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The Aged Care Roadmap: where might it lead us?

Following the former Prime Minister's endorsement of the [Aged Care Statement of Principles](#) to guide future reform of aged care, the then Assistant Minister for Social Services invited the Aged Care Sector Committee to develop a 'roadmap' setting out the short, medium and long-term actions required to achieve aged care services based on these Principles.

The Principles envisage a system architecture where:

- funding follows the consumer;
- consumers and informal carers are empowered to exercise choice and control;
- services are demand-driven;
- providers compete on quality, value and performance;
- provider revenues are market-based;
- consumers make an equitable contribution to their care costs according to their means; and
- there are safety nets to protect consumers.

The [Roadmap](#) was posted on the Aged Care Sector Committee's website today.

First, let's back-track a bit

For many decades, the Commonwealth has outsourced the provision of aged care services to for-profit and not-for-profit organisations, rather than own and operate services itself. Most state governments, on the other hand, for a time, actually owned and operated aged care homes in much the same way as they own and operate public hospitals. Some still do, especially in rural and remote locations, but with the support of Commonwealth recurrent aged care funding.

Under these outsourcing arrangements, the Commonwealth controlled the maximum number of people that could be cared for at any one time, the maximum number of

people each service could care for, the distribution of the services across the country and, aside from accommodation bonds in residential low care and extra service facilities, service budgets. There are also regulations that specified the types of services each organisation was expected to provide and regulations to support service quality. Most of these controls are still in place.

It is understandable that, in this heavily regulated environment, the aged care sector tended to look to Canberra to sort out matters affecting aged care as if it was a virtual arm of the government.

The notion of individuals having control and choice over their aged care services and influencing the 'market' for their services was not on the radar.

Instead, older people were cared for in aged care services in much the same way as people are cared for in a public hospital, though with many services also striving for person-centred and holistic services provided in more home-like environments. But, of course, person-centred holistic care is not synonymous with consumers being in control, because each person's government care contribution and decision-making remain under the control of the provider.

The winds of change first emerged in a significant way through the National Aged Care Alliance which, in its submissions and advocacy around the Productivity Commission's 2011 report *Caring for Older Australians*, gave voice to the recipients of aged care, who became known as 'consumers'. The Alliance argued, and the Productivity Commission accepted that, as users of aged care, consumers should have control over the services they receive. The Commission also concluded that a more consumer-driven and market-based system was needed if consumers are to have greater choice and control.

The Living Longer Living Better (LLLB) package in 2012 took the first steps towards greater consumer choice and control by introducing individual budgets in home care and increasing the number and proportion of home care places. These were relatively modest, but important, 'concessions' for consumers in return for the introduction of income tested fees in home care (which benefited the government) and allowing providers to set market-based accommodation prices for all residential care (which benefited providers) and improved the sustainability of aged care. It was understood that these changes fell far short of consumer choice and control.

Importantly, though, the LLLB reforms and the general acceptance of the Productivity Commission's Report were accompanied by a gradual change of philosophy and language that started to give prominence and authenticity to a system which aspired to real consumer choice and control through a market-based and consumer-driven system. This change in philosophy led in 2015 to the government decision to introduce 'funds following the consumer' in home care from 27 February 2017 and to

create a single home care and support program by July 2018.

But why have a Roadmap?

Moving to a market-based and consumer-driven system represents a quantum change to the current system, even taking into account the reforms currently underway.

Such a significant change involves potential risks for all stakeholders – business risks for providers as they move from the relative predictability of a closed market to open competition; risks for consumers because they depend on the availability and continuity of quality services; implementation and budgetary risks for government; and financial risks for financiers and investors upon whom the large investment in expanded services largely relies.

A key mitigation strategy to manage these risks is transparency so that all stakeholders know the direction of change. Transparency not only gives stakeholders, including the Department of Health, time to prepare for the changes, but also allows time for stakeholders to influence the detail of the reforms through co-design arrangements in order to avoid unintended consequences and minimise the risk of system problems.

