection safeguards.

Ensure equitable contribution by consumers for the cost of their aged care

Attribute 9: There is an appropriate balance between the Government subsidy for consumers who cannot afford the aged care services they require and those consumers who can afford to contribute to the cost of the care and support they want as they age, such that the overall cost of aged care to taxpayers is sustainable.

At the core of achieving sustainable funding arrangements for aged care is getting the balance right between the Government subsidising the cost of aged care and those consumers who can afford to do so contributing to the cost of their care. The Living Longer Living Better reforms to means testing were intended to see consumers make a larger contribution, but as the Tune Review noted, the impact has been minimal. If consumers are to make a larger contribution to their care, the annual and lifetime caps on consumer contributions will have to be reviewed, along with the cap on consumer contributions to their everyday living expenses. Such a review should also examine which services are subsidised and to what level, such that there is a balance between personal benefit and the public good.

In addition, to achieve more equitable treatment between homeowners and non-homeowners and to ensure consumers are contributing to the cost of their care based on their means, the cap on the value of the consumer's home included in the residential means test, along with the taper rates, needs to be reviewed. The benefit from consumers making a larger contribution will not only reduce pressure on Government funding and improve the financial position of providers, it will contribute to improving the overall efficiency of the industry as consumers are likely to take a more active interest in ensuring they are receiving the level and quality of services that meets their needs. An equitable system will also create confidence in the sustainability of the arrangements over time among consumers, many of whom are cognisant of the regressive nature of current arrangements.

Ensure adequate sources of finance to support the level of required investment

> *Attribute 10: The funding and regulatory arrangements for aged care provides an environment where well run aged care providers who are responsive to consumers can attract the financial capital needed to meet the investment levels required to serve an ageing population.*

The ageing of the population, along with increasing consumer expectations, will lead to an increase in demand for aged care services, and in turn, the need for a significant increase in investment in the many goods and services that assist with care and support. A sustainable care and support industry will require adequate sources of finance for the investment needed, but it will also require an environment which facilitates this investment. Such an environment will require appropriate overall funding for aged care, confidence in the Government's policy settings, and the opportunity for providers to generate returns that are appropriate for the risk involved. In such an environment, well run providers with good governance arrangements are best placed to attract financial capital and quality staff.

Any further shift by consumers away from Refundable Accommodation Deposits (RADs) to Daily Accommodation Payments will require significant adjustment and transition challenges for providers relying significantly on RADs. A move away from RADs would require greater reliance on equity funding or forms of debt financing, but given the existing overall high leverage in residential aged care (a result of Accommodation Deposits) there is likely to be a need for proportionately more equity. There will be a continuing role for Government capital grants to support investment in thin or non-competitive markets.

Establish effective prudential oversight

> *Attribute 11: Effective prudential oversight ensures stability in aged care and provides consumers with the confidence that their needs will be met, even in circumstances where providers have to cease operations.*

Effective prudential oversight is important to maintaining stability and confidence in the aged care industry. Part of the objective of the Government's prudential oversight of residential providers stems from the Government's guarantee of Refundable Accommodation Deposits. More generally, stability in the aged care sector and confidence that providers will fulfil their commitment to look after older Australians, even in circumstances where providers have to leave the industry, is important in maintaining overall consumer confidence in the aged care industry. In a competitive market, underperforming providers will fail. Arrangements are needed to ensure that when providers fail, this does not impact adversely on consumers. The Government needs proactive oversight arrangements that identify providers facing financial difficulties and has arrangements to facilitate the withdrawal of providers while protecting consumers.

Next steps

This overview provides a more systematic basis by which ACFA can fulfil its role in advising the Government on the impact of funding and financing developments on the sustainability of the aged care system. It also should assist all stakeholders in advancing aged care policy. This is a very wide remit, although the paper offers some suggestions as to next steps.

ATTIBUTES OF SUSTAINABLE AGED CARE

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BACKGROUND

At the core of aged care policy is the objective of achieving sustainable aged care that will meet the demands from an ageing Australian population.

In 2011, the Productivity Commission was tasked to undertake a comprehensive inquiry into aged care that would provide the Government with advice on how the aged care system could efficiently and effectively deal with future demand for aged care services.[1] In 2012, the Government responded to the Productivity Commission's report with the Living Longer Living Better (LLLB) Reforms which were intended to 'build a better, fairer, *sustainable*, nationally consistent aged care system to meet the social and economic challenges of the ageing population.'[2]

In 2017, David Tune was commissioned to provide an independent review of the completed and ongoing LLLB reforms. His review concluded that 'these reforms have successfully taken the aged care system further along the road to a consumer driven and *sustainable system*, as intended, but that further reforms will be needed.'[3]

The Aged Care Roadmap developed by the Aged Care Sector Committee sets as the destination for *sustainable* aged care financing arrangements as one where the market determines price, those that can contribute to their care costs do, and the Government acts as the 'safety-net' and contributes when there is insufficient market response. Australia is still a long way from such a destination.[4]

The not-for-profit aged care provider peak bodies developed in 2016, principles to guide the Government's objective of developing a more *sustainable* residential aged care funding model.[5] The principles were that the model should be: outcome focused; equitable; provide for consumer choice and control; flexible and scalable; efficient; certain; *sustainable*, simple, and affordable.

The consumer peak body for older Australians, Council on the Ageing (COTA) Australia, has advocated for improvement across aged care including by providing consumers with more choice in residential care, increased support to understand and navigate the aged care

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[1] (Productivity Commission Carling for Older Australians Report) https://www.pc.gov.au/inquiries/completed/aged-care
[2] (Living Longer Living Better analysis & policy observatory) https://apo.org.au/node/29086
[3] (Aged Care Legislated Review) https://agedcare.health.gov.au/reform/aged-care-legislated-review
[4] (Aged Care Roadmap) https://agedcare.health.gov.au/aged-care-reform/aged-care-roadmap
[5] (Principles for Aged Care Services Funding) https://www.acsa.asn.au/getmedia/01066d0d-f54f-4ab1-86ea-a9fcaf6daac8/ACSA-Principles-for-Aged-Care-Services-Funding.aspx

system, increased transparency about fees and charges and improved quality of aged care services.[6]

The National Aged Care Alliance (NACA), which brings provider, consumer, professional and union peaks together, has a vision for ageing where every older Australian is able to live well, with dignity and independence, as part of their community and in the place of their choosing with a choice of appropriate and affordable support and care services when they need them.[7].

The remit of the Aged Care Financing Authority (ACFA), which was formed in 2012, is to provide advice to the Minister on the impact of funding and financing arrangements on the viability and *sustainability* of the aged care sector, the ability of consumers to access quality aged care, and the aged care workforce.

ACFA provides a report to the Minister every year which is based on data supplied by aged care providers to the Department of Health. Each annual report builds upon the last, providing a substantial body of data on the funding and financing developments in the aged care sector. A particular focus of the annual reports is on monitoring the financial performance of aged care providers and, consistent with ACFA's mandate, advising the Government on the impact of developments on the overall viability and sustainability of the aged care system.

In its 2018 annual report, ACFA observed that against the background of financial developments canvassed in the report, and in particular the apparent decline in the financial performance of the residential aged care sector in 2017-18, all stakeholders – the Government, providers and consumers – have a role to play in delivering a residential aged care sector that is viable, stable and efficient.[8] The specific challenges identified included; the Government needed a more stable, contemporary, efficient, and effective funding tool; providers had to look at their internal operations to ensure they are delivering quality care in the most efficient way; and consumers had to recognise that sustainable aged care funding arrangements will require those consumers who can afford to do so making a greater financial contribution towards their everyday living expenses and aged care costs.

In its 2019 annual report, ACFA noted that it was evident from developments over recent years that the aged care industry faced a number of hurdles if it was to provide the level and quality of aged care services that older Australians require now and in the future.[9] ACFA

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[6] (Aged Care Reform) https://www.cota.org.au/policy/aged-care-reform/
[7] (National Aged Care Alliance) https://naca.asn.au/
[8] (2018 ACFA Annual Report on Funding and Financing of the Aged Care Sector) https://agedcare.health.gov.au/reform/aged-care-financing-authority/2018-acfa-annual-report-on-funding-and-financing-of-the-aged-care-sector
[9] (2019 ACFA Annual Report on Funding and Financing of the Aged Care Sector) https://agedcare.health.gov.au/news-and-resources/enewsletter-for-the-aged-care-industry/aged-care-financing-authority-acfa-letter-to-providers/2019-acfa-annual-report-on-funding-and-financing-of-the-aged-care-sector

identified, from a funding and financing perspective, a number of characteristics of a viable and sustainable aged care system. These characteristics included: confidence and trust in policy settings; stable, predictable, efficient, equitable and effective arrangements for allocating Government funding; appropriate overall funding; funding arrangements that are flexible and adaptable to changing demographics and demands; equitable contribution to costs by consumers; effective prudential oversight; and sound management and governance arrangements.

This report is an expansion of the preliminary observations outlined in ACFA's 2019 annual report, and incorporates feedback from stakeholders. The objective is to provide a more considered framework that would serve as a guide for ACFA in fulfilling its role in advising the Government on the implications of funding and financing issues on the viability and sustainability of the aged care sector. This framework may assist in setting the future policy direction for the funding and financing of aged care. The aim is not to attempt to analyse and design in detail all the features of sustainable aged care, but rather provide a high-level overview, from a funding and financing perspective, of some of the key issues or questions that need to be considered, and in doing so highlight the inter-linkages between these issues.

THE CONTEXT: CHALLENGES – FUTURE AND CURRENT

Future demand for aged care services

The aged care sector in Australia provided services to over 1.3 million Australians in 2017 - 18. The Australian population is ageing and Australia has one of the longest life expectancies in the world. Older Australians represent a steadily increasing proportion of the total population. The proportion of people aged 65 years or over in the total population is projected to increase from 15 per cent as at 30 June 2017 to between 21 and 23 percent in 2066. The demand for aged care services will commensurably increase.

