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Aged Care Update: A closer look at the 2018-19 aged care budget

The 2018-19 Budget is the most important for aged care since the 2012 *Living Longer Living Better*(LLLB) package and the 2015-16 Budget that announced the introduction of 'funding following the consumer' for home care packages.

As foreshadowed by Minister Wyatt on a number of occasions over past months, the aged care measures in the 2018-19 Budget mainly address the *Legislated Review of Aged Care 2017* (the Tune Report) and the quality issues arising from the Carnell/Paterson Review.

The Tune-related Budget measures focus on improving access to aged care services, including by improving consumer access to information and services to support consumer choice and control. However, the 2018-19 Budget does not respond to the Tune Report recommendations aimed at improving the sustainability of aged care services.

The Budget documents show that total Health Department outlays on aged care services will grow by $5.4 billion over the next four years, from estimated outlays of $16.8 billion in 2017-18 rising to $22.2 billion by 2021-22. Just over $2 billion of this growth is funding for new measures. The balance is due to growth in services under existing policies, such as the commissioning of new residential places.

The Budget also includes a range of other measures to improve aged care services and to support seniors more generally.

Measures arising from the Tune Report

Arguably, the most significant measure in the Budget regarding access and consumer choice is the decision to **combine the formerly separate budget items for home care packages and residential care**.

This decision was prompted by the Tune Report recommendation concerning the temporary allocation of a home care package where there is a residential place that is not being used.

Combining the formerly separate budget items has long-term significance because:

- It introduces flexibility for available places to be allocated to home care or residential care in response to consumer preferences.
- There will be flexibility to minimise under-expenditure (and loss of appropriations to Consolidated

Revenue) in future by assigning places to home care packages which can be made operational more quickly due to shorter lead times and demand. Under Commonwealth budgeting conventions underspends of demand-driven programs such as residential care are treated as 'fortuitous savings', and are lost to Consolidated Revenue. They are not treated as planned 'savings' which can be used to offset the cost of new measures. The demand-driven aspect of residential care arises because budgeting is not precise due to variables such as occupancy and the rate at which new services come on stream. Therefore, underspends in residential care have formerly been returned to Consolidated Revenue.

- It paves the way for extending 'funding following the consumer' to residential aged care, as recommended by the Tune Report. In the Budget, the Government has announced "support in principle to transition the allocation of residential care places through the ACAR to alternative arrangements that provide real choice for consumers."

To support planning for the transition, the Budget has allocated $0.3 million for an **impact analysis of allocating residential care places to people seeking care**, including the impact on areas with limited choice and competition, such as rural and remote areas.

An added bonus from combining the two budget items in this Budget is that the Minister was given authority to keep the estimated residential care underspend against the 2017-18 Budget ($2b over the forward estimates) to fund new measures.

$1.6 billion of the $2.0 billion will be used to **increase the proportion of higher-level home care packages**, as recommended by the Tune Report, and in response to the national prioritisation process for assigning home care packages that made transparent for the first time unmet demand for high-level packages.

This funding is estimated to provide an additional 14,000 high-level home care packages over four years to 2021-22, in addition to the 6,000 high level packages delivered in the 2017-18 MYEFO by reducing the number of lower level packages. Taken together with home care package increases budgeted for under the *Living Longer Living Better* package, an additional 74,000 packages will be released by 2021-22. Of these, 34,000 are planned to be at levels 3 and 4.

Importantly, the increase in the proportion of higher level (and higher cost) packages is to be achieved without a reduction to the overall provision target ratio of 125 places per 1,000 people aged 70 and over set by the LLLB package. Increasing the supply of aged care services as intended under the LLLB package is fundamental for achieving a more consumer-driven and market-based aged care system.

Maintaining the target provision ratio of 125 also preserves the LLLB strategy of gradually increasing the supply of aged care services and shifting the supply to reflect consumer preference between home care and residential as the primary means for gauging the extent of unmet demand; and, in turn, the affordability of uncapped supply in a consumer-driven market-based system.

This year's Budget papers indicate an increase in home care packages and residential places to 151,000 and 239,000 respectively by 2021-22 (excluding places for short-term restorative care), compared with 71,400 and 209,600 operational home care packages and residential places respectively at 30 June 2017.