Therefore the objective of the Roadmap is to provide greater transparency and the opportunity for co-design, and to avoid ad hoc directionless change.

Where might the Roadmap lead?

Make no mistake, the Roadmap's 'destinations' envisage a radically different aged care world to that which currently exists, acknowledging however that the LLLB and more recent reforms have already started the sector on the journey.

In essence, the 'destinations' envisage a move away from Commonwealth outsourced aged care to one where the money (ie. the government's means tested care and accommodation contributions on behalf of consumers) is effectively put in the hands of individual consumers to purchase the care and support services of their choice, or to direct to their preferred provider(s). Consumers can also top up their government contribution with their own funds. Hence, the consumer would be sovereign in this system, in much the same way as age pensioners and self-funded retirees are already sovereign with regard to their age pension entitlements and their savings, ie. government will fund individuals according to their needs and means, and providers will have to earn the business and loyalty of consumers in a competitive service environment.

Key elements of the Roadmap which combine to arrive at this 'destination' include:

- The creation of a single care and support system where eligibility and level of government care contributions for individuals is based on assessed care needs and means, and where the government contribution is agnostic as to where individual consumers choose to receive their care and support – in their own home or any other variety of residential setting.
- The market will determine the nature, location and quantity of services, and government will no longer regulate the number and distribution of services through the Aged Care Approvals Round.
- The community will be encouraged and supported to have early conversations about their aged care in the knowledge that they **will** have choices and that there is therefore much to be gained by planning and preparing ahead.
- Where there is insufficient market response and services might not otherwise exist, additional government assistance will continue to be provided, eg. through higher prices or block funding.
- Government will fund and operate a free service, independent of providers, for assessing eligibility, care needs and maximum funding levels, including whether individual care needs are time limited or ongoing.
- Service providers will be registered/mutually recognised before they are eligible to receive consumers' government contributions, with registration linked to 'scope of practice' eg. short term restorative care, clinical and personal care, services with an accommodation component, care coordination etc.
- Government will not regulate prices or what consumers choose to pay for **accommodation and living costs in residential care**, but providers will be required to publish their prices. The government will also publish a reasonable market-informed price for accommodation and everyday living costs for low means consumers seeking residential care. Government will also contribute to the cost of the consumer's accommodation and living costs based on a reasonable market-informed price and each consumer's capacity to pay (based on total wealth).
- Government also will not regulate provider prices for **care and support** or what consumers choose to pay. As with accommodation and living costs, providers will be required to publish their prices. The government will also publish reasonable market-informed prices for care and support based on levels of need, and will continue to contribute to the cost of each consumer's care and support based on the reasonable market-informed price and each consumer's capacity to contribute.
- Consumers will be able to use the government's contribution at any registered service provider they choose, and to purchase additional services from any provider using their own funds.
- Comprehensive and varied information and support services accessible to all consumers will be developed to ensure that consumers and their families are as empowered as possible to exercise real choice and control and make informed decisions.

- Providers will continue to have responsibility for attracting and retaining an aged care workforce and for fostering a positive community reputation of aged care as an attractive employer. Where government is setting prices, prices will be sufficient to enable an efficient provider to attract and retain an effective and appropriate workforce.
- Government will continue to regulate for consumer protections, including accreditation against core standards and independent complaints mechanisms. However, consumers will play a greater role in driving quality services and innovation by exercising choice and control in a more flexible and competitive environment, ie competition, rather than intensive regulation, will have a greater role in driving quality services.

What are the pot holes on the way?

Viewed in the context of how Australia's wider services sector operates, the Roadmap 'destinations' are familiar territory. That is, individuals exercising choice in the purchase of services from service providers operating in an open market where they compete for business based on price, value, convenience and quality.....nothing unusual here.

What distinguishes aged care services, however, is the inevitable ongoing heavy reliance on taxpayer funding, the vulnerability of the client group and the implementation risks of transitioning from the current heavily regulated system.