A major factor influencing the focus on the sustainability of the aged care system is the recognition of this growing demand for aged care services in Australia. Background Paper 2 for the Royal Commission into Aged Care Quality and Safety observed:[10]

> '*In short, demographic, social and economy pressures will impose a large and continuing burden for adjustment on the aged care sector. While the absolute scale of service provision will need to increase sharply, the nature and composition of supply will also need to change and far-reaching innovation will be required if community expectations are to be met'.*

[10] (Background Paper 2 for the Royal Commission into Aged Care Quality and Safety) https://agedcare.royalcommission.gov.au/publications/Pages/default.aspx

ACFA canvassed in its 2019 annual report some of the factors affecting future demand for various aged care services, how they may develop and the investment needed to ensure the aged care system can adequately cater for the requirements of an ageing society. While the demand for aged care services will grow as the Australian population ages, the 'baby boomer' generation will have a significant impact on the timing of the increased demand for services along with the nature of the services required. Because the baby boomers are such a large group compared with the pre-war generation, the proportion of the 70 plus population aged 85 and over will reduce over the next decade before subsequently increasing. Currently, the proportion of older Australians using aged care services (home support, home care, and residential care) increases more than three-fold in the 85 plus age bracket compared with those over 70. As a result, the demand arising from the baby boomer generation is likely to be most strongly felt after 10-15 years rather than over the next decade.

The ageing of the baby boomer generation will not only influence the demand for aged care services, it will also impact on the type of services demanded. In general the baby boomer generation is wealthier than the previous generation and most will likely be more demanding in the range and quality of the services they are seeking along with having greater capacity to pay for these services. Like the current generation, baby boomers can be expected to prefer to remain living in their own home rather than move to a residential facility, although preferences will be influenced by fee structures, funding arrangements and the range of available options. Notwithstanding that ageing baby boomers overall will be relatively better off than the previous generation, not all will be and maintaining equity in access to age care services will continue to be important and a robust safety net will be required.

Given these trends, providers will need to be more responsive in meeting consumer needs and this will likely require the introduction of new business models and changes in the inter-action between residential care, home care (and home support), retirement living and primary and acute health care. The aged care regulatory system and funding arrangements will need to adapt and facilitate rather than impede providers responding to consumer demands with new business models and innovation. Importantly, the industry will need to attract the capital to finance increased investment along with an expansion in a dedicated and skilled aged care workforce.

Current funding and financing challenges

As noted, this report canvassing the attributes of sustainable aged care, stems from observations in ACFA's recent annual reports that recent financial developments suggest there are a number of challenges to be addressed for aged care to be placed on a sustainable path. Some of the funding and financing challenges include:

- People living longer with more complex health conditions (including increasing numbers of people living with dementia) and rising community expectations.

- The sizeable decline in the overall financial performance of aged care providers, both home care and residential care. In 2017-18, 44 per cent of residential providers reported a loss, compared with 32 per cent in 2016-17, and Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) for home care providers fell by over 60 per cent in 2017-18 compared with the previous year. Feedback from providers suggests financial pressure is continuing, with residential providers noting that their costs continue to grow well above the rise in their revenue. While the financial viability of any individual provider should not be guaranteed, and competitive forces should see better performing providers grow and lesser performing providers exit the industry, the continuation of a situation where the overall financial performance of providers is deteriorating and an ever increasing number are making a loss, is not compatible with an environment that delivers the objective of a viable and sustainable aged care industry.

- Aged care providers in remote and regional areas face pronounced financial pressures, with a very significant decline in their financial performance in 2017-18. The EBITDA per resident per annum for regional residential providers fell from $8,257 in 2016-17 to $2,702 in 2017-18.

- The Aged Care Funding Instrument (ACFI) has not provided a stable and effective funding tool for both the Government and providers. Under ACFI there have been cycles of high growth in payments to providers, followed by periods of no growth, causing uncertainty for providers, investors and the Government. ACFI is also administratively complex for both providers and the Government and has resulted in the sector diverting resources away from delivering care. In particular, ACFI has perverse incentives that may encourage outdated modes and types of care and lead to inefficiencies and providers focusing on maximising ACFI claiming rather than on the needs of residents.

- There is a disconnect between the care provided (and funded) in residential care facilities with the care provided in the wider health system, especially palliative care but also oral health, mental health, severe behavioural management and post-hospital discharge. Many studies have shown that aged care residents are not receiving equitable access to any of these.

- Volatility, uncertainty and margin pressure have resulted in many residential care providers putting investment projects on hold while they assess the future direction of the developments and policy reforms. In addition, a number of providers have indicated that they are investing in activities other than residential aged care because they can obtain higher returns as well as diversify their income streams and reduce their exposure to volatility in the aged care sector.

- There is a long standing wide diversity in the financial performance of aged care providers in both the residential and home care sectors. There are well managed and efficient providers, irrespective of size, ownership and location, who are achieving respectable returns (albeit lower in 2017-18 than in recent years) under current funding arrangements. While a range of factors would be affecting the individual performance of providers, including in particular demands facing providers operating in remote and regional areas, the magnitude of the variation in financial results suggest there is scope for many providers to improve their operations and performance.

- A legacy combination of a highly regulated system, funding pressures, low community status and at times esteem, incentives that do not reward innovation, together with elements of ageism in society, have combined with the result that the aged care industry has struggled in attracting management and leadership skills compared with better resourced and more dynamic industries.

- Feedback from consultation with providers suggests a sizeable number of smaller residential providers, particularly in regional and remote areas, are facing significant financial stress and are seeking to leave the industry. A number of larger providers, particularly in the not-for-profit sector, advise that they have received an increased number of approaches from smaller providers facing difficulties and seeking to sell their facilities. The providers who have been approached have generally declined because of the difficulties in the current environment in turning around facilities that are not only in financial difficulties but facing quality problems. Individual providers should not be protected, but there needs to be an orderly process whereby the better performing providers expand and the lesser performing exit.

- The report of the Aged Care Workforce Taskforce identified there was a need to develop a comprehensive strategy to ensure the industry obtains the increase in the workforce needed to deliver high quality aged care to older Australians. The 2016 National Aged Care Workforce Survey estimated that there were over 366,000 paid aged care workers. Projections based on historical average staffing levels suggest that this number will need to increase to 800,000 by 2050 in order to meet the expected increase in demand for aged care. The Aged Care Workforce Taskforce highlighted, however, a number of challenges, for the industry in general, in ensuring that there are adequate numbers of appropriately skilled staff to meet the individual needs of an increasing number of older Australians. These include:

- high employee turnover;
- poor employee engagement and enablement;
- difficulty in attracting talent;
- ineffective and inefficient design of work organisation and jobs;
- undervalued jobs with poor market positioning;
- suboptimal workforce planning;
- casualization of the workforce, particularly in home care;
- leadership effectiveness gaps;
- key capability gaps and skills and competencies misaligned;
- career progression bottlenecks; and
- ineffective recruitment, induction and on-boarding processes.

- These challenges are amplified outside major cities and metropolitan areas, particularly in remote and very remote settings. The Workforce Taskforce also identified pay (salary) deficiencies for aged care workers, especially for personal care workers and nurses, and this directly impacts on workforce attraction and retention.
- In home care, there is a long national prioritisation queue with the result that large numbers of consumers are receiving funding for less than their assessed needs and many are receiving no funding for their assessed care needs.

- The introduction of home care packages following consumers has increased competition in the home care market and compressed providers returns. Given the large increase in the number of providers, there is likely to be some rationalisation of providers in the future which could cause disruption to consumers. There is also the issue whether consumers have the required information to make informed decisions. The absence of provision of information has required government to legislate for greater transparency. Providers are facing the challenge that they have to adapt their processes and procedures so that they are more responsive to consumer needs.

- A major development is the rise of unspent package funds by consumers, which may mean some care recipients are not receiving all the care that they require for such reasons as that they are ‘saving for a rainy day’ or that the service they are seeking is not available. Alternatively, it may mean there are deficiencies in the process of allocating the level of package funds to each consumer; some consumers could have been assessed as requiring more care than they actually need. There is also growing demand for respite services, whereas the funding structure in residential care encourages providers to prefer permanent residents over offering respite care.

- The Government continues to fund the bulk of the cost of aged care notwithstanding the Living Longer Living Better reforms which introduced modest changes to means testing with the objective of increasing consumer contributions for their care. There has only been a slight reduction in the Government's share of the overall cost of care per resident since the introduction of the means test reforms. The Tune Review observed that given the demand and costs of aged care will increase significantly in the future, it is likely to be unsustainable for the Government to continue to cover three quarters of the cost of aged care.

- The contribution aged care residents make to the cost of their everyday living expenses (such as food, linen, utilities) is capped at 85 per cent of the single pension, irrespective of the financial circumstances of the resident. The accounting firm StewartBrown estimates that this is an average of nearly $8 per bed per day below the cost of providing these services. The Tune Review recommended allowing providers to charge a higher basic daily fee to non-low means residents, with fees in excess of $100 to be approved by the Aged Care Pricing Commissioner. One area where residential providers can boost their revenue and at the same time respond to community expectations is through the provision of additional services for a fee. There is, however, considerable uncertainty among many providers as to what additional services are permitted.

THE ATTRIBUTES OF SUSTAINABLE AGED CARE

1. ACHIEVE AN AGREED OBJECTIVE OF SUSTAINABLE AGED CARE

Attribute 1. There is a shared view by all stakeholders as to what is meant by sustainability and the aged care arrangements to be sustained.

While there are numerous references on the need for sustainable aged care in policy statements and other documents, little attention is given to elaborating what is meant by sustainable aged care.

At a fundamental level, 'viable and sustainable' could be defined as something that can exist and be maintained at a certain level. When it comes to aged care, a critical issue is the type, quality and level of care that is to be sustained. Is it the existing approach to aged care, or improved arrangements that meets existing demand but can evolve to meet demographic and technological changes along with increasing community expectations?

