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Has the 'Tune Report' hit the right note?

As required by the 2013 enabling legislation for the *Living Longer Living Better* (LLLB) reform package, the 197-page report of an independent mid-term review of the LLLB reforms (and subsequent reforms) has been tabled in Parliament.

David Tune AO undertook the review, based on terms of reference legislated as part of the LLLB package.

A major focus of the review was to assess whether progress has been made towards creating a more sustainable aged care system that is consumer-driven and more market-based, as envisaged by the Productivity Commission's 2011 report *Caring for Older Australians*.

To this end, the terms of reference required an assessment of whether unmet demand for aged care has been reduced by the LLLB reforms and whether further steps could be taken towards ending the rationing of aged care services. The terms of reference also required a review of the effectiveness of the LLLB means testing changes and the arrangements for regulating accommodation prices; the effectiveness of arrangements for facilitating access to aged care services; and the effectiveness of the Bond Guarantee Scheme.

As well as assessing what progress has been made by the recent reforms, Tune stated that a key question for his review was to identify what further steps should be taken towards creating a consumer-driven and more market-based aged care system.

The terms of reference mean that the review's recommendations and findings focus on the economics and financing of aged care. Quality and safety issues are touched on, but were outside the scope of the review.

What were the major reforms being reviewed?

The major reforms reviewed include:

- Improving consumer access to and choice of aged care services, and gaining a better understanding of the level of demand and consumer preferences, by gradually increasing the overall supply of aged care places (to 125 operational

places per 1,000 people aged 70 or over by 2021-22) and increasing the proportion of home care packages (to 45 places).
- Further supporting consumer access and choice by introducing individual budgets for home care consumers, allowing home care package holders to direct their package to their preferred provider, and improving access to aged care services and service information by developing MyAgedCare as a single gateway for all aged care services.
- Generating the increased investment needed to renew and expand residential aged care services, after an investment hiatus, by introducing market-based accommodation prices for non-supported residents across all residential aged care, and by significantly increasing accommodation subsidies paid on behalf of supported residents.
- Improving the affordability of aged care for the community by introducing an income test for home care packages and improving the equity of consumer contributions in residential care by introducing a new means test that combined the former separate income and assets tests.

What did the Report conclude about the reforms?

Demand and supply

As foreshadowed by CHA, the review found itself in no better position than the original framers of the LLLB package to make a robust estimate of demand in an uncapped supply environment, nor of consumer preferences for home care relative to residential care.

The framers of the LLLB package looked instead to a gradual expansion of overall supply and the proportion of home care packages as a means of testing and gauging the level of unmet demand and consumer preference. This strategy was of little use to the review because the overall supply of aged care places has not changed since the LLLB package was announced in 2012 (113.2 places per 1,000 people aged 70 or over at June 2016 compared with 113.6 at June 2012).

The review noted however that the current provision ratio for residential care (79.7 places at 30 June 2016) has almost attained the 2021-22 target ratio of 78 places, and that under current policy an additional 50,000 home care packages will be released over the next five years. On this basis, the review considered that the LLLB reforms are on course to meet the overall target of 125 places by 2021-22.

Looking further ahead, the review noted that the first of the baby boomer cohort have only just turned 70, meaning that the rapid growth in the 80 and over cohort will begin in about 10 years. The review also noted most users of aged care services are in their 80s, which suggests a mismatch emerging after about 2027 between expected demand based on age-specific usage of aged care and the cumulative growth in places under a '70 and over' planning ratio denominator.

Accordingly, to better align with demand, the review recommends a change to a 75 and over denominator following the achievement of the 125 ratio in 2021-22.

While the review was unable to make a reliable estimate of future demand, the review did conclude that there is currently a significant under-supply of higher level packages relative to lower level packages. This conclusion was based on occupancy levels for higher level home care packages and early data from the centralised prioritisation system introduced for allocating home care packages as part of the 'funding following the consumer' changes.

In response, the review recommends the re-balancing of the distribution of package levels in favour of higher level packages, to be achieved without a change in the current overall home care target provision ratio (45 places). The review also recommends the introduction of a level 5 home care package, with the level of assistance being no higher than the average costs of care in residential care (currently about $63,000 per annum compared with $49,600 for a level 4 package).