As a consequence, the Roadmap has identified issues that must be explored and dealt with before the sector can arrive at the 'destination'.

Affordability

The Roadmap recognises that a threshold issue to be addressed is whether a demand-driven system is affordable for taxpayers and individuals, and therefore sustainable.

In response to this threshold issue, one of the early actions of the Roadmap is undertake modelling to determine the level of unmet need for aged care services and the cost to government and individual consumers under a variety of scenarios.

The factors that modelling will need to take into account include:

- The impact on system costs if greater consumer choice results in a further shift from residential care to home care.
- The impact on demand of a more robust, consistent and tightly administered eligibility and assessment processes (gate keeping) through MyAgedCare, including the availability for the first time of accurate waiting lists.

- The impact on system costs under various consumer contribution scenarios, including taking into account all wealth and treating all wealth equally irrespective of the form it takes.
- The impact on system costs of a greater alignment of user contributions for people with the same care needs irrespective of where they choose to receive their care.
- Productivity gains that might accrue under the operation of a more competitive aged care services market.
- The impact on system costs of a greater emphasis on early intervention and reablement.

Modelling of unmet demand and costs should also take into account that the current forward estimates are based on the government's provision target of 125 operational places per 1,000 people aged 70 and over by 2021-22, whereas the current provision level is only 111 operational places. Modelling the impact on the balance of supply and demand under the current provision formula based on age 70 would also be useful because it will likely generate greater supply of places as the Baby Boomers reach 70, whereas the average age at which people access aged care services is the early 80s.

The modelling should not be a one-off exercise. It will require updating and refinement as more information becomes available as reform measures are phased in eg the impact on occupancy rates in residential and home care and unmet demand (waiting lists) as the system moves towards the target ratio of 125 places and monitoring of MyAgedCare waiting lists.

Consumer contributions

There are still considerable inequities in care contributions across residential and home care and with regard to what forms of wealth are assessable for means testing purposes.

A significant issue is the relative levels of care contributions for individuals with the same care needs and wealth depending on whether they choose to live in their own home or in residential care. Given that government will continue to meet the care costs of consumers with low means living in residential care on the basis that care is provided 24/7, what should be the government's care contribution if a consumer chooses to live at home with the support of an informal carer? Should the means test be the same in residential and home care, noting that the means test for residential care also determines whether a person is eligible for assistance with accommodation costs? Can the same test apply across residential and home care?

Any increase in consumer contributions would make the development and availability of financial products such as equity release products even more important in order to

give consumers greater flexibility in making their contributions. This is particularly the case if the full value of the former principal residence is treated as an assessable asset.

Phasing-in of uncapped supply

Moving to a demand-driven system will require the eventual removal of the current overall and balance of care provision target ratios which cap supply. The question that will need to be addressed is whether the supply caps on residential and home care should be lifted at the same time, or should one precede the other, and in both cases, when?

There is a case for proceeding with home care first. The current split between home care and residential care is an artifice of regulation rather than of a free choice by consumers. By uncapping home care first, and noting the perception that home care is favoured by consumers, a more realistic view of consumer preferences would emerge, including the impact on preferences of any changes in user contributions. The capital intensive investments required for residential care could then proceed post-uncapping based on better information about consumer preferences and demand in circumstances which more closely reflect consumer preferences in a free market.

This is not to suggest that the balance of residential and home care will remain static thereafter. There will be many social, economic and competitive forces, including the digital economy that will impact on future consumer preferences. Either way, however, the phasing-in of uncapped supply needs careful thought in order to manage transition risks.

Exercise of consumer choice

Perhaps the most challenging area identified in the Roadmap for action is ensuring that older people and their families have the capacity to exercise real and informed choice. A well-accepted pre-condition for creating a responsive and efficiently operating competitive services market is that a significant proportion of consumers are genuinely capable of exercising free and informed choice.

