Sustainability of the Aged Care Sector: Discussion Paper

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Sustainability of the Aged Care Sector: Discussion Paper

Contents

Executive summary

This Discussion Paper aims to support and promote an informed national policy debate on the sustainability of publicly subsidised aged care services in Australia.

A sustainable aged care system is crucial to current and future senior Australians and their families. Equally, it is of fundamental importance to taxpayers, providers and the sector's workforce. Sustainability has several dimensions. The four addressed in this Paper are: taxpayer affordability; community satisfaction with the care provided; workforce availability; and provider viability.

The current aged care system has been under stress for some time and the situation is worsening. Demand-side pressures are arising from demographic and health changes in Australia's ageing population and from community expectations for safer and higher quality care.

On the supply side, there are already significant constraints on the sustainable availability of an appropriately skilled aged care workforce, which will likely worsen as the working-age proportion of the population declines. In addition, sector viability is under threat, given that the financial performance of most, though not all, providers who deliver the care is generally poor, especially in residential care.

And yet, the costs of improving the quality and safety of services will need to increase to address community dissatisfaction with a number of aged care services. Staff wages and conditions must rise so that the sector can compete for skilled workers. Additional investment funding is also needed in the sector to respond to growing demand.

Government spending on aged care will need to rise. However, budgetary concerns raise questions about the fiscal sustainability of significant increases, particularly in the context of higher national debt in response to the COVID-19 pandemic. At the same time, consumer contributions to the cost of aged care services are low, even among senior Australians who have the financial capacity to pay more.

The consequences of an unsustainable system are substantial. Senior Australians will bear the brunt of a failing aged care sector and taxpayers will be demanding a limit on government expenditure. Furthermore, in the absence of reform and change, many providers and aged care workers will leave the sector, and there will be added pressure on both the level and quality of care.

A sustainable aged care sector can only be achieved through a multi-layered strategic response from the Government, sector stakeholders and consumers. This Discussion Paper identifies four broad strategic approaches to improving sustainability:

- **Reducing the rate of growth of demand for subsidised aged care services.**
  This could include supporting the personal independence of people as they age by investing in improving their wellness, supporting informal carers and facilitating opportunities to purchase non-subsidised top-up services.

- **Improving the effectiveness of aged care services.**
  Approaches could include changing policy settings and program designs to produce better outcomes and thereby reduce the overall growth of expenditure on services.

- **Improving the efficiency of service delivery.**
  Strategies could include attracting, training and retaining a highly skilled workforce, promoting consumer choice, enhancing competition and removing barriers to innovation so that higher levels of services can be produced for any given level of funding and workforce.

- **Establishing more equitable funding for subsidised services.**
  Options include requiring consumers who have the capacity to pay to make fair contributions to the cost of their services, while ensuring the services are affordable to all in need by maintaining appropriate safety nets. The benefits and disadvantages of other possible funding and financing options such as levies and personal insurance are also analysed in the Paper.

This Paper provides evidence of the need for a broad-ranging discussion on the sustainability of subsidising aged care services. The Paper also offers a number of strategic approaches to addressing these issues, while emphasising that multiple interconnected strategies will be needed to improve sustainability. The matters raised in the Paper deserve considered debate by all who want our senior Australians in need to receive safe, high quality services from viable and responsive providers and skilled staff at a cost that they and Australian taxpayers can afford.

1.

Introduction

1.1 Purpose of this Discussion Paper

This Discussion Paper aims to contribute to a national debate about the sustainability of Australia's taxpayer subsidised aged care programs.

The Paper has adopted the following widely referenced definition of sustainability:

> *[Sustainable development] must meet the needs of the present without compromising the ability of future generations to meet their own needs.*[1]

The aged care sector has been the subject of a lengthy inquiry by the Royal Commission into Aged Care Quality and Safety (Royal Commission). Its Final Report covered such issues as developing the workforce, improving provider governance and establishing more effective regulatory mechanisms.[2] The Government has adopted many of the recommendations and these will likely lead to critical improvements in quality and safety.[3] However, these initiatives will also add significantly to the cost of delivering subsidised aged care services.[4] Further, the mechanisms by which the services would be funded and by whom received little attention in the Final Report, leaving the overarching question of sustainability unanswered.[5]

This Discussion Paper aims to explore the sustainability issue to promote an informed national policy debate on how best to address the current and emerging challenges in the sector.

The consequences of having an unsustainable system are significant, particularly for senior Australians and their families. Future scenarios could see a loss of the recent improvements made or announced for implementation. An unsustainable system could also lead to a decline in the number of viable providers who deliver services to the elderly, and pose challenging consequences for current and future taxpayers.