Significantly, the review recommends a refinement to the LLLB strategy for gradually increasing the supply of places. That is, if the rapid expansion of home care places over the next five years results in less demand for residential care, there should be flexibility within the overall target ratio to redirect residential places to home care, even on a temporary basis.

The review concluded that implementation of the above recommendations, together with the significant increase in home care packages to occur over the next few years, would not only improve the supply of aged care, but also create the conditions for assessing demand for aged care more accurately.

Depending on what form the proposed integration of the Commonwealth Home Support Program and home care packages may take, and when, there may be implications for the strategy for assessing unmet demand by gradually increasing the supply of aged care places under the provision ratio. This is because, unlike home care and residential care, home support operates under an indexed funding cap.

The review does not address how the re-distribution of packages in favour of more expensive higher level packages and the introduction of level 5 packages, while maintaining current provision targets, will be funded.

A possible source of funding may be less demand for residential care in the medium term, as postulated by the review's recommendation that flexibility be introduced to allow the transfer of residential aged places that are not being used to home care. A reduction in residential occupancy may be a consequence of the combined impact of the 50,000 additional home care packages to be released over the next five years, the commissioning of the 35,000 currently provisionally allocated places, and the expectation that the baby boomer cohort, who will be in their 70's over the next decade, will favour home care. Whether the sums will add up is an open question.

A consumer-driven residential aged care system

The review recommends the extension of the 'funding following the consumer' reforms in home care to residential aged care 'as soon as possible'. However, the sector should be given two years notice for the discontinuation of the ACAR in order to prepare for the more competitive environment. This timeframe would also allow sufficient time to develop the safeguards to ensure continuing supply of residential services in areas with limited choice and competition.

The review sees this measure as the logical next step, short of uncapping supply, to increase consumer choice and control. It would allow the government to continue to manage its fiscal risk but at the same time encourage residential providers to transition to a system that is more consumer driven and competitive.

CHA has consistently warned the sector to be wary that reform does not stall at this point. This option may be tempting for future governments because at this point in the reform process, significantly increased competition and consumer choice will have been achieved while maintaining precious fiscal certainty. However, without the uncapping of supply, there would be a continuation of waiting lists.

Access to services

While recognising the problems experienced to date in implementing a single gateway for aged care services (MyAgedCare), the review confirmed that the development of MyAgedCare is a major and essential reform for achieving a more consumer-driven aged care system.

In view of the implementation issues experienced to date, the review recommends a major upgrade of the MyAgedCare ITC platform and increased investment in community awareness campaigns.

The review also responded to sector concerns that MyAgedCare may be of limited value for 'hard to reach populations', such as the ageing homeless and other marginalised groups. Accordingly, it recommends the further development of outreach and 'system navigator' services. These services would be funded by government, but not provided by either government or aged care providers.

Equity of access

The review includes a number of recommendations intended to improve equity of access. These include:

- an expansion of services under the National Aboriginal and Torres Strait Islander Flexible Service program,
- a review of the Commonwealth-State MPS program to ensure that it is effectively servicing rural and remote communities,
- a review of the current diverse arrangements across states and the Commonwealth for the provision of aids and equipment for older people, and
- the inclusion in the common client record under MyAgedCare provision for consumers to identify as belonging to a particular population group. The data collected in this way would provide better information about access issues facing particular population groups, including across geographies.

The review also concluded that MyAgedCare currently does not provide adequate assistance for people seeking particular service specialisations, such as ethno-specific services. To deal with this, the review recommends that MyAgedCare should identify 'pre-qualified' aged care providers to indicate that they have particular expertise in delivering care to particular population groups or service types, supplemented by an online search capacity.

Eligibility and needs assessment services

The importance of a more rigorous and integrated eligibility and needs assessment system to the success of aged care reform was confirmed by the review.

The assumption of administrative responsibility for ACATs by the Commonwealth, the creation of a common client record and the creation of Regional Assessment Services (RASs) for accessing home support services, have been important steps taken to date.

The review recommends that the next step should be the integration of the ACAT and RAS workforces into a single assessment system. As a further step towards creating a more robust assessment system, the review also recommends making ACFI assessment, or whatever funding assessment tool might succeed the ACFI, a function of the single assessment system.