Another way of approaching the issue is to consider whether the objective is to fund and deliver on a sustainable basis the level, type and quality of aged care services sought by current and prospective older Australians, or alternatively, to deliver the level and quality of aged care that the Australian community (both taxpayers and consumers) consider can be 'afforded' on a sustainable basis?

What constitutes viable and sustainable aged care may vary among stakeholders.

The Government's perspective

From the Government's perspective, the focus may be on ensuring that the Government's expenditure on aged care is consistent with the sustainability of the Government's overall fiscal position. The priority currently placed on fiscal sustainability is evident in the constraints on growth in the Government's expenditure on aged care. While new aged care places (packages in home care) are released based on a planning ratio which grows broadly with population growth usage rates, this does not directly reflect the level of demand, particularly in home care where there is a significant waiting list for home care packages. Similarly, the pause in indexation of ACFI payments in 2012 and 2017 was in part influenced by concern that growth in ACFI payments were running well above Budget projections. The Government said that the pattern and extent of this growth meant it reflected the claiming behaviour of providers while providers claimed it reflected the increased facility and care needs of their residents.

Consumer perspective

From the consumers' perspective, sustainable aged care may be the existence of arrangements that delivers the level, quality and type of aged care sought by all older Australians. The consumers' primary focus is likely to be on the capacity to meet their demand for aged care rather than on the funding implications for the Government of meeting this demand. Some reports do indicate consumers say they are prepared to pay more for a better and more equitable aged care system. There is likely, however, to be resistance from some consumers on the contribution they are prepared to make for the cost of their care, with the expectation that the Government should continue to meet the bulk of aged care costs.

Provider perspective

From a provider's perspective, sustainable aged care arrangements are likely to be defined as one that ensures the overall viability of providers, although recognising that the viability of individual providers will depend on their business acumen, or specific circumstances (e.g. remote areas). To be viable, providers will need to generate consistent rates of return that are appropriate for the risk involved and competitive with returns in other sectors. While the mission and business models between for-profit and not-for-profit aged care providers may differ, both need to generate the necessary profit or surplus to maintain and expand their operations.

Stakeholder perspectives may not be compatible

These different perspectives of what is a sustainable aged care system may not be compatible with each other. As noted, the Government's priority on controlling its expenditure on aged care, along with capping the contribution from consumers, can result in excess demand for aged care, constraints on the scope of services provided and waiting lists, along with financial pressure on providers. This may be inconsistent with what consumers and providers expect from the aged care system. Similarly, the focus of providers on ensuring the continuing financial viability of their operations may result in limitations on the level and quality of services they offer, which may be below what consumers are seeking. However, in what is a transforming market, providers will have to recognise that their sustainability is achieved through the sustainability of aged care programs. The Government has no choice but to balance the need for stable policy and sustainable funding while driving innovation-driven improvement.

Defining the aged care to be sustained

In establishing the policy parameters for sustainable aged care, it is important to not only have a common view on what is meant by 'sustainability', but perhaps more importantly, to agree on the aged care that is to be sustained. In doing so, the perspectives of all stakeholders need to be taken into account.

The Aged Care Roadmap outlines a destination for aged care where there is a consumer-led aged care market, with consumers having increased choice and control over what care and support they receive, as well as where, how and when they receive it. Some of the key features of such a system include:

- consumers being proactive in preparing for their future needs;
- all consumers having access to the care and support they need;
- dementia care being integrated as a core business;
- a single aged care and support system that is market based and consumer driven with access based on need;
- financing arrangements where the market determines price, those that can contribute to their care do, and the government acts as a safety net and contributes when there is insufficient market response;
- a well-led, well-trained workforce; and
- greater consumer choice driving quality and innovation.

Other aspects that are implicit in the Roadmap's destination include a separation between the provision of care and the supply of accommodation for older Australians. The current division between 'home care' and 'residential care' is too binary and does not cover the range of options that consumers may prefer. In a similar vein, there is the need to keep separate clinical conditions that should be covered (and funded) in the main stream health system regardless of a person's age and the care and support provided as part of aged care.

The Roadmap destination for aged care has not been endorsed by the Government. However, if the objective is to achieve sustainable aged care, and the achievement of that objective will depend on all stakeholders fulfilling their roles and responsibilities, then it is important that stakeholders have a shared understanding of the aged care they are seeking to sustain. Moreover, as elaborated in this report, the design of aged care arrangements has a significant bearing on the prospects of them being sustained.

2. REFRAME SOCIEITIES ATTITUDE TO AGEING AND AGED CARE

Attribute 2. Society's attitude broadens from focusing on the cost of funding a self-contained aged care industry which provides publicly subsidised care and support older Australians, to seeing ageing as a continuum with individuals accessing a range of additional services to maintain the quality of their life as they age.

Obtaining a shared vision for aged care that should be sustained, goes beyond the Government endorsing the destination in the Roadmap as prepared by the Aged Care Sector

Committee. It will require a conversation by the Australian community on not simply the design aspects of formal aged care arrangements, but the broader topic of society's attitude to ageing and the role of care in enhancing the quality of life for all older Australians, rather than seeing aged care as a self- contained 'system' and perceived as a burden that society has to carry.

The need for a community conversation as the building block for aged care reform was emphasised in the report of the Aged Care Workforce Strategy Taskforce. The report noted that true transformation of the aged care workforce requires a conversation between the industry, Government and the community on three levels:

- to shift societal attitudes to ageing in order to attract workers;
- to reframe the idea of care, starting with the understanding that care for older people is broader than professional care; and
- to relieve the perceived burden of care where aged care is seen to be a burden rather than enhancing the quality of life of those in care.

The Aged Care Workforce Strategy Taskforce concluded that there needed to be a shared industry-wide understanding of why aged care matters and promoted the following belief statement for the industry and its workforce:[11]

' We exist to inspire people to want to care, enable people to properly care and enhance life through care, because how we care for ageing is a reflection of who we are as a nation'

The need for recognition as to why aged care matters is not limited to the industry in order to transform the workforce, but is required by the community at large if there is to be the widespread understanding as to what is required to achieve, and sustain, the care of the aged that the community expects.

The Aged Care Roadmap starts with the proposition that consumers, their families and carers should be proactive in preparing for their future care needs. To be proactive, consumers and their families have to be thinking about the consequences of ageing, what care they may need, and what care they could potentially access and what would best suit them. The reality, however, is that many people do not think about the care they may need as they age until it is forced upon them.

ACFA's report on *Understanding how consumers plan and finance their aged care*, noted that a sizeable proportion of people surveyed for the report had not undertaken any planning prior to accessing residential aged care.[12] For many people, planning only started when triggered by a crisis linked to a deterioration in health and mobility and the need for

[11] (Aged Care Workforce Strategy) https://agedcare.health.gov.au/sites/default/files/documents/09_2018/aged_care_workforce_strategy_report.pdf

[12] (ACFA's report on understanding how consumers plan and finance aged care) https://agedcare.health.gov.au/reform/acfas-report-on-understanding-how-consumers-plan-and-finance-aged-care

care became pressing. In addition, a sizeable proportion of those surveyed who are not accessing aged care were unsure whether they will need care in the future. Reasons for this could include: they had not turned their mind to it and it was a problem for another day; denial about the consequences of ageing; and others may be put off by poor perceptions about aged care, particularly residential care. More generally, there needs to be incentives that will encourage individuals and their families to think ahead about aged care.

With many Australians reluctant to think about or plan for their own needs as they age, it is not surprising that there is wider consumer apathy about the adequacy and sustainability of aged care in Australia. The community only considers the importance, capability and sustainability of aged care when there are 'horror' stories about how older Australians needing care are being treated. In addition to not adequately thinking and planning about care needs as people age, there is an element of ageism in Australia that results in negative perceptions about aged care and it is seen as a burden on society. Such negative perceptions will not only deter people from working in aged care, it will influence the community's willingness to increase funding for aged care, both through private and public contributions, along with nullifying public pressure for improvements.

As noted previously, the Aged Care Workforce Strategy Taskforce referred to the need to reframe the idea of care, starting with the understanding that care for older Australians is broader than professional care. The idea of aged care has to move beyond the concept of a self-contained aged care 'system' or 'sector' that older Australians access at a certain stage. Ageing is a continuum and people will continue to access a range of goods and services throughout their life, including both formal (paid) services and informal (un-paid) – accommodation, housekeeping, medical, personal care, mental and physical engagement, social, and so on.

Rather than focusing on the Government funding an 'industry' that looks after all aspects of older Australians until they die, the focus should be on what additional support older Australians may need from a range of sources in order to maintain the quality of their lives. In addition, the aged care 'system' should not be expected to compensate for deficiencies in the provision of other sources of the services that Australian's may need, such as in the areas of primary health, allied health or disability services, especially since aged care is not funded to do so. Consistent with the concept of consumer directed aged care, the focus should be on the consumer and not the aged care industry.

Viewing aged care as part of the continuum of the process of maintaining the quality of a person's life as they age would also highlight that there are measures that can reduce the demand for aged care services. While the ageing of the population will increase the demand for aged care, to the extent that individuals optimise their health, fitness, maintain purposeful activities and actively manage their medical conditions, they will likely reduce their demand for support services as they age, particularly residential aged care. In addition to reducing demand for aged care services, there is also a need to examine possible service 'overuse'. The extent of 'overuse' of aged care services is currently not known, but could be caused by such factors as the lack of more suitable alternatives, lack of re-enablement, and the absence of pathways for people who improve but continue to access care services.

The community wide conversation about ageing is likely to focus on older people's preference to stay at home, supported by purposeful products that help maintain independence, preventative health programs, and social interaction. The aim should be to encourage individuals to be proactive in planning for the quality of life as they age, and in that context think positively about the care and services to achieve this goal.