The Paper critically assesses available data to present a comprehensive evidence base to inform this critical national debate. It also presents an overview of a range of policy options, strategies and initiatives that the Australian Government, senior Australians and their families, providers, the workforce, funders and the wider community may wish to consider.

1.2 Development of the Discussion Paper

This Discussion Paper was commissioned and funded by the Aged and Community Care Providers Association with the support of the Council on the Ageing Australia and National Seniors Australia. It has been researched and written by senior academic staff at the University of Technology Sydney (UTS). The paper represents the independent judgement of the authors based on an objective analysis of available evidence.

The Paper draws on research undertaken in the context of the Royal Commission and evidence published by the Department of Health, the former Aged Care Financing Authority (ACFA), StewartBrown and the UTS Aged Care Sector Report. It also integrates insights from a comprehensive range of relevant policy statements, submissions, reports and academic articles.

1.3 Framing the context of 'aged care'

At any one time, the majority of senior Australians do not use subsidised aged care services. Instead, they continue to purchase their own services from the market and rely on their family, friends, community organisations, health and welfare services, and income support to meet their daily needs. They purchase or receive fresh food, prepared meals, clothing, transport, social engagement, domestic help and personal care. Senior Australians access additional and different care and support if their frailty, cognitive impairment, dementia, health needs or financial circumstances change.

What is commonly referred to as 'aged care' is a sub-set of these services created by government policy. The Government intervenes primarily by providing taxpayer-funded subsidies to assist older people who need care and support services but have limited income and wealth. Further, the Government adds a layer of regulation focused on the quality and safety of those services and the appropriateness of the service providers.

As set out on the *My Aged Care* website,[6] subsidies are available for eligible people for the following services:

- assistance with everyday living activities, such as meals, shopping, transport, social participation, cleaning and laundry
- personal care, such as help getting showered and dressed, eating and continence management
- healthcare, including nursing and allied healthcare
- equipment and home modifications, such as handrails for safety
- 24/7 care, everyday living services and accommodation in residential aged care homes
- respite care.

Australia's subsidised aged care system is situated within a very complex policy environment. It has been on a decade-long reform pathway, spurred first by the Productivity Commission's 2011 report *Caring for Older Australians*,[7] and then followed by the Aged Care Sector Committee's 2016 *Aged Care Roadmap*,[8] the *Legislated Review of Aged Care* in 2017[9] and the *Final Report* of the Royal Commission in 2021.[10]

1.4 Dimensions of sustainability

As defined at the start of this Paper, sustainability is achieved when both current and future needs can be met.

At about five-year intervals, the Australian Government has published an Intergenerational Report (IGR) that examines the long-term sustainability of current government policies and how demographic, technological and other structural trends may affect economic growth and public finances. The 2021 IGR defines fiscal sustainability in the following terms:

> *Fiscal sustainability is the government's ability to manage its finances so it can meet its spending commitments, now and in the future. It ensures future generations of taxpayers do not face an unmanageable bill for government services provided to the current generation.*
>
> *Public finances are considered sustainable when the government can meet its obligations without having to increase taxes or cut spending to an extent that is unrealistic or would harm the economy.*[11]

The Productivity Commission's 2011 report Caring for Older Australians emphasised that in addition to fiscal sustainability, a sustainable aged care system also requires social sustainability (in effect, long-term social cohesion), a sustainable workforce to deliver the care expected by the community, and a financially viable sector of providers.[12]

This Discussion Paper has adopted the same four dimensions of sustainability and interprets them in the following terms:

- **Fiscal sustainability:** taxpayer affordability of public-funded services, both now and over the longer term.
- **Societal sustainability:** community satisfaction with the quality of care and support for senior Australians in need, and the equitable distribution of costs and benefits across consumers, taxpayers, providers and their workforces.
- **Workforce sustainability:** ongoing availability of a sufficient aged care workforce with appropriate knowledge, skills and professional attributes.
- **Financial sustainability:** provider viability and confidence to invest in the sector.

These dimensions largely align with the eleven attributes of a sustainable aged care system proposed by ACFA in 2021.[13] ACFA's report drew attention to such attributes as: an adequate rate of return for efficient providers of quality aged care services; equitable contributions by consumers towards the cost of their aged care based on their capacity to pay; and informed and supported consumers who can exercise choice and control.

A final introductory remark is that multiple interconnected strategies will be needed to improve sustainability. Given the complexity and interdependence of the varied inputs, activities and interests of multiple stakeholders, no single option will significantly improve the sustainability of subsidised aged care. Instead, moving the sector in the desired direction will require a combination of policies and strategies that work together in a system-wide manner. Some of these interventions will have significant and more immediate impacts, some will have seemingly small impacts with significant social consequences, and some of the impacts will only be evident in future years.