Means testing and consumer contributions

The review concludes that the LLLB changes to means testing arrangements have had a minimal impact on improving the sustainability of aged care services for taxpayers.

Home care consumers are contributing less than 3% towards the income-tested component of care costs, and many consumers are not being charged the basic daily fee by providers. The review also queried whether it is equitable that consumers can be asked to pay the same level of basic daily fee regardless of the value of their package and the services received.

The review concludes that applying the flat rate is likely to be leading to negative perceptions about value for money, and contributing to the low take up of lower value packages. The review also notes that the inconsistent and light touch approach to consumer contributions in home support is also contributing to the low take up of lower value packages, including consumers wishing to continue receiving home support as their care needs increase.

In response, the review recommends that:

- charging of the income tested fee and the basic daily fee be mandatory,
- the basic daily fee be re-named the ‘basic care fee’ to make it clear that it is a contribution to care,
- the value of the basic care fee be proportionate to the value of the package (while retaining an upper limit relating to the value of the single aged pension), and
- the introduction of mandatory fees in home support.

The review does not propose changes to the structure of the income tested fee which is currently charged at two levels (depending on status as a part-pensioner or self-funded retiree). ACFA identified that this fee structure was also influencing perceptions of value for money for consumers with higher means, especially in relation to lower level packages.

The review also does not propose combining the basic care fee and the income tested fee, both of which are payments for care, under the subsidy reduction arrangement that currently applies for the income tested fee component.

The above may reflect a preference for these aspects to be addressed at the same time as mandatory fee arrangements for home support so that consumer contributions across all home-based care are standardised according to individuals’ financial capacity and the value of services accessed.

The level of administrative charges levied in home care package budgets was also discussed by the review. Whilst no recommendation was made, the review provided a timely warning to the sector that if it cannot develop better practices around administrative fees, government should intervene more directly.

In **residential care**, consumer contributions to the cost of care increased from 2% to about 6%, and the Government’s share of accommodation costs for supported residents reduced by 1% to 42%.

The review notes that the ageing of the baby boomer cohort will considerably increase the cost to the community of aged care, even if supply continues to be capped, and that this threatens the sustainability of future aged care services.

In view of this threat to sustainability, and the policy objective that those who can afford to should contribute to their aged care, the review recommends the inclusion of the full value of the owner’s home in the means test for residential care when there is no protected person in the home.

However, the review stops short of including the value of the home in a means test for home care. Presumably, this approach draws on the same rationale for exempting the home from the aged pension assets test (an exemption that is being increasingly challenged by many commentators).

Noting that the current annual and lifetime caps on care contributions benefit only the wealthiest, the review recommends on equity grounds that that the caps be removed. The review argues that the current care contribution caps effectively mean that taxpayers provide a greater subsidy to those higher wealth individuals who remain in care longer. The current caps stem from a Productivity Commission recommendation that a lifetime 'stop-loss' mechanism should be introduced to protect individuals against unpredictable very high care expenses, recognising that voluntary insurance arrangements to do this do not exist and are unlikely to be developed.

As well as improving sustainability by changes to the means testing arrangements, the review also recommends uncapping the basic daily fee payable by non-supported residents (currently capped at 85% of the single age pension for <u>all</u> residents irrespective of wealth). The review argues that this would allow providers to better cover the cost of day-to-day hotel and living expenses, and allow providers to compete on quality and price in this area.

To provide transparency and encourage innovation, providers would be required to publish their maximum basic daily fee. In addition, if a provider proposes to charge a maximum basic daily fee in excess of $100, the provider would require the approval of the Pricing Commissioner.

The review recommends that residential providers be required to charge the minimum basic daily fee, mirroring a similar recommendation in relation to the basic care fee in home care. In making this recommendation, the review does not address the implications for services targeting the homeless who regularly charge less in consideration of the additional daily personal needs of this client group.

Home equity release

The review includes a discussion about whether including the full value of the home in the means test for residential care may impact demand for equity release products as consumers may require access to additional equity to pay increased means tested care fees.

The review concludes that it is unlikely to be the case because most residents would likely already have needed to access home equity in some way to make accommodation payments.