Changing societal attitudes towards ageing and the role of aged care will be hard and will take time. It will require leadership and involvement by the Government, consumer groups, aged care providers, medical practitioners and a wide cross section of the community. But it is central to achieving sustainable aged care that meets community expectations. The final section of this report on Next Steps has some suggestions as to how a community conversation aimed at reframing the concept of aged care could begin.

3. CLARIFY ROLES AND RESPONSIBIITIES OF STAKEHOLDERS – GOVERNMENT, CONSUMERS AND PROVIDERS

Attribute 3: The Government, consumers and providers are clear as to their roles and responsibilities in terms of aged care.

Role of Government

Clarity over the role of the Government in the pursuit of sustainable aged care is particularly important because the Government is such a dominant player in aged care, through: funding, regulating, controlling and influencing the activities of consumers and aged care providers. Lack of clarity and inconsistency contributes to sovereign risk which in turn influences investor perceptions.

The Australian Government is responsible for about three quarters of aged care funding and a detailed and complex regulatory framework governs the subsidies and supplements that are payable on behalf of consumers and the maximum fees that consumers can be charged. The Government assesses whether an individual is eligible for aged care along with the type and level of subsidised care they can receive. It also determines which providers can deliver subsidised services, the geographic distribution of services, and the basic quality and safety of care to be provided. The size and shape of the aged care system is constrained by the Government who determines the availability and supply of subsidised aged care, along with the eligibility of consumers to access services. Given the extent of the Government's intervention in the aged care system, it is not only important that its objectives are clear, but there is consistency between the various aspects of its involvement.

At one end of the spectrum, the Government’s role could be to deliver nationally funded aged care that provides subsidised care to all older Australians. At the other end, the Government’s role could be to primarily maintain a safety net and provide subsidised aged care to older Australians who cannot meet some or all of the cost of the essential forms of support and care they may need in later life, while those who can take prime responsibility for their care costs do so. The Aged Care Roadmap is closer to the latter approach in terms of the role of the Government, where it sets as the ‘destination’ one where ‘…… those that can contribute to their care do, and the Government acts as a safety net.’ However the current system is somewhere in the middle, with subsidised aged care available to all older Australians needing it, and while those who can afford to contribute to the cost of their care do so, their contribution is capped. For example, at present there is an annual limit to the means tested care fee of $27,533 and a lifetime limit of $66,078. While a resident’s principal home is included in the means test to determine a resident’s contribution towards their accommodation and care costs, if it is unoccupied by a protected person, the capped value is $169,079.20 (as at 20 September 2019). This cap means that consumers with a greater proportion of their wealth in a home will contribute relatively less to the cost of care than a person with less valuable homes or wealth in other areas. There is also the equity issue of the Government providing subsidised accommodation to people in aged care who already own a home. Regardless of income or asset levels, once the annual or lifetime cap is reached, a consumer in residential aged care would revert to only paying the basic daily fee. Moreover, regardless of the resident’s financial circumstances, the basic daily fee is set at 85 per cent of the single aged pension. Such a situation is inequitable and regressive.

Where should the balance lie in the role of the Government subsidising age care for consumers who can afford to contribute to the cost of their care? In its 2011 report, the Productivity Commission proposed that as a safeguard and to protect individuals from catastrophic costs, there should be an upper limit on the care fees that any individual is required to pay – a lifetime ‘ stop loss limit’ that would apply irrespective of income. Factors to consider in determining what should be the upper limit that a consumer pays for their aged care may be the overall level of Government funded aged care that is consistent with the overall sustainability of its fiscal position.

Beyond the issue of funding, there is the role of the Government in setting and enforcing the minimum quality of aged care that consumers receive. Government regulation of aged care quality standards is necessary because of the vulnerable nature of older Australians in care and the asymmetry of information and power between the consumer and the provider. While greater consumer choice will drive improvements in quality, innovation and the responsiveness of providers, there will remain an important role for the Government in ensuring that quality standards are maintained in the aged care industry and that vulnerable consumers are not exploited. As the Aged Care Roadmap notes, when it comes to maintaining quality, consumer choice has to be supported by an ‘agile and proportionate [regulatory] framework’. To help make sure that Government -funded aged care meets standards in areas such as health, safety, personal care and staffing, aged care providers have to meet quality standards under the *Aged Care Act 1997* and operate under a quality regulatory framework which is undergoing significant reform to improve its effectiveness.

The Government currently defines quality standards within current aged care service models. But quality standards cannot be static. Quality will need to be redefined in line with community expectations that will evolve as part of a broader conversation around ageing and aged care. The nature and level of aged care will change as the market responds to changes in consumer demands, but where an industry is transforming to new possibilities, particularly if ageism is rejected, there is a role for Governments, universities and new partnerships to facilitate change.

There needs to be consistency between the Government's role in setting and monitoring compliance with aged care quality standards, and the Government's role in capping the care funding providers receive. The cost of meeting quality standards, including monitoring costs, needs to be adequately reflected in the funding that providers receive.

The Government also has a role in ensuring that the conditions are in place so that consumers can make informed choices about their care. Importantly, this involves introducing regulations so that consumers and the public at large have information on the range of aged care services that providers offer, the price of each service as well as information on quality and safety.

Role of consumers

A fundamental direction of reforms to the aged care system is to give consumers greater control over their care. The Aged Care Roadmap outlines a path to a' …consumer–led aged care market, where consumers have increased choice and control of what care and support they receive, as well as where, how and when they receive it'. It is important that the bulk of consumers exercise their choice and do control the aged care services they receive because this will be a key ingredient to driving competition between providers, improvements in their efficiency, greater innovation and enhanced quality.

Consumers need the necessary information to make informed choices, and the Government has a role in helping consumers access such information as the price and quality of services available. As noted previously, however, if many consumers and their families only 'engage' with aged care in a crisis situation, such as if there is a pressing need to find a place in a residential facility, they may not be well placed to make considered decisions. Consumers may not know what they need, let alone know what is available. Many are vulnerable, poorly prepared and are reluctantly seeking aged care services. Being their first experience with aged care, they may have no basis to make comparisons. Moreover, some consumers will not have the capacity to choose the services they need and will rely on others, such as family and friends to decide for them. In such situations, it is important that the person making the decisions is not acting in their own self-interest, such as a son or daughter worrying about protecting the inheritance rather than paying for the services that would improve the care and quality of life of their parent. Consequently while consumers actively exercising choice is an integral component of sustainable aged care, a range of measures need to be in place to assist consumers make informed choices and to protect them from being exploited.

One way consumers can help ensure that the choices they make are in their best interest is to plan for what care they may need as they age well before they need the care. Another way is for Government to fund independent advocacy and 'system navigator' support services. The Government can only do so much, however, and regulation alone will not deliver the 'consumer focussed, flexible and responsive aged care system' which is the destination of the Aged Care Roadmap. Moreover, it is important to ensure that any Government regulation designed to protect consumers does not go too far and impede the range of services consumers can access and their freedom to access what they 'want' in addition to what they may 'need'.

Consumers who can afford to do so have a responsibility to contribute to the cost of their aged care. The Aged Care Roadmap envisages a destination of sustainable aged care sector financing arrangements where consumers that can contribute to their care do so and consumers will be primarily responsible for their accommodation and everyday living costs, as they have been throughout their lives. Consumers are, however, more willing to contribute to the cost of aged care if they 'value' the services being provided. The objective should be to encourage an environment where providers do not simply aim to offer a service that is slightly or somewhat better than other providers, but seek to introduce innovative new services that consumers value and want. The issue of consumer contributions to the cost of their aged care is considered further in Section 11.

Role of providers

The responsibilities of providers are specified in the Aged Care Act 1997. Approved providers must deliver aged care that aligns with the responsibilities and standards as specified in the Act and the Principles made under the Act. Aged care providers are also legally required to help consumers understand their rights under the Charter of Aged Care Rights.

Beyond specific requirements imposed on providers under legislation, there is a community expectation that aged care providers will operate efficiently and ethically with the objective of meeting the needs of older Australians receiving care. This might be the expectation, but as evidenced by the establishment of the Royal Commission into Aged Care Quality and Safety and the evidence presented to the Royal Commission, there is concern that a number of providers are not meeting community expectations around aged care. While this may lead to calls for increased regulation of the industry, just as the Government can only do so much in promoting consumer directed care and there is a role that providers and consumers have to play, similarly there is a limit to what the Government can do in regulating the activities of providers in terms of the quality of care, and providers themselves have a social responsibility to deliver the aged care sought by the Australian community.

More specifically, while the Government's policy settings will have a significant influence on the financial performance of aged care providers, ultimately the performance of each provider crucially depends on its management skills, internal governance arrangements and business acumen. Innovative and efficient service providers operating in a more competitive service environment who enhance the skills of their workers, refashion their service offerings and provide value for money will appeal to older consumers and are likely to expand and remain viable. Government subsidisation of consumers should be structured in a way that promotes the delivery of services by the most efficient providers. This issue is also discussed in Section 8 and Section 10.

4. ESTABLISH CONFIDENCE IN POLICY SETTINGS AND A SIMPLE, ACCESSIBLE AND TRANSPARENT SYSTEM

Attribute 4: Providers have confidence in the Government's policy settings, consumers have confidence in the quality of care they can access, and the Government has confidence in the robustness of its policy settings.

Confidence and trust - providers

Providers must have trust and confidence in the funding arrangements and regulatory environment because while the Government is the main source of funding for aged care, the services are primarily delivered by the non-government sector – for-profit and not-for-profit providers. These providers will not invest in a sustainable manner, nor will they be able to attract and retain the required staff, unless they have confidence and trust in the Government policy settings, particularly funding and regulatory requirements. This does not mean that policy settings must remain constant. On the contrary, the policy environment will need to be responsive to such things as demographic changes, technological developments, clinical developments, and changes in consumer preferences. What is important is that providers have confidence in the basis of the policy framework and understand the rationale for regulatory and funding changes, and that the provider's perspective and the impact of any change is adequately taken into account.

