CATHOLIC HEALTH
Australia

Aged Care Update

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Improving the collection of financial data from aged care providers

As well as an annual report on the impact of aged care financing arrangements on viability, sustainability and access to services, the Aged Care Financing Authority (ACFA) was tasked in its initial work program to provide advice on cost effective options to improve the collection of appropriate financial data from aged care providers.

This task was confirmed by the Abbott Government, who also gave an explicit red tape reduction imperative by asking for options to rationalise financial reporting.

ACFA's report to Minister Fifield has been released, along with the Minister's response to the report. These documents, along with a report by accounting firm RSM Bird Cameron, can be **viewed here**.

ACFA's recommendations

The following principles guided ACFA's recommendations:

- Data should only be collected if it has a material use in informing policy, supporting partnerships with the aged care sector, managing risk and meeting compliance requirements.
- The need for data and its level of assurance (e.g. regular audits) should be balanced against the cost to the provider to supply the data and the requisite assurance.
- The reporting regime should be efficient in both the cost and time taken to support it.
- Financial reports should be as simple as possible and insightful for providers.

ACFA's recommendations should result in a significant reduction in the amount and cost of reporting. In particular, ACFA has recommended in relation to residential and home care:

- A single comprehensive financial report to replace the general purpose financial report (GPFR), the annual prudential compliance statement (APCS) in relation to accommodation bonds, the annual survey of aged care homes (SACH) to monitor development activity and plans, and the financial accountability report (FAR) for home care packages.
- A design consultation group to advise on the data items and definitions for the comprehensive financial report (an outline of which is in ACFA's report).
- Adoption of standard business reporting (SBR) as the mechanism for transferring de-identified data between providers and the government.
- Collection of income and expenditure information at the facility level.

- Removal of the requirement for independent auditing of reports.
- Use of Australian Bureau of Statistics-style sample surveys for the collection of data beyond the minimum data set.
- A phased implementation starting with the comprehensive financial report and culminating with implementing standard business reporting SBR as soon as possible after 2015-16.

The ACFA did not make specific recommendations in relation to grant-based programs such as the Home and Community Care (HACC) program, but supported the changes the Department of Social Services has in train to reduce the reporting requirements for all their grant-based programs.

Many in the sector, including CHA, have long advocated for the development of a special purpose report such as the comprehensive financial report so that data collected can be focussed on achieving the desired analysis of trends in viability, sustainability, investment and access. A purpose-designed report also allows the inclusion of data currently collected via other means, thereby avoiding duplication and double handling.

The ACFA also concluded that the GPFR, which was developed for general use, is not fit for purpose. There are gaps and inconsistencies in the data collected which limits the robustness of the viability and sustainability trend analysis that can be undertaken, including in relation to the all-important segment information for residential aged care reporting.

The Minister's response

In his response, Minister Fifield:

- gave in-principle support to the general direction of ACFA's recommendations for financial reporting, and
- convened a design consultation group comprising representatives from ACFA and industry to recommend the final form of the comprehensive financial report, and to advise on the proposal to collect data at the facility/service level and the timetable for implementing SBR.

It would seem that the Minister is concerned about potential provider opposition to the collection of data at the facility/service level, as well as at the approved provider level. There is also a question mark over how readily provider and DSS financial systems can be enabled for SBR (presumably without financial assistance for providers from taxpayers), and the lead time for the development of SBR enabled software applicable to aged care.

Standard Business Reporting

SBR operates by drawing data in standard formats directly from financial systems used by businesses for their management purposes.

As stated in the RSM Bird Cameron report, SBR enabled software can read the financial data in accounting/finance systems and pre-fill forms with the required data. It also allows business to check the data for accuracy before it delivers the forms electronically to the relevant government agency through a secure online channel. SBR is used currently by business for financial reporting to ASIC, the ATO, APRA and all state and territory government revenue offices, and an SBR program is currently being developed to facilitate reporting to government by charitable and not-for-profit organisations.

Nevertheless, it must be acknowledged that enabling systems for SBR to capture the spectrum of data envisaged will not be a trivial matter for many aged care service providers and software developers. The potential downstream benefits, however, make the effort attractive.

But why bother with financial reporting?

From a community perspective, the key reason to bother with financial reporting is that the government uses taxpayer's money to fund most (about 70% currently) of the cost of caring for older people and the cost of aged care-related accommodation for people with lower means.

In setting the prices paid for these services, and accounting to taxpayers and the parliament, the government has to be confident that it is paying a fair price to aged care providers for these services – not too much and not too little. Normally, governments would rely on competitive tendering to establish best value prices, but such an approach is not practical in aged care. Getting the price right is also critical for securing investment in a sustainable supply of aged care services as our population ages.

