20 January 2022

The Hon Michael Sukkar MP
Assistant Treasurer
Parliament House
CANBERRA ACT 2600

Dear Assistant Treasurer

Pre-Budget Submission (2022-23) – Aged Care Priorities

Thank you for the opportunity to comment on priorities for the 2022-23 Budget.

Catholic Health Australia is 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. As such Catholic aged care providers have a vital interest in working with the Austtralian Government to ensure the sustainable provision of aged care and support services for older Australians that meet community expectations for safety and quality of care and quality of life.

From an aged care perspective, Catholic Health Australia acknowledges that the 2022-23 Budget is being framed against the background of a welcome substantial Australian Government aged care reform program announced in the 2021-22 Budget in response to the recommendations of the Royal Commission into Aged Care Quality and Safety. The design, implementation and refinement of these reforms will be a major focus for the sector and Government over the medium term.

The 2022-23 Budget is also being framed against the background of COVID, including the Omicron variant which is exacerbating structural workforce in the aged care sector and has required additional risk mitigation strategies that have further increased COVID-related service delivery costs.

Against this background, Catholic Health Australia's aged care priorities are:

- additional immediate measures to address current COVID-related workforce and cost pressures,
- additional measures in the 2022-23 Budget to address structural workforce pressures in aged care that pre-date COVID, and
- securing the future financial sustainability of the new aged care system which is being introduced in response to the Aged Care Royal Commission.

COVID-related pressures

An immediate impact of COVID is managing the resultant workforce pressures due to staff furlough requirements and 'burn out', the constraint on the supply of overseas workers and the shortage of Rapid Antigen Test (RAT) kits to reduce the risk of COVID transmission by staff and, consequently, to reduce the need to furlough staff. These pressures are being exacerbated by the increased transmissibility of the Omicron variant, which also means that the workforce pressures are now being increasingly experienced by the sector Australia-wide.

A number of short term measures have been introduced to help address COVID-related workforce supply and related infection management costs. These include reimbursement of costs incurred in the event of an outbreak, the deployment of a surge workforce for major outbreaks, less restrictive furlough requirements for asymptomatic close contact aged care workers (whose effectiveness has been significantly compromised by RAT kit supply and distributional issues to date), access to the PPE National Stockpile in the event of outbreaks and the roll-out of COVID vaccines.

Although these measures are contributing to the COVID response, access to PPE and RAT kits continues to be problematic due to supply and distribution limitations, many services have not had booster clinics scheduled, the sector is grappling with inconsistent public health orders across jurisdictions and their implementation by Public Health Units, and the surge workforce is struggling.

As a result, the aged care sector – and not just services with outbreaks – continues to face ongoing additional costs due to the need to pursue prevention strategies to limit the risk of transmission by staff, ensure sufficient staff are available to fill rosters, and to protect consumers. Costs have included the need to buy PPE and RAT kits on the private market, incentives for staff to work longer shifts and significant amounts of overtime, supporting the vaccination of residents, making arrangements for the mandatory vaccination of aged care workers, and administrative costs of managing visitations so that residents remain connected with their families.

A consequence of these additional costs, which have increased substantially since the emergence of the Omicron variant, is that they have contributed to a further deterioration in the average operating result for residential aged care services, notwithstanding the $10 per resident per day increase in the Basic Daily Fee. The September 2021 Quarter Aged Care Financial Performance Survey indicates that, after netting out COVID-related payments received in the Sep-2020 Quarter, residential aged care homes incurred an operating loss of $7.30 per bed day compared with an operating loss of $5.06 in the Sep-2020 Quarter. The proportion of homes operating at a loss increased from 44% to 56%.

> *Given these circumstances, there is a strong case for <u>immediate</u> further COVID-related measures to support the aged care workforce and to defray infection management and preventative costs being incurred. These measures include:*

- *Introducing retention and attraction allowances for all aged care workers, noting that retention bonuses already apply for Registered Nurses in residential aged care and that retention bonuses were used for the 2020 COVID wave. This measure would not only help with the retention of staff but would acknowledge and, in part, compensate for the stresses and pressures under which the aged care workforce is currently operating.*

- *As was the response to the 2020 wave, introduce an uplift in the rate of care subsidies to meet the additional costs of managing in a COVID environment which is affecting residential and home care providers.*

- *A moratorium on some regulatory and reporting requirements (e.g. NDIS audits of aged care homes) and on the introduction of some regulatory changes (e.g. home care package assurance reviews), noting that many providers have had to redeploy corporate staff to COVID-related management, including supporting front line services, liaison with health officials and increased COVID-related reporting.*

- *Bringing forward the additional training places funded in the May 2021 Budget and offering incentives, such as fee waivers and bonuses, to attract trainees pending the outcome of the current wage claim before the Fair Work Commission. Given the unpredictability of the trajectory and nature of future COVID variants, it is vital to take contingency action to increase the supply of trained aged care workers.*

  This strategy would also support the Government's policy to implement minimum staffing levels in residential aged care. It could be pursued in conjunction with setting a target date for minimum qualifications, which was recommended by the Royal Commission.