Confidence and trust – consumers

Consumers, their families and the community at large need to have confidence in the level of support and quality of care older Australians receive. Towards enhancing consumer confidence, from 1 July 2019 there is a new set of Aged Care Standards that are consumer focused and require providers to actively engage consumers' ion their support and care. There is also a new single Charter of Aged Care Rights which covers the fundamental protections that all aged care consumers, regardless of the type of Government funded care and services they receive.

A single Aged Care Quality and Safety Commission was established from 1 January 2019. The role of the Commission is to"…. promote aged care consumers' confidence and trust in the provision of aged care services and engagement with aged care consumers about the quality of care and services provided by aged care providers".

If consumers and their families do not have confidence in the quality of care that is provided, this will influence the preparedness of consumers to seek the support that they need, which in addition to having significant impact on older Australians and their families, will also influence the financial viability of aged care providers. Consumers will also be reluctant to contribute to the cost of their care if they do not believe they will receive the standard of care that they are seeking. To have confidence in aged care arrangements, consumers have to understand them, and for this to occur the arrangements have to be transparent, information is readily available, and there exists an efficient and equitable assessment process that accurately identifies and allocates places and packages based on each consumer's care needs.

From a community perspective, if there is not confidence in the range and quality of aged care services available to older Australians, there will be continuing pressure on Government for change. It is clear that for most consumers 'quality' is not just a high level of clinical care, though that is essential, but is fundamentally about their quality of life, including choice and control of their lives. The long lag before many consumers can access home care packages, along with a lack of understanding as to how the release of packages is prioritised, contributes to undermining consumer confidence in the aged care arrangements. At the same time the level of preference for home care almost certainly reflects, to a degree, widespread community aversion to residential care.

Confidence and trust – Government

The Government must have confidence in the funding and financing arrangements it sets for aged care, along with its regulatory oversight. If the Government does not have confidence in the robustness and appropriateness of its policy approach and regulatory arrangements, this will likely not only lead to pressure from other stakeholders for change, but also the responses from the Government may be ad hoc which leads to an ongoing cycle of change and uncertainty. There is also the danger that the Government may respond to the symptoms of deficiencies in policy settings, rather than dealing with the underlying structural problems. The recent history of the ACFI is an example.

Confidence in the robustness of policy settings is important because aged care is a sizeable and growing component of the Commonwealth Budget and an overshooting of aged care expenditure can cause problems for the management of the Government's fiscal accounts and bring into question its fiscal sustainability.

5. *ENSURE APPROPRIATE OVEALL FUNDING AND A STABLE, EFFICIENT, AND EQUITABLE ARRAGEMENT FOR ALLOCATING GOVERNMENT SUBSIDIES.*

Attribute 5 (i): The overall funding pool – both Government subsidies and consumer contributions – for the support of Australians as they age is sufficient to deliver the level and quality of services sought on an ongoing basis

Attribute 5 (ii): The funding tool for allocating subsidies is stable, efficient and equitable and adjusts in line with increases in costs.

Appropriate funding

The overall funding pool for delivering aged care services has to be sufficient to support the level and quality of care and quality of life sought by current and prospective older Australians. The total funding pool is not only Government subsidies, but includes contributions from consumers who can afford to pay. In residential care all consumers pay at least 85 per cent of the age pension, those with capacity may pay more. As to determining the respective contributions by the Government and consumers in meeting the overall cost of aged care, this will depend on the response to the issue raised in Section 4 regarding the role of Government in aged care and the extent to which it provides a universal standard of subsidised aged care to all older Australians irrespective of their capacity to pay.

If the overall funding pool is not sufficient to meet the level and quality of aged care the community is seeking, then there will be unmet demands and waiting lists for aged care services, the quality of services may be compromised, and/or provider's financial performance may be below that which will facilitate ongoing investment in the industry.

The existing funding arrangements are based on the delivery of services inside current service models. But the funding arrangements should not inhibit innovation in the delivery of aged care services. The transformation to sustainable aged care arrangements is likely to involve the delivery of services outside of current models of aged care, particularly the bundling of services around the needs of an individual with an emphasis on re-aliment. There will be a role for prototyping new service models before they are taken to market. The funding arrangements will have to facilitate such innovations.

While the combination of public and private funding has to be adequate to support the delivery of quality aged care services, Government subsidies should not support inefficient and poorly managed providers and nor should the overall arrangements provide higher than necessary funding. A key aspect of ensuring the overall funding pool for residential care is appropriate is ensuring that the payments for care services not only adequately cover the cost of care but also allow providers to achieve an adequate rate of return. The Aged Care Roadmap refers to establishing a 'market informed price that Government is prepared to pay' for subsidising the delivery of aged care services. It is not a simple matter, however, for the Government to set the appropriate overall rate of return aged care providers should receive. The sector is very diverse and the financial results of providers vary significantly depending on business structures, business acumen, location, financing arrangements, and motivations, including those who are mission based. In addition, the Government has to take into account the range of aged care services sought by the community and the extent to which it will require consumers who can afford to, contributing to the cost of their care.

Residential aged care funding tool

There needs to be a stable, efficient and equitable residential aged care funding tool (that is, the basis on which the Government allocates care subsidies) which provides financial stability to both aged care providers and the Government. As noted in Section 6, this is fundamental to ensuring overall confidence in the aged care sector. The Government has to ensure that its funding tool is consistent with achieving ongoing equity of access for all consumers and that it does not incentivise outmoded or inefficient care practices and use of resources. The review of alternative residential care funding arrangements and the trial of the Australian National Aged Care Classification (AN-ACC) is an important exercise. Desirable features of a new funding tool include: administrative simplicity; funding assessments external to providers; equitable allocation of funds based on mix of residents and their needs; recognition that many care costs are shared between residents; transparent studies to determine the cost of care and indexation arrangements that adequately reflect movement in costs. While a more efficient and equitable basis of determining the cost of providing residential care is an important step in achieving a better funding tool, as noted previously, the other key component is to ensure the Government subsidy (that is, the price of aged care) not only covers costs but also allows for providers overall to make an adequate rate of return. Consequently, a major component of a sustainable aged care is having an appropriate 'price' for aged care services.

As noted, effective indexation arrangements for the Government's aged care funding subsidies is particularly important. The Government's contribution to care costs needs to adjust in line with the growth in these costs over time, although the indexation methodology should also make allowance for achievable productivity improvements. While the indexation rate for ACFI has been markedly lower than the rate of growth in the costs of providers, particularly wages, if the new funding model reduces the capacity of providers to boost their revenue through their claiming behaviour, it will be important that the new indexation arrangements adequately reflect the growth in costs (while providing an incentive for productivity gains). It will take a few years before a new aged care funding tool is introduced and in the meantime the Government will need to ensure that the indexation rates are appropriate.

Home Care Funding Tool

The funding arrangements for home care need to meet demand for such services and the allocation mechanism has to ensure that the funding is in line with each consumer's needs. At present, there is a somewhat arbitrary set of four levels of home care packages rather than individually tailored care packages. Following the allocation of home care funding to consumers rather than providers, and consumers being able to choose what services they want and who provides them, there has been a significant growth in unspent package funds by consumers. This development may reflect a range of influences, including consumers saving for 'a rainy day' and/or for a specific more expensive bulk purchase such as home improvements or extended respite, but it may also mean that the current arrangement of accessing and allocating consumers into one of four package levels with different funding may not adequately ensure that consumers only receive the funding that meets their needs. Moreover the incentive for those ACAT assessors may be to approve a package level that a consumer may need in the future and thereby reduce the need for the consumer to seek further assessments.

6. ENSURE INCENTIVES THAT DELIVER HIGH QUALITY CARE THAT MEETS CONSUMER'S NEEDS

Attribute 6: The incentives created from Government funding and regulation are consistent with the objective of sustained, high quality aged care, and avoids creating an environment where providers see the Government as their main client, and consumers having the mentality that they are entitled to Government support as they age.

Government intervention in the aged care industry – be it through regulating the activities of providers, setting caps on what consumers have to pay, or providing funding subsidies based on meeting certain conditions – creates incentives that will influence the behaviour of stakeholders. Often the objective of Government regulation is to influence the behaviour of market participants to achieve socially desirable outcomes. However, the incentives that result from some of the Government involvement in the aged care industry may result in unintended and undesirable behaviours and outcomes.

At a very broad level, the extent of the Government's intervention in aged care can result in providers developing a 'dependency' relationship, with providers seeing the Government as their main 'client' rather than the consumers they serve. The bulk of the revenue of providers comes from Government subsidies, the Government controls the contribution that consumers can make, it determines the supply of aged care places and packages and it sets the quality standards that providers must meet. As such, Government policies clearly have a major impact on the financial performance of providers. But the 'dependency relationship' can result in providers focussing primarily on the Government and seeking to change policies, particularly an increase in Government subsidies, at the expense of providers doing everything within their control to improve the viability and efficiency of their operations, including by being more responsive to consumer demands. As noted in Section 4 on the roles and responsibilities of stakeholders, providers must operate efficiently and ethically because ultimately the performance of each provider depends on its management skills, internal governance arrangements and business acumen. There is, however, a role for the Government to incentivise change in the provision of aged care services, particularly through learning, experimentation, new partnerships, leadership in training and the use of integrated technology and data.

The residential aged care industry's reliance on Refundable Accommodation Deposits (RADs) as a source of capital can also have an impact on the behaviour of residential care providers. A RAD is an interest free loan from the resident to the provider, which the Government guarantees will be re-paid. It is a low cost source of capital and has underpinned a large amount of the investment in residential aged care facilities. However, unlike other sources of capital – such as equity or commercial loans – a provider relying primarily on RADs is not subject to any scrutiny as to how efficiently the RAD funds will be used (other than listed providers). The result may be a tendency towards complacency and a less effective and efficient operation.

