18 December 2015

Mid-Year Economic & Fiscal Outlook (MYEFO) Report 2015-16

The **MYEFO Report** is released in December every year to update the community and the markets on the outlook for the Australian economy, and to revise the Commonwealth Budget's forward estimates in the light of domestic and global economic changes and policy decisions since the Budget, handed down in May.

The MYEFO Report also contains policy measures designed to respond to changes in economic circumstances and Government priorities.

The Bigger Picture

This year's MYEFO Report states that spending decisions taken since the 2015-16 Budget have been more than offset by reductions in spending and savings measures.

However, total receipts are expected to be $33.8 billion lower over the forward estimates than expected at the 2015-16 Budget. This largely reflects declining commodity prices resulting in lower company tax receipts and a weaker outlook for wages and population growth leading to lower expected income tax from individuals. In addition, weaker equity markets since the 2015-16 Budget have also resulted in downward revisions to receipts from capital gains tax.

Stronger employment and slower population growth have resulted in a decrease in expected personal benefit payments which has partly offset the impact of lower forecast tax receipts.

The net effect, however, is that the timeframe for returning to Budget surpluses has been pushed out to 2021-22.

Aged Care

Residential aged care is identified in the Report as a significant contributor to expenditure forecasts exceeding the 2015-16 Budget and forward estimates.

This arises from payments related to residential aged care which are expected to increase by $943 million over the four years to 2018-19 ($162 million in 2015-16), largely as a result of higher than expected growth in care subsidies provided under the Aged Care Funding Instrument (ACFI). Reflecting past trends, the Budget had forecast increased expenditure under ACFI due to the increasing frailty of residents to continue to grow at about 3% in real terms per annum (ie after indexation), whereas the latest data shows that expenditure in 2015-16 is increasing at 5% in real terms.

To help offset the increases in Budget expenditures, the Report contains a range of savings measures, including measures affecting aged care. The aged care measures are outlined below.

Changes to ACFI

A significant contributor to increased expenditure under ACFI (but not the only contributor) is increased claiming under the Complex Health Care domain, especially in relation to complex pain management.

The Government has announced that it will seek to reduce expenditure in this area by altering the scoring matrix that determines the level of funding under the Complex Health Care domain. It is estimated that this will achieve savings of $472.4 million over four years ($104 million in 2016-17), somewhat short of the forecast over-expenditure of $943 million over the same period. The Budget papers indicate that providers will be consulted on the implementation of this change, which is planned to take effect from 1 July 2016.

However, the Government has indicated that it will continue “to monitor growth in care subsidies in 2015-16 to determine if growth is continuing and if further variations or other measures are required”. This is a noteworthy statement given that the impact of changes to ACFI on expenditure is difficult to forecast accurately and that the measures to date will not pull back the entire forecast overspend over the forward estimates.

The ACFI Working Group and Technical Reference Group created to monitor ACFI expenditures will continue to meet in 2016 to fine tune the changes to scoring in the Complex Health Care domain and to consider other ways that the ACFI could be adjusted to better reflect contemporary care practices.

Given the current budgetary circumstances, it would be unwise for the sector (and the equity markets) to plan on the basis that there will not be further steps taken in the next budget to pull back expenditure growth due to frailty increase so that it is more in line with trend growth.

It should also be noted that the Government, to date, has refrained from achieving expenditure reductions through an across the board cut in aged care subsidies, such as by withholding all or part of indexation. To do so would have disadvantaged those providers, especially those in more rural and remote locations, who have not been large claimers under the Complex Health Care domain. If there is to be an across the board cut through changes to indexation, the logical time to do so would be at the beginning of the financial year when indexation arrangements for the year ahead are normally announced.

In its advocacy, CHA has emphasised its concern that the sector continues to be subjected to periodic and unpredictable instability in care funding under ACFI. This suggests that the ACFI and ACFI processes are fundamentally flawed and/or the expenditure forecasting methodology is not adequately factoring in the impact of increasing acuity and co-morbidity.

CHA has argued that the focus should be on finding a long term solution which is consistent with the move to market-based prices provided for in the Government-endorsed Aged Care Statement of Principles. It is essential to eliminate avoidable volatility in care funding as not to do so will impact negatively on future investment that will be required to expand aged care services, as well as cause unnecessary disruption to care planning and delivery.

Increased ACFI Compliance Activity

In a related measure, the Government has announced that it will strengthen compliance activities associated with claiming by providers under ACFI.

With the assistance of a $10 million outlay on new computer systems, the government intends to improve the targeting of compliance activity by identifying high risk areas for inaccurate claiming, but will still maintain a random sample component. Enhanced targeting will be complemented by education and information activities, such as webinars, designed to assist assessors with the accuracy of their appraisals.

The Government will also extend the recovery of overpayments from inaccurate claims from the current six months to the date the appraisal was undertaken, and introduce a fee for requests for reconsiderations (reimbursed if the reconsideration is successful). The Department receives between 200 and 300 requests for reconsiderations a year.

The measures to strengthen compliance activity are expected to reduce expenditure on care subsidies by $61 million over the forward estimates.

In addition, for the first time, the government will be introducing fines ($10,800 per offence) for providers making repeated false claims.

Streamlining Workforce Programs

Aged care is caught up in the decision announced in the MYEFO Report to achieve savings of $595 million over four years ($178 million in 2016-17) by streamlining funding across a range of health workforce programmes.

In particular, two aged care specific workforce programs, the Aged Care Education and Training Initiative (ACETI) and the Aged Care Workforce Vocational Education and Training (ACWVET) program will cease to operate, though funding will be available to enable existing students to complete their courses.

The ACETI, which commenced in 2010, provides financial support for aged care workers to undertake training, including nurses and ancillary staff, with the level of assistance varying depending on the training course undertaken. In 2014-15, 12,280 payments were made to the value of $9.8 million.

The level of funding under the ACWVET program was not disclosed by the Department of Health (despite repeated requests for the information). The program is used to top up funding for Registered Training Organisations (RTOs) to deliver qualifications for personal care workers and enrolled nurses, including entry level aged care certificates and short courses through to professional development and Diplomas in Enrolled Nursing. Over the period 2010-15, the ACWVET program funded approximately 15,000 certificate level places and 1,400 Diploma of Enrolled Nursing places. RTOs also receive vocational education and training funding from other State and Commonwealth sources to deliver courses funded under the ACWVET program.

There will also be some integration of former aged care and health workforce programs as part of the streamlining, such as those relating to dementia care. The details are still to be released, including the funding implications.

Although the total level of past expenditure on the two programs to be ceased is not being disclosed, it appears that they account for a small portion of the overall saving of $595 million over four years.

However, the reduction in aged care workforce funding comes on top of the $40.2 million reduction to the Aged Care Workforce Development Fund announced in the 2015-16 Budget. What is disturbing about these incremental reductions is that they are being made in the absence of a considered and evidence-based aged care workforce strategy, giving the impression of an ad hoc response to the workforce demands facing the sector.

Given the widely acknowledged importance to quality aged care services of an adequate supply of an appropriately skilled workforce, the development of an aged care workforce strategy, with clearly defined responsibilities, is overdue. This includes clarifying government and provider responsibilities in the more market-based system that is envisaged under the Aged Care Statement of Principles.

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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