In the absence of tender arrangements, the government has to rely on other mechanisms, including having access to financial performance and investment data. The focus on price is, of course, complemented by regulations for supporting care quality, including accreditation, complaints resolution mechanisms and compliance reporting.

Another motivation for government was to have information on the finances of providers readily accessible by consumers and their representatives, noting that most providers hold refundable bonds in trust.

The government first moved to obtaining information on financial performance in 2004 after the Hogan review into pricing arrangements in residential aged care, which resulted in the mandating of annual GPFRs. Since then, Ministers have regularly pointed to GPFR data to justify government policies and prices. In response to the government's increasing contingent liability under the bond guarantee scheme, the GPFR data also began to be used by DSS to help in risk-rating providers.

But public access to independent financial performance analysis also benefits the sector.

Responding to the way the financial information initially was being used by government, the sector recommended, and the Productivity Commission accepted, that an independent body be established to monitor, assess and transparently recommend a schedule of aged care prices and subsidies. Rather than being a submissive price taker, the sector recognised access to independent analysis of care costs and financial data would allow a more evidenced based partnership between the government and the sector, including consumer organisations and the financial markets, about the financing of aged care in order to secure access to services by all older Australians irrespective of their background and where they live.

The Gillard Government's compromise was to establish the ACFA, whose role stops short of recommending prices. Nevertheless, the creation of an independent body to monitor and publicly report on the impact of aged care financing arrangements is a major step forward. In order to undertake this role, the ACFA needs access to timely and reliable financial, investment and related data.

Variability in financial performance

It is relevant at this point to also reflect on a related task on ACFA's work program. That is a study into the factors that influence the financial performance of the better performing providers relative to those that are not performing as well, and what could be done to improve performance. The study is required to include consideration of issues affecting rural, regional and remote providers.

The sector is currently characterised by significant variation in financial performance. By asking for this study, the government is confirming that it is not simply looking to set prices that would allow all providers to achieve positive financial results. Its focus is also on improving overall performance through better management practices and productivity gains.

Why at the facility/service level?

Introducing a single comprehensive financial report to replace the GPFR, the APCS, the SACH and the FAR would be a significant and welcome rationalisation of current financial reporting arrangements, each of which emerged independently in response to a perceived need at the time. However, while still representing a net reduction in reporting requirements, ACFA's approach would introduce an income and expenditure statement at the facility/service level. Reporting in residential care is currently only at the approved provider level, which can range from single facility operators to multi-site operators.

What is to be gained from this additional level of reporting?

The rationale for extending reporting to the facility/service level is that it would enable a better understanding of the economics of providing care in particular regions and for particular target groups, such as rural and remote services, indigenous services and homeless services.

The current prices assume a standard price for care services across Australia linked to assessed care needs, with viability supplements applying in some circumstances. There is currently little publicly available evidence to support the setting of these supplements and to assess their adequacy. As a community we need to be conscious of and well informed about what is required to ensure services are available for and accessible by, marginalised communities.

Adoption of this recommendation would result in additional reporting for some providers. This can be balanced against the fact that ACFA's overall recommendations, even with this requirement included, should still result is a substantial reduction in reporting and costs. It is also arguable that reporting at this level may not be too onerous as good management practices would require budgeting and monitoring of revenue and expenditure at the facility/service level. This being the case, the adoption of SBR should also facilitate data collection at the facility/service level.

What are the chances of dispensing with audited reports?

The recommendation to replace independent auditing of financial reports with an attestation of compliance is welcome as auditing adds considerable cost. It is also relevant that using standard electronic reports drawn directly from provider accounting systems using SBR would be expected to reduce the risk of collection error.

Nevertheless, removing the requirement for independent auditing of reports will be a test for the government's red tape reduction credentials.

There will be some advisors who will remind the government of the Commonwealth's sizeable contingent liability represented by the large and increasing pool of bonds/refundable accommodation deposits (RADs). Although there is provision under the bond guarantee scheme for payouts in the event of defaults to be recovered by a levy on all providers, this option has not been exercised by the Commonwealth to date.

A more cost effective approach consistent with "earned autonomy" would be for the government to have the power to request audited statements when there is cause for concern.

The option of requiring providers to arrange private insurance for their bond/RAD holdings is likely to get a re-run within government when this recommendation is considered.

Timing

ACFA's recommendations envisage that the new comprehensive financial report would be available for use on a voluntary basis for reporting on 2014-15, with full implementation from 2015-16.

Given the long lead times for securing useful trend data, it would be unfortunate if a decision on the form of future reporting and any necessary legislative amendments was not settled in time to allow the phased implementation of the new arrangements to commence with the 2014-15 reporting year.

Disclosure Statement: The author of this article is a member of the Aged Care Financing Authority. The opinions in this article should not be read as being an expression of the views of the Aged Care Financing Authority.

Season's Greetings

Best wishes for a happy and healthy Christmas and New Year to you and your loved ones.

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