This assessment holds if, as recommended by the review, the value of the home is not included in any means test for home-based care. A likely consequence of this policy approach is that the cost to an individual of care in home care will be less than care in a residential facility. On the other hand, caution is required in drawing equity comparisons because care in the home is not intended to be 24/7 care. Instead, home care leverages, in most cases, off the availability of informal care and a degree of self care.

Accommodation payments

Consistent with assessments in ACFA's annual reports, the review concludes that the accommodation payment reforms have served the sector well by stimulating the investment required to renew and expand residential aged care services. They also have not had a negative impact on access.

The review recommends that the consumer protection provided by requiring the Pricing Commissioner's approval for accommodation prices that exceed a threshold should continue until supply caps are lifted. However, the review recommends an increase in the threshold from $550,000 to $750,000 to reflect house price movements since the threshold was set first set in 2014, and that a system for indexing the threshold should be developed.

Additional service fees

Reflecting on the attention given to the charging of 'optional' additional service fees in recent times, the review recommends that providers charging additional service fees and uncapped basic daily fees be required to have the fees independently assessed by the Pricing Commissioner and "published on MyAgedCare in a way that assists informed choice by consumers".

A case can also be made for home care fees to be published in a way that assists better informed comparisons by consumers. The review recommends that government and providers work together to determine how to ensure comparability of home care pricing by consumers and how best to publish prices on MyAgedCare.

Respite care

Noting the increased use of residential respite since the LLLB reforms, the report recommends a review of current arrangements to ensure that the objective of supporting informal carers is still being met.

The review also identifies that consideration will need to be given to how best to ensure the availability of residential respite post a discontinuation of the residential ACAR.

Protection of lump sum accommodation payments

The review concludes that the **Bond Guarantee Scheme** has been 'very effective' in protecting consumers' funds. However, the review notes that the Scheme presents uncertainty of costs for both government and providers while residents, who also benefit from the Scheme, do not contribute to the Scheme.

The review recommends that the Scheme be retained, but amended to improve certainty for providers and to ensure that providers make contributions when the benefits outweigh the costs. This includes that the Government:

- Announce a date after which it will require that non-government providers be levied to recoup all of the costs of default events where the total cost exceeds a threshold in any year (the review suggests $5m).
- Introduce a formal process for notifying the sector of defaults that exceed the threshold, and the cost of the levy that will be applied.
- Declare that the cost of default events prior to the above changes will not be recovered.

It is noteworthy that while the review observes consumers are non-contributing beneficiaries of the current Scheme, it is silent as to the option for providers to recover from residents in some way levies they incur as a result of default events.

Turning to the **prudential regulations**, the review supports the phased implementation of changes recommended by Ernst and Young (EY) to strengthen the current prudential regulations. EY was commissioned separately by the Department to review the current regulations.

The EY report recommended changes to the disclosure standard to improve the provision of information to consumers and to require disclosure of corporate structures to the Department, and changes to the liquidity standard to introduce a liquidity threshold. EY also recommended the retention of the current requirement for an independent auditor to verify that providers are complying with the prudential standards.

The review considered that implementation of these changes to the prudential arrangements would help reduce the likelihood of provider failure and the need for recourse to provider levies under the Bond Guarantee Scheme.

Workforce

The review canvassed the key issues raised in submissions, namely pay and conditions, education and training, rural and remote workforce issues, quality of care (as impacted by the workforce), and the development of a sector-wide workforce strategy.

While acknowledging the importance of the availability of a skilled workforce and that wages are a concern for both employees and the sector generally, the review does not make substantive recommendations concerning workforce issues.

On the issue of mandated minimum staffing ratios and skills mix, the review noted that there are diverse staffing models across residential care services with different approaches to care, all of them capable of delivering quality care outcomes. The review also noted the considerable variation across the sector of service sizes and designs, care recipients' needs, the way work is organised and the extent to which some services are outsourced, and that mandated staffing ratios would increase costs, affect smaller service viability and have a disproportionate impact on rural and remote services.

The review concluded that providers and individual services are responsible for determining the type of staff required to ensure consumers receive quality care, and that ensuring the right mix of staffing is not best achieved through mandated staffing levels.