Everyone in the sector would have preferred to see more done in this Budget to address the waiting list for higher care packages. However, it is worth reflecting on the fact that the sector has lived with waiting lists for a very long time and that there is uncertainty as to how to interpret the raw waiting list data.

How real the waiting list is will become clearer as the system transitions to increased supply and reforms such as those intended to ensure greater consistency in ACAT assessments are implemented.

The sector should also take into account that, in addition to the additional places in the 2018-19 Budget, there will be a large release of home care packages from the previously budgeted LLLB package. Taken together with the flexibility of combining the two budget items, it is likely that the supply of home care packages will exceed the target provision ratio of 45 places by 2021-22. That said, it is recognised that the introduction of individual budgets and the elimination of any potential for cross subsidisation has exacerbated the impact of the long-standing misalignment of low and high packages with demand.

A more pressing concern as the supply of home care packages and residential places rapidly ramps up over the next few years will be the capacity to source a sufficient, appropriately trained and empathetic workforce to manage the expansion of services. The reforms that might flow from the Aged Care Workforce Strategy, due to report by 30 June 2018, are therefore eagerly anticipated.

Meanwhile, the **unspent funds** issue in home care remains to be addressed on another occasion.

In addition to the measures to improve the supply of aged care services, the Budget includes additional funding to implement Tune recommendations to simplify consumer access to aged care services. These measures include:

- $61.4 million over two years to make the **MyAgedCare** website easier to use.
- $14.8 million over two years to support the development of a **new national assessment framework** aimed at integrating the current ACAT and RAS workforces by 2020. This developmental work does not extend to introducing external assessment of ACFI. This will be considered separately as part of the RUCS and the potential use of a casemix approach to care payments. Clearly, however, having an effective national assessment framework is a pre-condition for introducing independent external assessment.
- $7.4 million over two years to trial **navigator services** to assist people seeking information about aged care to make decisions that are right for them. Four approaches will be trialled including information hubs to provide locally targeted information and build people's capacity to engage with the aged care system; community hubs where members can support each other; six full-time specialists placed in consumer-focused organisations to offer one-on-one support; and an additional six full-time Financial Information Support Officers (FISOs) in the Department of Human Services to assist people with more complex financial circumstances.

A Forms Taskforce that includes sector representatives will be established to create **a simpler short form for means testing consumers** with straightforward financial affairs. The Taskforce will be required to report to Government by the end of 2018.

Improved access to **wellness and reablement services** was also prioritised in the Tune Report. The Budget has allocated $29.2 million over two years to undertake a trial of support strategies to help older Australians stay independent for longer. Under the trial, Regional Assessment Services (RASs) and CHSP providers will be supported to deliver services that promote greater independence, mobility and autonomy. As part of the trial, a revised assessment model for entry-level care services will be tested at a number of RAS sites.

Taking up another of the Tune recommendations, the Budget provides an additional $73.7 million to expand the **National Aboriginal and Torres Strait Islander Flexible Aged Care Program** to deliver additional residential aged care places and home care packages in remote Indigenous communities.

The Government has accepted the Tune recommendation that the retrospective levy under the **Bond Guarantee Scheme** for recovering defaults be made mandatory when defaults exceed $3 million in any financial year. Tune also recommended changes to **strengthen the prudential standards,** and suggested that the changes to the Bond Guarantee Scheme should not be implemented prior to the strengthening of the prudential standards.

Consultations with the sector on the proposals to strengthen the prudential standards are continuing through the Prudential Advisory Group. An implementation timetable for both measures has not been announced, but both will require changes to legislation.

The Budget also includes $106.8 million over the next two years for continuing the work on **modernising the health and aged care payments system**.

Sustainability

Readers will recall that the Government had already rejected the Tune recommendation to abolish the annual and lifetime caps on care contributions in home care and residential care, and to include the full value of the former home in the means test for residential care.

As expected, given the proximity of a Federal election and by-elections, the Budget did not address the other Tune recommendations aimed at improving the sustainability of aged care services.

