Catholic Health Australia

Submission in Response to the Senate Standing Committee on Community Affairs Inquiry into the Aged Care Amendment (Aged Care Recipient Classification) Bill 2020

19 November 2020

Catholic Health Australia thanks the Committee for the invitation to provide a submission to the above Inquiry.

As Australia's largest non-government provider grouping of health and aged care services, providing care to all those who seek it in fulfilment of the Catholic Church's mission, Catholic health and aged care providers have a vital interest in ensuring the sustainable provision of aged care services that meet community expectations for safety and quality of care and quality of life.

Catholic Health Australia supports the expeditious passage of the *Aged Care Amendment (Aged Care Recipient Classification) Bill 2020* because it is a necessary step towards replacing the Aged Care Funding Instrument (ACFI) which is currently used to allocate funding for nursing and personal care services across aged care homes.

ACFI since its inception has been characterised by funding volatility which is undesirable from an Australian Government budgeting point of view and for effective service planning and delivery and financial management by service providers. This volatility has been highlighted in reports prepared by the Aged Care Financing Authority[1].

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The passage of this Bill would enable the Department of Health to progress the introduction of a new funding model based on a casemix classification of residents, supported by external assessment and independent and transparent costing studies to determine reasonable and efficient prices for delivering nursing and personal care services. There is widespread acceptance, including by the Aged Care Financing Authority[2] [3], that ACFI is not a suitable funding model, and Counsel Assisting the Royal Commission has recommended that residential aged care be funded through a casemix classification system (Recommendation 88[4]).

Addressing Margin Pressures in the short term

Catholic Health Australia welcomes the work the Department of Health currently has underway to develop and introduce a new resident classification tool (the AN-ACC) and

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[1] Aged Care Financing Authority, Submission to the Royal Commission into Aged Care Quality and Safety, April 2019, p. 29

[2] Aged Care Financing Authority, Seventh Annual Report, July 2019 p119

[3] Aged Care Financing Authority, Submission to the Royal Commission into Aged Care, April 2019, p29

[4] Royal Commission into Aged Care Quality and Safety, Sydney Hearings 22-23 October 2020, p384

funding model for residential aged care. However, the introduction of the new funding model and associated payment system, supported by independent and transparent costing studies (and the creation of an independent aged care pricing authority as recommended by Counsel Assisting the Royal Commission – Recommendation 5[5]), is several years away.

In the meantime, the residential aged care sector is experiencing the negative financial consequences of the most recent Government measures (2017) to manage growth and volatility in Commonwealth outlays under ACFI by changes to the questions and scoring under ACFI's Complex Care domain and temporarily withdrawing indexation. A consequence has been a significant and ongoing reduction in revenue growth under ACFI which is not keeping up with cost increases. Real growth in 2017-18 and 2018-19 was only 0 per cent and 0.8 per cent respectively, compared with Commonwealth projected (Budgeted) increases under ACFI of 2.4 per cent and 1.5 per cent (excluding the one-off increase of $320 million in the last three months of 2018-19).

The changes to the ACFI scoring system, the pause in ACFI indexation and reduced real growth in ACFI payments also occurred when there has been continuing growth in wages in the aged care sector, with many providers impacted by the decisions by the Fair Work Commission to grant a 3.3 per cent, 3.5 per cent and 3.0 per cent increase in the minimum wage in 2017, 2018 and 2019 respectively.

As a result, a significant overall decline in the financial performance of residential care providers in 2017-18 was reported by the Aged Care Financing Authority (ACFA), with average EBITDA per resident falling by 24 per cent in 2017-18 compared with 2016-17[6]. A further deterioration in EBITDA of 2.5% against 2017-18 occurred in 2018-19, which would have been a 20% decrease if not for the ad hoc one-off injection of additional funding[7].

These consequences have been contributed to by a punitive indexation formula that demands unsustainable labour productivity gains for a personal care sector by discounting annual Fair Work Commission minimum wage adjustments. The indexation formula takes the dollar increase in minimum wages granted annually by the Fair Work Commission and discounts its value by converting it into a percentage of average ordinary time weekly wages, which are over twice minimum wages. As a result, for example, the Wage Price Index (Health and Social Assistance) has grown at twice the rate of ACFI subsidy indexation since ACFI was introduced, i.e. 35 per cent compared with 17 per cent under ACFI[8].

In the past, providers – to different degrees depending on their ACFI claiming expertise – have been able to compensate for this unrealistic productivity dividend expectation by maximising claims under ACFI, consistent with ACFI guidelines. This compensating 'safety valve' has not re-emerged since the 2017 changes to ACFI.

With employee expenses accounting for 70 per cent of providers' expenses, continued growth in the largest expense item when income is being constrained inevitably is putting continuing pressure on the financial performance of the residential aged care providers.

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[5] Royal Commission into Aged Care Quality and Safety, Sydney Hearings 22-23 October 2020, p78
[6] Aged Care Financing Authority, Seventh Annual Report, July 2019 p. vii
[7] Aged Care Financing Authority, Eighth Annual Report, July 2020 p. v
[8] Aged CARE Financing Authority, Submission to the Royal Commission into Quality and Safety, April 2019, p.19

The *StewartBrown Aged Care Financial Survey Sector Report* indicates that 64% of aged care homes recorded an operating loss in 2019-20, after excluding temporary COVID-19 related funding and expenses[9].

These financial pressures on residential aged care providers being contributed to by the current indexation formula have been recognised by the Department of Health[10] and Counsel Assisting the Royal Commission. Inter alia, Counsel Assisting is recommending (Recommendation 80[11]) that, pending the creation of an independent aged care pricing authority, the indexation formula be amended from 1 July 2021 to reflect annual Fair Work Commission minimum Award increases in relevant Awards.

Clearly the sustained period of losses that is in prospect until at least the implementation of a new funding model will threaten the viability of many aged care services.

This was, in effect, recognised by the Commonwealth when it made the one-off payment in 2018-19. However, a repeat ad hoc one-off payment as occurred in 2018-19 is not good policy as it is not amenable to sound budgeting and service planning.

Recommendations

That the Committee's Report:

i. Recommends the passage of the *Aged Care Amendment (Aged Care Recipient Classification) Bill 2020*

ii. Notes the ongoing financial pressures being experienced by residential aged care providers which is being contributed to by a punitive and unsustainable ACFI indexation formula

iii. Recommends, pending the introduction of a new classification and funding model and independent pricing arrangements, the introduction of an amended indexation formula from 1 July 2021, as recommended by Counsel Assisting the Royal Commission (Recommendation 80).

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9 StewartBrown, Aged CARE Financial Performance Survey 2019-20

10 Royal Commission into Aged Care Quality and Safety, Sydney Hearings 22-23 October 2020, p. 359

11 Royal Commission into Aged Care Quality and Safety, Sydney Hearings 22-23 October 2020, p. 363