1.5 Discussion Paper structure

The structure of the remainder of the Paper is as follows.

- **Section 2:** examines a broad range of evidence that provides a context for understanding the sustainability challenge of delivering subsidised aged care services in Australia. It examines the expected growth in public expenditure as well as the social, workforce and financial trends that will impact the sector's sustainability into the future.

- **Section 3:** explores how sustainability could be enhanced by investments that support people's personal independence as they age, which can achieve better outcomes with lower resource use than through the funding of aged care subsidies.

- **Section 4:** examines how the effectiveness of subsidised services could be improved, including by program redesign, more robust needs assessments and greater accountability for aged care funding.

- **Section 5:** focuses on how services could be delivered more efficiently by increasing workforce skills, innovation in technology and building design, and facilitating competitive incentives for innovation.

- **Section 6:** considers how intergenerational, vertical and horizontal equity could be enhanced across the system, particularly in balancing taxpayers' and individuals' funding contributions to aged care services.

- **Section 7:** outlines alternative funding and financing sources which could enable the sector to invest further in the infrastructure and operational needs of the future.

2.

Subsidising essential services for the aged: The sustainability challenge

Subsidies for essential services for senior Australians in greatest need play a vital role in supporting their wellbeing and that of their carers. They are also a cost-effective investment for the community as a whole. Nonetheless, the costs of the taxpayer subsidies for aged care services are rising, and this trend will continue as the number of senior Australians continues to grow and as the sector improves the quality and safety of services, meets the challenges of attracting and retaining workers and seeks to restore sector-level provider viability.

This Section of the Paper seeks to understand the dimensions of the sustainability challenge in providing subsidised aged care services in Australia. It begins by examining projections of the expected growth in future aged care costs and their fiscal impacts, before unpacking the social, workforce and financial trends that will impact other dimensions of the sector's sustainability into the future.

2.1 Fiscal sustainability

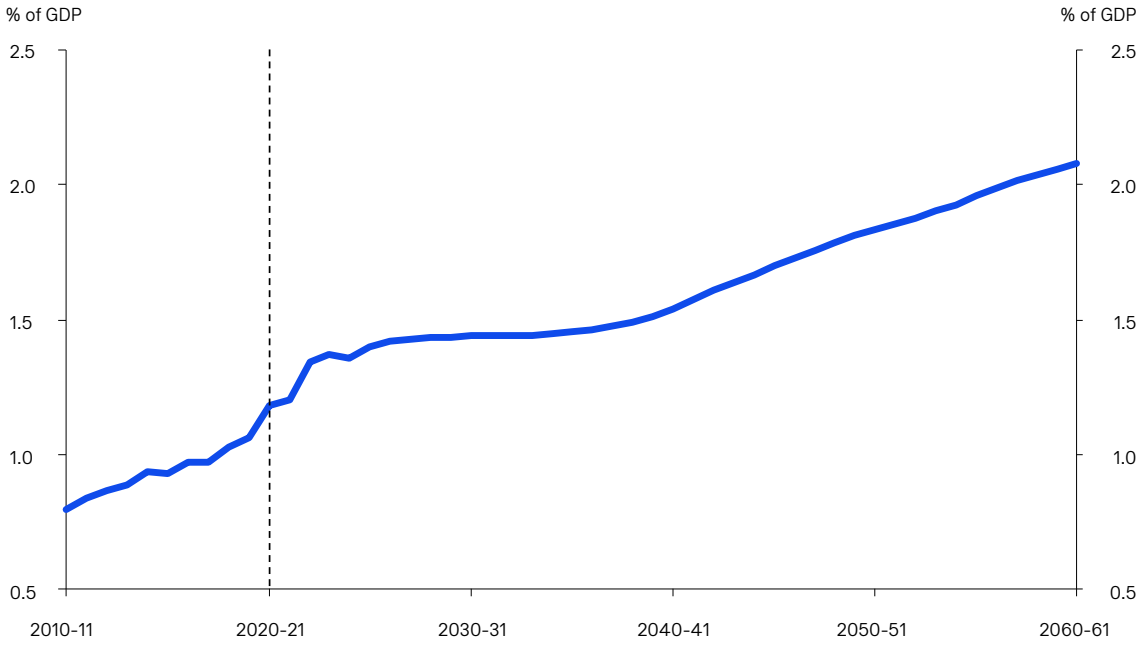
Australian taxpayers fund most of the cost of subsidised aged care services through the provision of government subsidies, supplements and capital grants. Aged care consumers contribute less than 10% overall to the cost of personal and health care across the three main programs, though they largely meet their costs of daily living and many pay for, or contribute to, their accommodation in residential aged care homes.[14]