In theory at least, they remain on the table and potentially may be taken up in the future. These include:

- removing the cap on the basic daily fee for non-low means residents (with fees above $100 subject to approval by the Pricing Commissioner);
- requiring providers to charge the income-tested fee and the basic care fee in home care; and
- making the value of the basic care fee proportionate to the value of the home care package.

Also in response to the Tune Report and subsequent community pressure, readers will recall that Minister Wyatt initiated work to examine how the **comparability of prices for home care services** could be improved in order to support consumer choice, including publication of prices on MyAgedCare. The Minister currently has options under review, and a Government decision on this matter is expected shortly.

Of potential longer term importance to the sustainability of aged care services as Australia's population profile continues to age, is the Budget decision to expand the **Pension Loan Scheme** administered by the Department of Social Services. Under changes announced in the Budget, the Scheme will be expanded to include everyone over age pension age (currently restricted to part-pensioners) and to increase the maximum fortnightly income stream that can be accessed to 150% of the age pension rate. This will enable more older Australians to use equity in their homes or other assets to increase their income, i.e. up to $17,800 per fortnight for a couple without affecting eligibility for the pension or other benefits. In effect, the Government is becoming a reverse mortgage lender.

The interest rate to be charged is 5.25%, which is about 1% lower than current commercial reverse mortgage rates. The Scheme will not be able to be used to draw down lump sums. However, the income stream could be used for daily accommodation payments and care contributions in residential care and for home care fees.

Another noteworthy measure with potential implications from a sustainability perspective is the $6.5 million over four years that has been provided for the development of interactive **website checks for 45 and 65 year olds** so they can assess their health, employment options and finances.

The 45-year check is intended to assist people to:

- make better health choices to limit risk or impact of chronic diseases;
- help people consider their working options into the future; and
- review their superannuation and other assets, the income they will need in retirement and what steps they can take to ensure their retirement income.

The 65-year check is intended "to assist people to prepare for active living for a longer life", including helping them assess their financial position and the best way to manage their retirement income.

In discussing the Pension Loan Scheme and the online checks, the Budget documentation does not explicitly refer to planning for or meeting the cost of aged care. However, both of these initiatives will be potentially significant to support any decisions future governments may take to increase consumer contributions for aged care by those who can afford to pay.

However, the future narrative will have to be that it will be worth planning for aged care under a future aged care system that will allow greater consumer choice and control over higher quality services.

2018-19 Aged Care Approvals Round

Unusually, the number of places to be released in the 2018-19 ACAR was also announced as part of the Budget. Applications for places are not expected to be opened for another "month or two".

A total of 13,500 residential aged care places and 775 short-term restorative care places will be released, and $60 million in capital grants under the Rural, Regional and Other Special Needs Building Fund will be available for residential aged care in rural, regional or remote areas and for special needs groups. Funding for the extra places and the $60 million capital was already in the forward estimates.

Note that, at 30 June 2016, there were 35,124 provisionally allocated residential places from previous

ACARs at various stages of design and construction.

In addition to current funding under the Building Fund, the Budget includes an additional $40 million over the forward estimates for **capital grants for aged care facilities in regional, rural and remote Australia**.

Carnell/Paterson Review

The 2018-19 Budget confirms the previously announced decision to implement the Carnell/Paterson Review recommendation to establish an independent **Aged Care Quality and Safety Commission** that would bring all quality-related regulatory functions under one independent body. The new Commission will operate from 1 January 2019 and will bring together the functions and current funding of the Australian Aged Care Quality Agency, the Aged Care Complaints Commissioner and, from 1 January 2020, the aged care regulatory functions of the Department of Health.

One of the first tasks of the new Commission will be to introduce the recently legislated unannounced re-accreditation site visits. Because of the changes to accreditation arrangements that are in train, the levy for unannounced site visits will be delayed until 1 July 2020.

A key recommendation of the Carnell/Paterson Review was that the new Commission develop and manage a centralised database for real-time information sharing to support better identification of risks to consumers and enable regulatory processes to respond quickly. The Government's response is to include $32.6 million over four years to **establish a "robust" risk profiling approach**. The development of the risk profiling approach will include the design of a **Serious Incident Response Scheme**, also recommended by Carnell/Paterson.

