6 May 2016

The 2016-17 Budget

Cutbacks in the future growth of ACFI funding take centre stage in this year's aged care Budget.

And consistent with expectations for the overall Budget, despite the imminent election, there was no 'cash splash' for aged care. The only new funding provided goes to rural and remote services and homeless services and for continued development of MyAgedCare.

The Budget also 'marks time' on the announcement of new aged care reform measures. However the Budget documents indicate that "the government is committed to having an aged care system that is consumer-driven and which supports a diverse range of providers to be responsive to the care needs of older Australians."

The reform focus in the short term remains on implementing last year's Budget announcements regarding 'funds following the consumer' for home care packages, the integration of home care packages and home support into a single program and consolidating a number of other recent reform measures.

Total aged care expenditure, which takes into account existing policy such as the expansion in the number of care recipients, is projected to increase to $17.8 billion in 2016-17, an increase of 7.7% over 2015-16, and an average increase of 7% per annum over the next four years. Total aged care expenditure has increased by 25.5% since the Living Longer Living Better reforms of the 2013-14 Budget.

ACFI

The Budget includes further measures, in addition to those announced in the 2015 MYEFO, to reduce the growth in ACFI expenditure that would otherwise occur based on current claiming patterns. The additional measures in the Budget respond to a continuing acceleration in the rate of growth in claiming since the projections on which the MYEFO measures were based.

Most of the increase in claiming continues to occur in the Complex Health Care (CHC) domain. This domain has been targeted in order to curb the rate of growth, rather than apply an across the board cut to ACFI. The changes to the CHC domain will include modifications to certain activities that may be claimed and changes to the CHC scoring matrix, as well as a halving of the indexation rate to be applied to the domain in 2016-17.

The changes from both the MYEFO and the Budget announcements will be phased in, with some taking effect from 1 July 2016 and others commencing on 1 January 2017.

Half indexation of the CHC domain will apply from 1 July 2016 as will changes to the scoring matrix for Questions 11 and 12 (Medication and Complex Health Care). The latter measure keeps the existing scoring matrix structure but reduces the scoring for certain combinations. These changes to scoring will only apply for the six months to the end of 2016 when they will be replaced from 1 January 2017 by a redesigned scoring matrix that reduces the rating categories for Medication under Question 11 from four rating points to three.

Changes to the scores for certain procedures under Question 12 will also be introduced from 1 January 2017, in particular lower scores for blood pressure measurement, management of arthritic joints and arthritic oedema. In addition, as well as a lower score for complex pain management by an allied health professional, there will be a requirement for 120 minutes of delivery of treatment over a week to qualify.

The new arrangements will apply for all new appraisals and reappraisals, from the relevant start date.

More detailed information about the ACFI changes can be found here.

The Department estimates that the Budget measures will reduce ACFI funding by $1.2 billion over the next four years, in addition to the reduction of approximately $750 million over the next four years as a result of the MYEFO changes. This compares with an estimated funding increase over the 2015-16 Budget estimates under ACFI of $3.8 billion over the next four years that would otherwise have occurred. Taken together with the MYEFO reductions, this will result in about $2 billion of the $3.8 billion being cut from the projections of ACFI expenditure growth.

The Budget documents highlight that residential aged care expenditure will increase by 5.1% per annum over the next four years, but about half of this is as a result of growth in the number of care recipients. On a per resident per annum basis, the growth in ACFI funding averages 2.5% each year over the next four years, including indexation.

With the release of more detail about the changes since Budget night, there is increasing concern that the measures may result in the reduction in growth exceeding that projected in the Budget. Information on the modelling underlying the estimates, and the contribution of each measure to the reduction in expenditure growth, is being sought.

The Budget also provides $53.3 million to establish “a transitional assistance fund to support providers with the changes to ACFI”. The Department has indicated that it will consult with the sector on how the fund will be used.

This Budget marks the third time in almost as many years that growth in government payments for nursing and personal care under the ACFI has exceeded Budget estimates, resulting in reduced payments to residential care providers.

This is further evidence that ACFI is inherently flawed as a funding tool. The volatility impacts negatively on budgeting for the delivery of nursing and personal care. It also reinforces the perception that aged care is overly exposed to sovereign risk which impacts negatively on financiers, investors and the financial markets, upon whom the significant expansion in aged care services that is required, depends.

It seems that the government is equally frustrated with the unreliability of its Budget estimates because it has signalled that it will consult with the sector “to strengthen the way care funding is determined, including options such as separating residents’ needs assessments from service provision, and having it done by an independent party”.

Aged Care Roadmap

A major disappointment of the Budget is that the opportunity was not taken to give a clear ‘quick march’ call to proceed with the policy development work identified in the Aged Care Roadmap that is required to transition in an orderly and transparent way to a sustainable consumer-driven and market-based aged care system. The Roadmap was prepared by the Government’s Aged Care Sector Committee and was released shortly before the Budget.