The design of the ACFI has provided a range of incentives that are inconsistent with the objective of a sustainable aged care system that delivers quality care. Under the ACFI arrangements, the focus of many providers has been on adopting strategies to maximise ACFI income, including seeking to distinguish between new residents based on their likely ACFI score. Moreover, an industry of specialised ACFI consultants has developed with the objective of helping providers boost their ACFI revenue. Given that ACFI payments are designed to increase with the acuity level of the resident – higher acuity receives higher payments – there is no incentive for the provider to improve the health, capacity and mobility of the resident, and in turn the quality of their life. There is little incentive on reablement, particularly if this resulted in a reduction in ACFI revenue received by the provider. In addition, the incentives arising from the funding of residential respite care have resulted in providers focusing on permanent resident places rather than respite.

Other perverse incentives arise in relation to the application of the basic daily fee for both residential and home care and the application of the income-tested care fee for home care. As noted in the Tune Review, equity issues arise when consumers pay varying basic daily fees for the same level of assistance, and when consumers pay the one rate of basic daily fee for all home care package levels. From consultations with home care providers, it appears that many do not charge the basic daily fee or the means tested care fee, or charge a lower fee. The result is that the basic daily fee as a proportion of the home care package value can vary significantly depending on the level of the package and the policy of the provider. In principle it is a high proportion of the value of a level 1 package, but falls as a percentage of the package value through to level 4, but in practice this varies. This is likely contributing to the lack of uptake of the lower level packages, even though these packages may be suitable to meeting the needs of consumers. Recommendations in the Tune Report were that income tested care fees should be mandatory and basic daily fees proportional to the value of the package.

To be sustainable, aged care arrangements have to be cohesive and there needs to be consistency in the impact of all policy measures. Towards this end, care needs to be taken in assessing how Government intervention may influence the behaviour of participants, and in particular, incentives which result in unintended and undesirable outcomes need to be avoided.

7. ACHIEVE A SKILLED AND MOTIVATED WORKFORCE

Attribute 7: The training, diversity, skill mix, career pathways, remuneration and community recognition attracts the workforce needed to support older Australians.

Aged care is a labour intensive industry. By far the largest proportion of recurrent costs by aged care providers is wages. The aged care worker is the human interface with the consumer and the care the consumer receives will crucially depend on the knowledge, skill, training and dedication of the aged care worker. There are over 366,000 paid aged care workers, representing approximately 3 per cent of Australia's total workforce. The Productivity Commission has predicted that 3.5 million Australians will be accessing aged care services every year by 2050 and this will require almost one million aged care workers. As such, the attributes of the aged care workforce will be a key determinant of the sustainability of aged care arrangements.

A major focus of the hearings of the Royal Commission into Aged Care Quality and Safety has been on the implications of workforce issues for the quality of aged care services, including staff numbers, their skill levels, attraction and retention, and remuneration. Some of the concerns that have been raised include:

- the lack of mandatory qualifications and training requirements, particularly in relation to dementia and mental health issues, use of physical and chemical restraints, and end of life care;
- evidence that a lack of understanding of dementia is common in both health and aged care which is likely to lead to substandard care;

- more is needed for better training of aged care management and staff in the proper assessment of the clinical and other circumstances of residents exhibiting behavioural and psychological symptoms of dementia;
- good dementia care seems likely to be more time-consuming and intensive;
- avoidance of restrictive practices requires time consuming and skilled interventions;
- the lack of continuity of staffing to support a relationship approach to care and support in home care, and challenges for delivering person-centred care due to time constraints on staff; and
- the need for cultural awareness training, including Aboriginal and Torres Strait Islanders, to deliver care.

For any sector of the economy and for any employer, some of the pre-conditions for securing a skilled and motivated workforce include:

- a supply of appropriately skilled professionals and workers, and in the case of aged care, ranging from personal care, nursing, medical, allied health and food preparation skills through to management, accounting, IT and marketing skills;
- positive community perceptions of the sector as a rewarding and respected place in which to work and with which to be associated;
- capacity of the sector and its enterprises to compete in the labour market for skilled staff, particularly where many skills are portable and sought out by a range of industry sectors;
- leadership and governance that supports an attractive and rewarding workplace and a supportive workplace culture, including as the frontier of knowledge and best practice expands; and
- some sectors and professions set standards and registration arrangements based on a skills and qualifications framework applicable for the sector or discipline.

The Aged Care Workforce Strategy Taskforce noted that the aged care industry relies on a diverse workforce that is experiencing rising consumer expectations and other significant changes, such as system funding design and regulation which impact on how care is delivered. The Taskforce developed a strategy for growing and sustaining the aged care workforce, based on the following fourteen strategic actions:

1. Creation of a social change campaign to reframe caring and promote the workforce.
2. Voluntary industry code of practice to define standards and workforce practices.
3. Reframing the qualification and skills framework – addressing current and future competencies and skills requirements.
4. Defining new career pathways including accreditation.
5. Developing cultures of feedback and continuous improvement.
6. Establishing a new standards approach to workforce planning and skills mix modelling.

7. Implementing new attraction and retention strategies for the workforce.
8. Developing a revised workforce relations framework to better reflect the changing nature of work.
9. Strengthening the interface between aged care and primary/acute care.
10. Improved training and recruitment practices for the Australian Government aged care workforce.
11. Establishing a remote accord.
12. Establishing an Aged Care Centre for Growth and Transitional Research.
13. Current and future funding considerations, including staff remuneration.
14. Transitioning the existing workforce to new standards.

The implementation of the workforce strategy highlights a number of the attributes of a sustainable system outlined in this report, such as the role of providers. The Taskforce Report noted that all stakeholders have a role in the implementation of the workforce strategy, and in particular it will require industry leadership. For example, the Taskforce recommended the establishment of a voluntary code of practice, and an industry declaration of leadership and responsibility for the reform. Supporting this observation, the report highlights that there is the need to reframe the idea of aged care in Australia, including that it is not solely the domain of Government. As noted in section 8, the fact that the Government is the main source of funding for aged care contributes to perceptions by consumers and providers that responsibility for the aged care system predominantly lies with Government. One of the preconditions for the implementation of the workforce strategy, and in turn an attribute of sustainable aged care, is the need to clarify the roles and responsibilities of the Government, consumers and providers.

The Taskforce's strategic action 13, covering current and future funding and staff remuneration, notes that aged care funding, including consumer contributions, does not always meet the full costs of delivering aged care services. It also notes that bridging the pay deficiencies, which is identified as a necessary step to achieve the required growth in the size and skill levels of the aged care workforce, will have implications for the funding of the sector. The Taskforce recommendation is for a more strategic discussion between all stakeholders around funding and sources of revenue. As noted in Section 7, one of the attributes of sustainable aged care is an appropriate overall aged care funding pool.

8. PROMOTE COMPETITION TO DRIVE IMPROVEMENTS IN PRODUCTIVITY, QUALITY, INNOVATION AND EFFICIENT PROVIDERS THAT MEET CONSUMER NEEDS.

Attribute 8: Providers have the opportunity to compete for all aged care services, in a market-based environment, against the background of measures to protect the safety and quality of services available to older Australians, such that well managed, innovative providers that respond to consumer preferences expand and lesser performers' contract.

Drawing on the Aged Care Roadmap, a future is envisaged where consumers are able to purchase the types of care and support they want and where they will receive it, assisted by public safety net subsidies as appropriate, and the market will respond to consumer demand. The Aged Care Roadmap acknowledges that if the market does not or cannot respond, the Government will have to act as a safety net.

At the core of the market responding to meet the demands of consumers is providers having the opportunity to compete for this business, against the background of measures to maintain safety and the quality of care. In such a competitive market, well managed providers with good governance structures who are innovative, efficient and responsive to consumers' needs at a price consumers are prepared to pay will expand while underperforming providers will contract or leave the market. As such, facilitating greater competition in the market for aged care services will not only enhance the services available to consumers, it will also promote the sustainability by encouraging better performing and financially sound providers to expand at the expense of lesser performing providers.

In terms of the role of the Government in the aged care system, the challenge it faces is to ensure that it does not stand in the way of a competitive market, but facilitates it while protecting consumers and ensuring equity of access to aged care services for all older Australians. Towards facilitating the operation of the market, a key role the Government needs to play is ensuring that consumers have the information to make informed decisions. For example, from 1 July 2019 home care providers were required to publish their prices using a mandated template Pricing Comparability Schedule. Markets can also be volatile, and the Government will need to ensure that providers exiting the industry do not have an adverse impact on consumers (discussed further in Section 12).

As noted, in a competitive market, the better performing providers should expand and the lesser performing providers contract or exit. There is currently a wide diversity in the financial performance of providers in both the residential and home care sectors. A range of factors would be affecting the individual performance of providers, including the demands facing providers operating in remote and regional areas. In addition, providers in the not-for- profit and government sectors often have different business motives, business models and funding sources. Moreover their lower financial results many reflect their community or religious mission cross-subsidised activities. Nevertheless, the magnitude of the variance in financial results irrespective of ownership type suggests there is scope for many providers to improve their operations and performance. In addition, feedback from the banking sector suggests that there is a significant number of aged care providers, particularly smaller providers, who are considered to be an unacceptable credit risk.

There has been a process of consolidation in the residential sector, with the number of providers gradually contracting. It could be expected that a more competitive market would result in significant further consolidation as the better performing providers expand. In the home care market there has been a significant expansion in the number of providers following packages being allocated direct to consumers rather than providers, although it is generally expected that there will be a shake-out among home care providers in response to competitive forces.

A competitive market should encourage organisations to innovate. However there are factors that can diminish both competition and innovation among aged care providers. These include:

- where there is excess demand for services, there is reduced incentive for providers to compete and innovate;
- providers see the Government as their client and primarily focus on meeting the quality standards set by the Government rather than pursue innovative approaches which could provide improved quality outcomes;
- Government subsidy payments do not reward improvements in aged care services;
- consumers buy the services out of necessity and even if they are not satisfied;
- lack of long term policy stability and tight margins is not an environment for providers to take the risks associated with innovation; and
- the highly regulated and complex aged care arrangements limit initiatives that may involve a shift in approach.