In part, the Review's recommendation to establish a centralised database was intended to complement its recommendation that re-accreditation site visits be replaced by ongoing accreditation, supported by unannounced visits to assess performance against all standards, with the frequency and rigour of the visits determined using a risk-based process drawing on the centralised database.
The Government has acted on the Carnell/Paterson Review recommendation that the new Commission should implement a star-rated system for public reporting of provider performance. The Budget includes $8.8 million to introduce **performance rating** for residential aged care providers against the new quality standards. Indications are that the design of the ratings system will draw on that used by the Care Quality Commission in the UK. It is intended that performance rating will be published on MyAgedCare from July 2020, together with a tool to compare providers, the current Consumer Experience Reports and plain English accreditation reports.

Somewhat out of left field (i.e. not raised by Carnell/Paterson), the Budget includes a $50 million **Quality Care Fund** to assist residential aged care services (not home-based care services) with the transition to the new Aged Care Quality Standards. There will be consultation with the sector to determine how the funding will be distributed/used.

The new care standards have been developed as part of the single quality framework to apply across all aged care. Subject to legislation, the new standards are expected to commence from 1 July 2018, with assessment against the new standards to apply from 1 July 2019.

Palliative Care

Access by residents of aged care homes to specialist palliative care support has been an ongoing concern.

This year's Budget provides $32.8 million over four years to trial new approaches to improve the coordination of palliative and end of life care services delivered by state and territory governments, targeting new models of palliative care for residents of aged care homes.

This measure will require matching funding by the states and territories and engagement by relevant state and territory palliative care services. The development of new approaches will be coordinated through the Primary Health Networks.

Mental Health

The 2018-19 Budget provides funding for the first time that specifically targets the mental health needs of older Australians.

Funding of $82.5 million over four years has been allocated to provide mental health services for residents of aged care homes with a diagnosed mental health disorder. Primary Health Networks will coordinate the services.

An additional $20 million over four years will be provided for a pilot of services led by the College of Mental Health Nurses to improve mental health services for Australians over 75 living in the community whose mental and physical health are at risk because of social isolation and loneliness.

Dementia Care

The Budget provides $5.3 million over four years to design and pilot a program to improve care for older people living with dementia, with an emphasis on utilising innovative technologies.

Other Measures that Support Seniors

The 2018-19 Budget contains a number of measures designed to improve the living standards of older Australians and to encourage a proactive approach by the community to ageing, including the need to prepare properly for retirement and older age. The online checks at age 45 and 65 and the extension of the Pension Loan Scheme have already been referred to above.

Other measures include:

- $22.9 million over two years for the Australian Sports Commission to encourage and increase **physical activity in older Australians** to improve their overall health and wellbeing. The funds will be used to conduct a grants program to help community-based organisations to develop and implement local activities that promote physical activities.
- Increasing the **Pension Work Bonus** from $250 to $300 per fortnight which will allow earnings of up to $7,800 a year without impacting age pension entitlements.
- Amendments to the pension means test rules to encourage the development and take-up of **lifetime retirement income products** (also known as Comprehensive Products for Retirement or CIPRs) that can help retirees manage the risk of outliving their savings.
- $22m over five years for the Attorney General's Department to develop a number of measures designed to protect the rights of older Australians and to protect them from **elder abuse**. These include trials of specialist elder abuse units located in legal services; an Elder Abuse Knowledge Hub; the development of a national plan to address elder abuse; and establishing a National Register of Enduring Powers of Attorney.

Concluding Remarks

The aged care sector has been managing significant change for many years. It is clear from this year's Budget measures that there will be no let up in the pace and extent of change.

Of some comfort is the confirmation that the directions of change continue to be consistent with those foreshadowed in the Aged Care Sector Committee's *Roadmap for Aged Care.* Nonetheless, this does not lessen the change management and development work that will be required by both aged care providers and the Department of Health.

Meanwhile, the sector will continue to focus on the impact of the ACFI changes on viability. As predicted, the ACFI changes are having a negative impact on financial results. A priority for the sector in the short term will be to continue to monitor financial results and the implications for the delivery of quality services.

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.