The 2016 Budget leaves aged care reform ‘marking time’ in relation to the next steps in aged care reform, while the sector’s and the Government’s focus remains on implementing last year’s Budget decisions to introduce ‘funds following the consumer’ for home care packages and to integrate home care packages and the home support into a single program.

Last year’s Budget announcements are important steps in the Roadmap, as is this Budget’s decision to increase the investment in MyAgedCare. However, there remains a level of uncertainty among service providers, consumers, investors and financiers about the degree of commitment to work towards the Roadmap’s ultimate destination of a consumer-driven aged care system based on the uncapping of supply and equitable means tested government contributions for people with similar assessed care needs, irrespective of where they choose to live.

Implementing the Roadmap comes with risks. A key mitigation strategy is to give all stakeholders certainty about what is intended so that they can prepare and allow time for their involvement in a detailed co-design process for the reforms.

It is to be hoped that all political parties embrace the Roadmap processes and destination in their election platforms, and that the largely bipartisan approach which has been the hallmark of aged care reform to date is continued.

Changes to the Viability Supplement

The Budget provides for an increase in viability supplements over the next four years of $102.3 million for rural and remote services, rising from $15 million in 2016-17 (half year effect as the increases will apply from 1 January 2017) to $30.7 million by 2019-20. This compares with expenditure on the viability supplement in 2014-15 of $66 million.

The increase will extend to eligible residential and home care services, multi-purpose services, flexible Aboriginal and Torres Strait Islander services, and to eligible services catering for homeless older people.

The Budget decision also provides for the replacement of the current remoteness classification instrument, the Accessibility/Remoteness Index of Australia (ARIA) with the Modified Monash Model (MMM). The MMM model takes into account the size and isolation of a town whereas the ARIA classification relies on road distances from service centres and does not incorporate demographic factors of individual towns into its classification model. The MMM also uses the latest census data, whereas the ARIA is based on 1990's census data. The MMM is used for the GP rural incentive and workforce shortage programs.

The Budget papers indicate that 250 mainstream services, ie. residential and home care services, will benefit from the new arrangements, including a number that will receive the viability supplement for the first time. Currently 753 mainstream services receive the viability supplement.

The Budget papers do not indicate how many new mainstream services will qualify under the new arrangements, which is surprising that this good news was not highlighted, and was not available in time for this Update. The Budget papers do indicate, however, that the majority of the increase will go to 'outer regional' towns. Examples given include Holbrook (NSW), Childers (QLD) and Rushworth (VIC).

Around 100 of the 155 multi-purpose services that currently receive a viability supplement will have their supplement increased. An additional five flexible Aboriginal and Torres Strait Islander services will also receive an increase.

Application of the MMM results in a number (not disclosed) of current recipients qualifying for a reduced amount of viability supplement. However, grandfathering will apply to ensure that no current recipients of the viability supplement are disadvantaged under the new arrangements. There is a strong tradition of grandfathering of viability supplement entitlements as the program has transitioned through a succession of arrangements for classifying remoteness.

This measure responds to the ACFA report *Financial Issues Affecting Rural and Remote Providers* which identified greater cost pressures in rural and remote areas and identified that the ARIA classification scale is outdated.

MyAgedCare

The Budget includes new funding of $136.6 million over the next four years for the further development of MyAgedCare, especially expanding capacity to cater for the increasing volumes of calls and communications being received by the contact centre.

The Department advises that the volume of calls and correspondence managed by the contact centre has increased from 110,000 in 2013-14 to an estimated 1,280,000 in 2015-16. The volume of contacts is expected to increase by a further 41% in 2016-17 (partly because Victoria comes under the CHSP) and by 90% by 2019-20.

The additional funding is on top of the $168 million provided under the Living Longer Living Better package.

The additional investment in MyAgedCare is welcome and recognises that an effectively operating MyAgedCare service is essential to the successful transition to consumer-driven aged care.

Extending Funding for Unannounced Site Visits by the Australian Aged Care Quality Agency

Funding of $10 million will be restored to the Quality Agency for another year (2016-17) so that it can continue to undertake unannounced site visits to aged care homes. The restoration of funding arises due to the postponement of the introduction of cost recovery for this element of the Agency's activities. The other elements of the recovery measure that was announced in the 2015-16 Budget will proceed as planned on 1 July 2016.

The introduction of a competitive private market for accreditation services that was also flagged in the 2015-16 Budget remains in the policy formulation stages, with no clear implementation timetable.

ACAR

There was some speculation that the release of 2016 ACAR for residential places might have been included in the Budget in order to meet the Minister's announcement earlier this year that the 2016 ACAR would be released in June. With the anticipated proroguing of Parliament for the Federal Election, it now means that the 2016 ACAR will not be released until after the election and the swearing in of a Minister responsible for aged care.

Disclosure Statement: The author of this Update, Nick Mersiades, is a member of the Aged Care Financing

Authority. The opinions in this Update should not be read as being an expression of the views of the Aged Care Financing Authority.

Previous Aged Care Updates may be accessed here

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