The review notes the Government's decision to fund the development of a workforce strategy. Of relevance to the strategy, the review concludes that workforce planning is an area where employers (providers) should take a lead role on issues such as pay and conditions, training and education, recruitment and workforce development.

How do the recommendations stack up against the Roadmap?

The review's recommendations and findings are consistent with transitioning to the consumer-driven and more market-based aged care system envisaged in the Aged Care Roadmap (and by the Productivity Commission), the platform for which is uncapped supply and consumer choice of service type and service provider.

However, the review stops short of recommending a timetable for uncapping supply. Moreover, the review contemplates the continuation of supply caps after 2021-22 by recommending that the population cohort under the provision ratio be changed to age 75 and over following the achievement of the 125 ratio in 2021-22.

Some might be critical of the review as a result, but this would be a harsh assessment.

CHA has argued consistently that no government could be expected to announce a timetable for uncapping supply (as opposed to a policy objective) without robust estimates of the level of overall demand under an uncapped environment, robust estimates of the cost to taxpayers and consumers, and community acceptance of sufficient contributions by those who can contribute more towards their aged care.

The review has recommended a number of specific measures that would make the system more consumer-driven and market-based. Perhaps more importantly, it has identified areas where significant work still needs to be done before governments can responsibly remove supply controls.

In particular, many of the recommendations address the following key requirements to ensure that uncapping of supply is sustainable:

- An accurate understanding of the level of demand that the system is expected to meet
- An equitable and sufficient contribution by consumers to their costs of care
- A robust and consistent system for assessing eligibility for subsidised services
- Provisions for ensuring equitable and continuing supply of aged care services in places where there is limited choice and competition within the market e.g. rural and remote areas.

What has been the Government's response?

The Government's media release that accompanied the tabling of the review in Parliament indicated that the Government will "consider the review's findings and recommendations in the context of work underway by a taskforce in the Department of Prime Minister and Cabinet which is examining ageing issues more broadly."

Disappointingly, but hardly a surprise to anyone, the Government quickly ruled out the inclusion of the former home in the means test for residential care. This recommendation was intended to help secure the future sustainability of quality aged care services, and follows in the footsteps of several expert reviews (and the Roadmap) which have all recommended the inclusion of the full value of former home in the residential care means test.

For now, it seems that the Parliament is content to leave this matter for a succeeding generation of politicians, including at the cost of the continued rationing of services, waiting lists and pressures on the capacity of governments to secure the level of funding required to sustain quality aged care services.

The Government has also indicated that it does not support the removal of the annual and lifetime caps on care contributions.

As well as referring the review to the Departmental taskforce, the Government has announced that an additional 6,000 home care packages will be made available to support more older people with higher care needs to remain living at home. There is no information provided as to the timing of the release of these additional places, nor how they will be funded, and whether there may be implications for the current target provision ratios.

A welcome aspect of the Government's initial response to the review's findings is the commitment to provide an additional $20m to improve MyAgedCare in order to improve public access to aged care services. Without a fully functional and useful MyAgedCare, the full potential of a consumer-driven and more market-based aged care services will not be realised.

In responding to the release of the review, the Government also announced that Professor John Pollaers, Chairman of the Government's Industry and Skills Committee and ACFA member, would head the taskforce to develop the workforce strategy announced in the Budget.

Conclusion

All things considered, David Tune's report hits the right note.

The key take-out from the recommendations and findings is that much more policy development work is required to transition aged care to a more responsive consumer-driven system based on consumer choice and control. It also identifies the areas where further policy development is required.

In David Tune's own words, "While I do not recommend that supply be uncapped at this time, this does not represent a departure from the objective of consumer-driven aged care. The recommendations in this report are designed to move aged care further towards a consumer-focussed demand-driven system.....some by targeting a better understanding of, and response to, demand, some by seeking information and assessment, some by improving sustainability, and others by supporting equity of access."

The next steps are to work with the government on the co-design of policies in those areas identified by the review. This work will be complemented by policy matters arising from the current quality reviews, the development of the workforce strategy, the review of the ACFI funding tool and the proposal to create a single home-based care program.

All of the above points to continuing reform for the aged care sector which will have to be carefully managed.

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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