Another area where Government involvement may be impeding the operation of a competitive market is the allocation of residential aged care places through the Aged Care Approvals Round (ACAR). The Tune Review recommended that the ACAR for residential places be discontinued and places assigned to consumers within the residential target ratio. The Government has made an in-principle decision to transition the ACAR process to alternative arrangements that provide choice for older Australians. It has commissioned an impact analysis to fully explore the effect of such changes, and any consequential measures that may be required.[13] A discussion paper has been issued as part of the impact analysis and notes that the current allocation of places does not support a consumer driven market because:

- underperforming providers are still able to fill vacant beds, as supply is constrained and consumers have limited choice;

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- there is minimal pressure for existing providers to be responsive to consumer needs or preferences in their service or accommodation offering;
- providers cannot easily build or expand into other areas due to locational controls or allocations and transfers and difficulty obtaining new places; and
- many allocated places are not operational and therefore unavailable to consumers.

The discussion paper noted that ceasing the allocation of residential care places to providers and instead assigning a place to a consumer offers such benefits as greater responsiveness to consumer needs, improved and more innovative services, a wider range of price points, and consumers in control of the services they receive. It would also remove a degree of 'protection' for lesser performing providers. There are, however, a number of risks, including queueing if the number of places allocated is less than demand, and possible disruption as providers adjust to the new system and less efficient providers exit the industry. As was also acknowledged in the Tune Review, consideration needs to be given to ensure the availability of aged care services in thin or non-existent markets, such as in regional and remote areas.

If a competitive market is going to be more responsive to the needs of consumers, then there should not be limitations on the services available to consumers. For example, the discussion paper for the ACAR impact study noted that if new arrangements are introduced for the allocation of aged care places, the boundaries between what is currently considered home care and residential care may need to be reconsidered so as to open up scope for more innovate care delivery and accommodation offerings. It is important to ensure that the aged care system is flexible and adaptable to changing demographics and consumer demands. The demographics of the Australian population are such that there will be increasing pressure on funding for aged care. Furthermore, consumer preferences will change and there will be innovations in the way services are delivered, influenced in part by technological developments, and the interaction between aged care and other sectors, such as retirement living and hospitals. The regulatory framework should not impede such changes.

The Aged Care Roadmap envisages a system where there is a separation between the provision of care and the provision of accommodation – a system where the consumer chooses the type of care they want and where they receive it (at their home, a retirement village, or an aged care residential facility). A factor that may be impeding such a separation between the provision of aged care services and accommodation is that the return to providers from aged care is not sufficient and there is cross subsidisation between accommodation and aged care. This highlights the importance of ensuring that the funding arrangements do not cause distortions in the provision of aged care services.

Opening up greater competition for residential places, along with ensuring funding arrangements reward improvements in service quality, opening up scope for more flexible accommodation and care delivery arrangements as well as assisting consumers to be more active in exercising choice, will provide incentives for greater innovation by providers. The Government can also promote greater innovation by facilitating long-term relationships between providers and researchers/universities, encouraging provider/co-design relationships that link designers and product developers with providers, assist providers to see the value in new and innovative ideas, learning from the transformation in other sectors and helping to promote the spread of new ideas with the use of living labs in green field sites. Encouraging greater innovation in aged care is not a case of leaving it solely to either the market or the Government. Success will come from market forces and concerted innovation promoted and supported through targeted Government initiatives.

9. ENSURE EQUITABLE CONTRIBUTION BY CONSUMERS FOR THE COSTS OF THEIR AGED CARE

Attribute 9: There is an appropriate balance between the Government subsidy for consumers who cannot afford the aged care services they require and those consumers who can afford to contribute to the cost of the care and support they want as they age, such that the overall cost of aged care to taxpayers is sustainable.

As noted in Section 4, a key aspect of a sustainable aged care system is clarifying the role of the Government and the consumer, and in particular, the balance between the Government subsidising the cost of aged care and consumers who can afford to do so contributing to the cost of their care. The Tune Review observed that the LLLB reforms to the income test for home care and the asset and income test for residential care, were intended to increase contributions from consumers who can make a greater contribution to the cost of their care, thereby reducing the overall cost of aged care to taxpayers and in turn contributing to the [fiscal] sustainability of the aged care system.

Under the LLLB reforms, all consumers receiving home care packages can be asked to pay a basic daily fee equivalent to 17.5 per cent of the single age pension. In addition, consumers can be asked to pay an income tested care fee. The level of Government subsidy is reduced by the value of the assessed income tested care fee. Assets are not tested in home care. In residential care, all residents can be asked to pay a basic daily fee towards their living expenses equivalent to 85 per cent of the single age pension. In addition, subject to means testing, residents can be asked to contribute to their care costs. For residential care, assets and income are means tested.

Annual and lifetime caps apply to income-tested care fees paid by home care consumers and means tested care fees for consumers in residential facilities. The lifetime cap applies to income and means tested care fees paid for both home and residential care consumers.

In residential care, accommodation is treated separately from the costs of care. The Government pays a supplement – the accommodation supplement – to cover the cost of accommodation for resident with limited means. Those residents with sufficient means are required to pay the full cost of their accommodation, which is based on market prices, subject to a maximum price, and is negotiated directly with the provider. If the provider wants to charge an accommodation price above the maximum level, approval has to be sought from the Aged Care Pricing Commissioner.

The Tune review concluded that the amount of income-tested care fees collected from home care consumers was very small in comparison to the amount of subsidy paid to consumers. As for residential care, it noted that the reforms to means testing shifted a very small proportion of the costs of care to consumers. The arrangements are also inequitable for being fixed, the ‘impost’ of the consumer contribution falls as the consumer’s income and wealth rises. Similarly, the cap on the value of the consumers home in the means test for residential care when there is no protected person is also inequitable for residents whose homes have a lower market value than others.

Overall, if the aim of the LLLB reforms were to improve the sustainability of aged care by shifting some of the costs from the Government (taxpayer) to the consumer, it has only had a minimal impact.

The benefit from consumers making a greater contribution for their care costs goes beyond reducing funding pressure on the Government, for it can also contribute to improving the overall efficiency and quality of the system. If consumers have to make a financial contribution to the cost of their care, they are likely to be more actively involved in ensuring that the level and quality of care they receive meets their demands. This is in line with the system envisaged in the Aged Care Roadmap, namely a market based aged care system where consumers drive quality and innovation by exercising choice as to which provider/s they use.

Sustainable aged care funding arrangements will require that consumers who can afford to do so will have to make a greater contribution towards their residential everyday living expenses and care costs, complemented by a greater choice of higher quality services. This would involve stronger means testing arrangements for care fees. In addition, uncapping the basic daily fee for residential care for consumers who can afford to pay would boost the revenue of residential providers and for some the opportunity to dispense with charging fees for the provision of additional services. There is uncertainty over what are permissible additional services that aged care providers can offer residents for a fee. The uncertainty over arrangements for charging a fee for additional services highlights that regulatory simplicity is another important component of a sustainable aged care system.

If consumers are to make a greater contribution to the cost of their aged care, it is also important that consumers understand what fees they may be asked to pay so that they can more effectively plan for their aged care.

10. ENSURE ADEQUATE SOURCES OF FINANCE TO SUPPORT THE LEVEL OF INVESTMENT REQUIRED

Attribute 10: The funding and regulatory arrangements for aged care provides an environment where well run aged care providers who are responsive to consumers can attract the financial capital needed to meet the investment levels required to serve an ageing population.

The ageing of the population, along with increasing consumer expectations, will lead to increased demand for aged care services, and in turn, the need for significant investment in the many goods and services that assist with care and support.

While there is uncertainty as to the future demand for residential aged care, especially given changes in consumer preferences and the interaction between residential aged care, independent retirement living and home care, using the current target provision ratios to project future residential aged care supply suggests an additional 88,000 places over the next decade. On top of this will be the need to refurbish existing facilities. On the basis of this assumption, it is estimated that the combined total investment for new and rebuilt residential places over the next decade would be around $55 billion. The net present value of this estimate is approximately $50 billion. This compares with an estimate of around $18 billion (in present value) in building and upgrade work completed between 2009 and 2018.

Against the background of the expected need to substantially increase investment in the aged care industry over the coming decade, there has been a recent decline in building and investment intentions in the residential aged care sector. For example, in 2017-18 following a decline in 2016-17, there was a further significant decline in providers reporting they were planning to rebuild or upgrade their facilities. In 2017-18, following two years of declining intentions, only 2 per cent of facilities reported they are planning building works and 5 per cent were planning to upgrade. Feedback from consultations with providers indicated that many had curtailed or delayed investment plans in the residential care sector, citing depressed returns and policy and regulatory uncertainty along with the potential impact of increased home care packages.

Capital for residential care providers is comprised of:

- Equity, including retained earnings;
- Loans from financial and other institutions;
- Interest free loans from residents in the form of lump sum Refundable Accommodation Deposits;
- Capital investment support from Government by way of capital grants for eligible projects; and
- Capital endowments.

Refundable Accommodation Deposits as a proportion of total assets has been increasing gradually over the last five years from 46 per cent in 2013-14 to 57 per cent in 2017-18. Other liabilities, which include secured bank and related party lending, creditors and provisions, represented 19 per cent of total assets financing across residential care providers in 2017-18. Net worth/total equity has continued to fall as a proportion of total assets. Over the last five years, net worth/equity as a proportion of total assets has declined from 33 per cent in 2013-14 to 24 per cent in 2017-18.