Structural workforce pressures

COVID has added to pre-existing structural workforce pressures that were identified by the Royal Commission, and which were not fully addressed in the Government's response to the Royal Commission.

The Royal Commission identified the need for a larger and better trained and remunerated aged care workforce. The Government's response included measures to gradually increase the supply of aged care workers, including additional training places and training programs, and funding to support minimum staffing level expectations from 2022-23. However, the Government did not address workforce remuneration, a key labour market competitiveness factor which was recognised by the Royal Commission when it recommended that the Government join with employers and employees in a wage claim to the Fair Work Commission. Instead, the Government noted the current wage claim before the Fair Work Commission and its expectation that any wage increases which might flow through that process would be accommodated through future pricing arrangements that are planned to be informed by independent costing studies.

The Government's response to the Royal Commission included a welcome increase of $10 per resident per day payable from July 2021 as a supplement to the Basic Daily Fee. However, it must be acknowledged that this increase does not address remuneration. The primary rationale for this funding increase, although paid temporarily as a supplement to the Basic Daily Fee, is to correct for the underfunding of everyday living expenses (capped at 85% of the basic single pension) which, as demonstrated by StewartBrown, was resulting in an average cross subsidy of care funding to living expenses of approximately $10.00 per resident per day. Hence the policy intention to roll the $10

Basic Daily Fee supplement into care funding under the new AN-ACC care funding arrangements when they are introduced in October 2023.

In the meantime, care funding under the ACFI for 2021-22 and 2022-23 remains subject to indexation arrangements that the Royal Commission concluded had resulted in providers being significantly under-compensated for movements in wage costs. Indexation of 1.1% in 2021-22 was particularly inadequate as it took no account of the 0.5% increase under the Superannuation Guarantee Scheme. Overall, the ACFI indexation arrangements adopted in 2008 have contributed to an erosion of the labour market competitiveness of the aged care sector, including in comparison with the health and disability sectors. For example, over the ten year period 2008-18, the Wage Price Index for Health Care and Social Assistance increased by 35.2% compared with 17.1% under ACFI indexation.

Having identified the inadequacy of the ACFI indexation arrangements, the Royal Commission recommended that pending the implementation of its recommended independent price setting arrangements, the current indexation formula should be amended so that all care subsidies and the viability supplement are increased in line with a new indexation formula which more accurately reflects wage cost movements.

> *A priority for the 2022-23 Budget must be to use the indexation formula recommended by the Royal Commission in setting the aged care prices for 2022-23 (or until the new AN-ACC funding system is introduced) in order to avoid a further erosion of wages pending the wage claim currently before the Fair Work Commission.*
>
> *Given the risks associated with Refundable Accommodation Deposits (RADs) as a source of capital financing for residential aged care, there is also a case for excluding RAD payments from a subsidised equity release scheme as part of a transition away from RADs.*

Financial sustainability of aged care services

While the Government's response to the Royal Commission is a substantial and welcome reform agenda which builds on the reforms of previous Governments, there is considerable uncertainty about the financial sustainability of the consequential reformed aged care system.

The reforms will add considerably to the cost of future aged care services which was already set to increase substantially due to Australia's ageing demographic. The 2021 Intergenerational Report (IGR) projected that aged care costs based on policies flowing from the Government's response to the Royal Commission will nearly double as a share of the economy by 2060-61, from 1.2% currently to 2.1% of GDP.

This outcome was clearly anticipated by the Royal Commissioners when they each recommended policies to secure a future income stream for the Budget to meet the increased costs flowing from their recommendations, which the Government did not accept.

Arguably, however, the IGR's projection is an under-estimate of future aged care costs as it does not factor in the full structural costs of the reforms for the Federal Budget. For example, the IGR projection does not model the cost of the new independent and transparent pricing arrangements which will replace indexation arrangements that did not reflect movements in costs, nor the cost of the new single home-based care program. Operating costs for the sector will include the additional costs of the substantially more robust quality regulatory, compliance and reporting framework to improve transparency and accountability; stronger governance requirements to improve leadership and accountability as the whole of the sector transitions away from a cottage industry; the cost of a larger and better skilled and remunerated aged care workforce; and the cost of community expectations of higher quality care.