Preparing the community to exercise informed choice should include activities that will embed in the public consciousness that under the aged care system of the future, individuals will be able to exercise choice as to how their aged care needs are met and that they can use their own resources, as well as government contributions, in the exercise of that choice. With this knowledge, more of the community will have the incentive to have conversations about, and to plan for, their future aged care needs.

Community awareness will need to be complemented by arrangements which provide

consumers with the best possible comparative information about the merits of services. This includes price disclosure and information on consumers' experiences of individual services. Social media and 'trip advisor' type functions can be expected to play an ever increasing role in highlighting comparative service quality issues.

There will also be older people who find themselves in circumstances where they are less capable or unable to exercise choice, such as people with cognitive impairments with no family supports and certain special needs groups. There will need to be a ramping up of services that guide and support older people in circumstances such as these.

Eligibility assessment

The Australian Government is still at a comparatively early stage in fashioning MyAgedCare into a nationally consistent and robust eligibility assessment and referral system. Further refinement and development will be required over the next few years to ensure that it operates efficiently and fairly as a 'gate keeper' and as a reliable and accurate assessor of care needs.

Streamlined administrative processes and software systems will also need to be developed if assessment and re-assessment is to be cost-effectively conducted independent of providers, including a review of the appropriateness of the current configuration of ACFI. This is also the case if assessment is to be applied consistently across residential and home care in a manner which is agnostic as to where an individual chooses to live while they receive care contributions from the government.

Security of lump sum deposits

The question of who should be responsible for guaranteeing the refund of lump sum deposits in the event of defaults remains a contentious issue, as does who should meet the costs of guarantee arrangements – consumers, government or providers (collectively or individually). Currently, lump sum deposits are guaranteed by the government, but on the basis that any payments it makes in the event of defaults may be recovered from providers who hold lump sum deposits. However, successive governments have chosen not to exercise this legislated power to recover any of the payments made to date (approximately \$40 million).

Lump sum guarantee arrangements will remain a topical issue while ever lump sum deposits continue to be favoured by many and the value of lump sums held by providers continues to rise (approximately \$22 billion currently).

Accordingly, one of the Roadmap actions recognises the government's intention to review the current guarantee arrangements.

What is the status of the Roadmap?

The Roadmap represents the views of the Aged Care Sector Committee as to how an aged care system based on the Principles might be phased in, including issues that will need detailed consideration and development before implementation. The Foreword to the Roadmap urges that the Roadmap “be used by current and future governments, industry and consumers to shape reforms in coming years”.

The Roadmap is not Government policy. However, in advice provided by the Department of Health, "the Roadmap's final destination of a sustainable, consumer-driven and market-based system is a shared vision not only for government but also for other stakeholders."

The other Parliamentary parties have also been supportive of the measures to date and the overall directions which are consistent with the Productivity Commission's report *Caring for Older Australians*.

The sector continues to work hard to secure a 'bipartisan' approach. The National Aged Care Alliance's *Position Statement for the 2016 Federal Election* is consistent with the Roadmap and the *Aged Care Statement of Principles*.

The next steps

The way forward is to proceed systematically with the co-design and analysis of the actions identified in the Roadmap and to consolidate bi-partisan support.

Co-design is already occurring in relation to 'funds following the consumer' in home care and the creation of a single home care and support program. Indeed, many of the 'pot holes' identified above first arise with the creation of a single home care and support scheme, which will then flow through to designing the Roadmap's vision of a single care and support system that encompasses care provided in both residential and home care settings.

An important process in addition to the above will be the legislated independent Review of aged care reforms which is required to report to Parliament by August 2017. The terms of reference for the Review cover many of the required actions identified in the Roadmap.

In order to ensure that co-design does proceed systematically, the immediate next step is to develop a work program based on the actions identified in the Roadmap, including an allocation of responsibilities, with provision for regular reporting to the Aged Care Sector Committee.

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.

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Catholic Health Australia
PO Box 245, Civic Square, ACT 2608

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