Overall, the aged care industry has increasingly been relying on debt, particularly interest free loans from residents in the form of Refundable Accommodation Deposits, to finance its investments. In terms of the break-down by ownership type, the for-profit providers are considerably more leveraged than the not-for-profit providers. Total liabilities as a proportion of total assets in the for-profit sector in 2017-18 was 91 per cent, compared with 66 per cent in the not-for-profit sector. Government providers had the highest net worth/equity as a proportion of assets with 57 per cent in 2017-18, followed by the not-for-profit providers with 34 per cent. For-profit providers had the lowest net worth/equity as a proportion of assets at 9 per cent in 2017-18, which reflects greater use of debt to fund investment, particularly greater use of Refundable Accommodation Deposits, and greater distribution of profits.

As noted, for-profit providers in particular have relied on Refundable Accommodation Deposits to finance their investment. While the pool of accommodation deposits continues to grow, a number of providers have expressed concern over an emerging trend away from RADs in favour of Daily Accommodation Payments. The proportion of people choosing Refundable Accommodation Deposits/Contributions has dropped every year, albeit slightly, since 2014-15. Conversely, the proportion choosing Daily Accommodation Payments/Contributions has gradually increased. Such a shift has cash flow implications for providers, replacing interest free debt with interest bearing debt, and will have major implications for some providers in financing future investment plans, especially if the trend to Daily Accommodation Payments continues.

Sustainable aged care will require an appropriate level of investment to ensure that the type and quality of service demanded by older Australians is available. This will require adequate sources of finance to support this investment, and it will also require an environment which facilitates this investment. This is an important role of the Government. The significant capital investment needed to meet the future demand for aged care will largely come from the non-government sector (including national and global retirement funds) and the challenge facing the Government is to ensure that the funding and regulatory environment that facilitates this investment. As noted in Section 5, a key requirement is that potential investors have the confidence in the direction and stability of Government policies and that providers receive a return such that it will attract the necessary capital and labour resources. This reinforces the points raised in Section 6 regarding the need for the overall funding pool to be appropriate and for the Government to have an efficient, equitable and stable tool to allocate subsidies. This is important because to attract the required investment, the industry needs to generate consistent rates of return that are appropriate for the risk involved and are competitive with returns in other sectors that have similar attributes.

It was also noted in Section 4 that the role of providers is particularly important because viable and well-run providers are best placed to attract financial capital and quality staff. Key ingredients of well-run providers include the exercise of good governance that oversees the implementation of strategic investment plans and the ability to successfully monitor their operational performance, including in particular quality, financial and business risk management. Well-run providers who will be able to attract equity investment and debt finance will have sound financial management that effectively manages costs and sets appropriate pricing strategies that derive the revenue stream to support sustainable capital returns. In some circumstances, providers may be delivering services in a location, such as remote and regional, where it is difficult for providers to generate a return which would attract capital investment. In these circumstances, one of the roles of the Government is to provide capital grant funding, such as is available from the Government-funded Rural, Regional and Other Special Needs Building Fund.

As noted, a significant source of capital investment funds for providers has been Refundable Accommodation Deposits but there appears to be a trend away from such deposits. Should this trend continue, it will require some providers to significantly change their business models and will cause significant adjustment challenges. With the focus on consumer directed care and consumer choice, however it is important that consumers have the choice of accommodation payment types – either lump sum, daily payments or a combination – and that there be financial equivalence between lump sums and daily payments so that neither residents or providers are financially disadvantaged by the resident's choice of payment method. It would not be consistent with the pursuit of consumer-directed, sustainable aged care for the Government to introduce distortions aimed at encouraging or requiring consumers to choose lump sum accommodation deposits over daily payments.

A shift away from providers relying on Refundable Accommodation Deposits from consumers may also improve the overall efficiency and financial viability of the aged care industry, because there is currently no direct scrutiny over how efficiently providers use the accommodation deposits. Nevertheless, a significant shift away from Refundable Accommodation Deposits from residents will have significant implications in the financing of future investment in residential aged care. Overall, residential aged care providers are more highly leveraged than across all industries because of the existence of the accommodation deposits. A reduction in accommodation deposits would have to be replaced by either equity or other forms of debt, but given the existing high leverage, there is likely to be a requirement for proportionately more equity investment in residential aged care. In any event, well-managed providers that generate consistent returns will have the best prospects of replacing accommodation deposits with equity or loans from financial institutions or other creditors.

11. ESTABLISH EFFECTIVE PRUDENTIAL OVERSIGHT

Attribute 11: Effective prudential oversight ensures stability in aged care and provides consumers with the confidence that their needs will be met, even in circumstances where providers have to cease operations.

Effective prudential oversight of the aged care industry is important in order to maintain confidence and stability and in turn contribute to the sustainability of aged care arrangements. Such oversight is particularly important given the range of current and prospective reforms and developments in aged care are likely to be disruptive for providers.

The current tight operating conditions, which will likely continue, are expected to accelerate the trend towards greater consolidation amongst residential aged care providers. There is evidence that some providers are thinly capitalised (relatively high proportion of liabilities to assets) and are more exposed to financial and economic risk events. Part of the objective of the Government's prudential oversight of residential care providers stems from the Government's guarantee of Refundable Accommodation Deposits. The guarantee ensures that consumers are confident in giving a large accommodation deposit to a provider, which as noted previously, has played an important role in the capital financing of the residential care sector. More generally, stability in the aged care sector and confidence that providers will fulfil their commitment to look after older Australians, including if a facility fails, is important in maintaining overall consumer confidence in the aged care industry.

In addition to pressures in the residential sector, it is likely that following the very large growth in the numbers of providers in the home care market, there will be a consolidation in the number of providers. While there is always a role for smaller providers in both the residential and home care sectors, the current tight financial conditions will likely put pressure on less efficient providers and those unable to achieve economies of scale. An increasing number of marginal providers will likely depart the industry. Such a trend will lead to a more efficient and resilient aged care industry, however the adjustment should be orderly and any impact on consumers minimised. A sudden and disruptive financial failure of an aged care provider may result in older Australians desperately seeking replacement care, which would undermine confidence in the aged care industry. To ensure that consumers are protected, the Government should actively monitor the financial condition of providers and identify those providers facing financial difficulties. Advice could be given to such providers, but the focus of any Government involvement should be on facilitating the withdrawal of the provider in difficulty, either in facilitating the sale or transfer of facilities or operations to another provider or, if that is not possible, helping consumers find an alternative provider.

NEXT STEPS

This report provides an overview of the attributes of sustainable aged care, from a funding and financing perspective. Its coverage is wide, and as such, any follow-up will also be very wide ranging. One of the objectives in undertaking this project is to provide a holistic framework that highlights the inter-related components of achieving sustainable aged care, and as such, the need to move beyond considering particular issues in isolation. In that regard, it is hoped that the report encourages all stakeholders, particularly policy makers, to think broadly when considering the steps necessary to achieve sustainable aged care.

From ACFA's perspective, this paper provides a more systematic basis by which ACFA can fulfil its remit in advising the Government of the implications of funding and financing developments on the viability and sustainability of the aged care industry. Specifically, ACFA will be monitoring whether developments are consistent with the identified attributes of sustainable aged care. This will be a focus of its annual reports.

This overview should also assist all stakeholders – particularly the Government – in approaching all aspects of policy directed at achieving sustainable aged care. That is a wide ambit, but following are some suggestions in terms of next steps.

The response to the Royal Commission into Aged Care Quality and Safety is an opportunity for a community wide conversation to reframe the concept of ageing and aged care. Such a conversation could also seek to achieve a common view on the objective of sustainable aged care. The Government should take the lead in initiating this conversation, but it also requires the active support of providers and their peak bodies along with consumer representatives.

Another opportunity to 'widen' consideration of aged care is in the review of Australia's retirement income system. This is an opportunity to recognise that any consideration as to what is an adequate retirement income needs to take into account the additional costs that consumers face as they age and towards which they will have to make a contribution.

Towards facilitating a community wide conversation on aged care, the Government should outline its forward looking thinking, or its ‘plan’, for sustainable aged care – in particular a ‘plan’ that articulated such matters as: what the Government sees as its role and the consumers’ role in terms of funding aged care; the importance of consumer choice; the role of competition; and the need for arrangements that facilitate the exit of underperforming providers. The design and implementation of specific reforms may take time, but in outlining its views on the strategic direction of aged care, the Government would help bolster confidence among existing and future investors in aged care, as well as the opportunity to prepare the ground for steps that would see those consumers who can afford to do so making a larger contribution towards their aged care costs. Moreover, should the Government increase funding for aged care in the short-term, this should be in the context of contributing to a strategy to improve the efficiency and sustainability of aged care.

Advancing the trial of the Australian National Aged Care Classification (AN-ACC) is an important step in establishing a more effective and stable mechanism for allocating Government subsidies for residential care. A new funding model that includes transparent studies to determine the cost of care and indexation arrangements that adequately reflect movements in costs will be an important step in lifting the confidence of residential aged care providers. The other key component is to ensure that the Government subsidy not only covers the cost of care, but also allow efficient providers to make an adequate rate of return. Priority has to be given to establishing an appropriate ‘price’ for aged care services since it is an important component of achieving sustainable aged care.

As noted above, increased attention needs to be given to identifying how to lift the overall efficiency of aged care providers, and in turn the level and quality of services available to consumers. This should be a focus of not only the Government, but also providers and their peak bodies. A key aspect in this context is facilitating greater competition in aged care. Towards this objective, and in the context of the Governments plan for achieving sustainable aged care arrangements, the Government should give priority to advancing the review of the continuation of the ACAR and ensure that the mechanism for allocating residential aged care places encourages a more competitive and consumer demand driven market.

The Government should also review the implications of the apparent shift from Refundable Accommodation Deposits to Daily Accommodation Payments. Should this trend continue, it will have significant implications for residential aged care providers, both in terms of cash flow and source of financing for future investment? The review should also examine the extent to which RADs are impacting on the operational performance of aged care providers, given they are a source of capital that is not subject to any scrutiny as to how efficiently RAD funds are used.