The IGR projections also do not factor in the cost of a human rights driven universal entitlement to receive high quality and safe care through a system that provides demand-driven access to aged care based on assessed need, a right which the Government has accepted in principle. Although the IGR took account of the additional home care packages in the May 2021 Budget, the IGR projections assume that the overall supply of aged care services remains capped and rationed.

Unfortunately, the May 2021-22 Budget did not tackle the increased future funding requirements of the reformed aged care system beyond the forward estimates. Instead the Government 'parked' consideration of the future sustainability of the aged care sector. Moreover, increased aged care funding during the forward estimates period was achieved against the backdrop of record Government deficits, with net debt projected in the 2021 MYEFO to peak at 37.4% of GDP before "improving" to 35.5% by 30 June 2032.

Faced with this Budget outlook, Catholic Health Australia is concerned, particularly given ageist tendencies in contemporary societies, that aged care will relive the past as identified by the Royal Commission i.e. "….. a history of the Australian Government's involvement in aged care – up to, including and after the introduction of the current Aged Care Act in 1997 – which was focused on restraining expenditure, rather than the rights of older people to the care that they need".

> *A priority for the 2022-23 Budget must be to commence the process of Budget reform that will be needed to secure Australia's economic future and, by so doing, to help secure the resourcing of the future aged care system agreed to by the Government in its response to the recommendations of the Royal Commission. This should encompass embarking on the path of overall fiscal repair, including debt reduction, productivity enhancing reforms, re-visiting current GST arrangements, taxation reform and the rationalisation of Commonwealth/State responsibilities*.

User contributions

Securing the future sustainability of aged care services should include consideration of aged care specific measures such as increased consumer contributions by those who can afford to contribute to the higher quality services that are envisaged under the aged care reforms.

> *As indicated in previous pre-Budget submissions, Catholic Health Australia supports the implementation of some or all of the recommendations in the Legislated Review of Aged Care 2017 designed to improve the sustainability of aged care services and the fairness of contributions based on capacity to pay.*

These include changes to the value of the consumer's former home in the means test for residential care when there is no protected person in that home and abolishing the annual and lifetime caps on income tested care fees in home care and means tested care fees in residential care.

Home Equity Access Scheme

Catholic Health Australia has previously recommended subsidisation of interest rates applying under the Pension Loan Scheme as a means of making equity drawdowns directed at subsidised aged care services more affordable and attractive. Catholic Health Australia notes that the Government has reduced the interest rate applying under the re-named Home Equity Access Scheme, but also notes that the amended Scheme and lower interest rate applies to retirement living generally.

There is a case for leaving equity release for general retirement living to the private market and reserving a subsidised equity release scheme for contributions towards Commonwealth Government subsidised aged care services.

Funding for everyday living expenses

As noted above, the $10 per resident per day is to be rolled into the AN-ACC care subsidy on the basis that it corrects for care funding subsidising everyday living expenses. This means that funding for everyday living expenses for all residents will continue to be capped at 85% of the single pension (the Basic Daily Fee), which is inadequate to meet everyday living expenses, hence the past reliance on the cross subsidy from care funding.

This problem was recognised by both the *Legislated Review of Aged Care 2017* and the Aged Care Financing Authority's report on *The Role of the Basic Daily Fee in Residential Aged Care.* Both put forward options to help address this shortfall which directly affects consumer choice and the quality of life outcomes of residents.

A priority for the 2022-23 Budget must be to increase funding for everyday living expenses in residential aged care. Options include increasing the Basic Daily Fee cap to $100 per day for non-supported residents, adding the pension and energy supplements to the capped fee calculation of 85% of the basic pension, and introducing a means tested supplement for the Basic Daily Fee.

Changes such as the above must be accompanied by a clearer articulation of the policy and administrative arrangements for charging fees for additional everyday living services over and above that which a provider is required to provide, including policies to protect consumers, in order to give greater certainty for both providers and residents.

Future policy for additional services must also address the remaining Extra Service places, which are a legacy of an apparently abandoned former policy to introduce some choice for consumers.

Conclusion

To reiterate, the priorities identified above are intended to address unfinished business arising from the Aged Care Royal Commission, and to respond to the current and emerging pressures arising from COVID which are contributing to a further deterioration in the financial performance of residential aged care services which were already operating at a loss.

Catholic Health Australia would be pleased to expand on any of the above if required by contacting Nick Mersiades at nickm@cha.org.au or on 0417 689 626.

Yours sincerely

Pat Garcia
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Catholic Health Australia

CC:

The Hon Josh Frydenberg MP, Treasurer

The Hon Greg Hunt MP, Minister for Health and Ageing

The Hon Richard Colbeck MP, Minister for Senior Australians and Aged Care Services

The Hon Simon Birmingham MP, Minister for Finance

Mr Michael Lye, Deputy Secretary, Department of Health