This financial year (2021-22), total government expenditure on aged care is expected to be $27.0 billion, representing almost 1.2% of Gross Domestic Product (GDP). By 2060-61, the recent 2021 IGR projects that taxpayer funding of aged care will nearly double as a share of the economy to 2.1%.[15]

Three phases of growth for aged care public expenditure are identified by the IGR over the next 40 years (Figure 1):

1. A significant increase to 1.4% of GDP by 2023-24, reflecting the Government's five-year spending commitments in response to the Royal Commission.
2. Relative stability at 1.4% of GDP over the following 12 years, essentially assuming there will be no further significant increase in the supply of subsidised services or costs of delivery.
3. A slow but steady rate of growth over the remaining 25 years from 2035-36 until reaching 2.1% of GDP by 2060-61, representing a return to historical rates of growth in line with cost movements, adjusted for changing demographic profiles.

Figure 1: Aged care spending



Source: Based on Commonwealth of Australia data. *2021 Intergenerational Report: Australia Over the Next 40 Years*.

The 2021 IGR also outlines the challenging fiscal environment Australia faces in the coming decades. Some of its key underpinning messages are:

- Australia's future fiscal position is one of ongoing net debt. There will be a slower average rate of economic growth of 2.6% over the next 40 years, which is lower than the average of 3% per year over the past 40 years.[16]
- Slower population growth and population ageing are key factors, and the slower economic growth and ongoing debt reduce the capacity to fund future aged care and other services.
- Productivity growth, which is currently 1.2% per year, is assumed to converge to a long-term higher rate of 1.5% per year over the next decade. If the IGR assumption does not eventuate, lower productivity growth may reduce economic growth, wages and tax receipts.
- The COVID-19 pandemic has also placed significant pressure on the Australian economy, the future levels of public debt and the ability to fund the growth of services, likely for the long-term.
- From the 2030s, government spending as a share of GDP is projected to grow, particularly for health, aged care and interest payments. Despite some smaller proportionate falls in other spending items, total government spending is projected to be 27.7% of GDP by 2060-61 if there are no policy initiatives to bring down the need for such costs, while tax receipts are constrained by the Government's commitment to a tax-to-GDP cap of 23.9%.[17]

While a near doubling of aged care expenditure as a proportion of GDP over the next 40 years would prove challenging, there are several reasons why the projections may even be underestimated.

First, the assumption that expenditure increases relating to current commitments will halt around 2025-26 appears unlikely, as is the assumption that this would be followed by more than a decade of no additional system growth as a percentage of GDP.

Second, the IGR projections are only based on current policy settings. Current aged care policies and commitments do not fully address other reforms that will continue to be necessary in the future. Even the 2021 IGR foreshadows that there is a significant agenda of unaddressed matters which will impact system sustainability:

> *[T]he Government has committed to undertake further work on the design of the in-home care program which will require careful consideration to ensure the system remains sustainable. Developments in wages for the aged care workforce will be another key determinant of costs in the system over the long term.*[18]

In this respect, several key initiatives or areas of likely reform have not yet been reflected in either the Government's forward estimates of aged care expenditure or in the IGR long-term projections. These include:

- A material increase in the award rates paid to staff, contingent on the outcome of the case before the Fair Work Commission.
- Further increases in the minimum staffing standards in residential care beyond those funded as part of the $17.7 billion in the 2020–21 Budget.
- Additional growth of Home Care Packages beyond 2023 to address the bulge of baby boomers starting to turn 80 from 2025.
- The potential replacement of service rationing with demand-driven access to aged care based on assessed need.
- The outcomes of annual reviews of aged care subsidy pricing by the proposed Independent Hospital and Aged Care Pricing Authority – in effect, a replacement for the current indexation arrangements.

More recently, the Actuaries Institute has projected that aged care expenditure will peak higher (2.9% of GDP) and earlier (by 2050) than what is estimated in the 2021 IGR. This modelling predicts an increase at a rate of 7% per annum over the next 20 years, before easing to around 5% for the following decade.[19] This would see aged care expenditure become the fastest-growing line item in the Government Budget in the next three decades, surpassing the rate of growth of health (expected to grow at 5.7% per year):

> *Our research indicates that the cost and funding pressures at government and society levels will be significantly greater than currently projected, and that these will be most acute over the coming 20 years due to the safety nets and projected demographic, social, and health trends.*[20]

Demand-side factors are the starting point for both the IGR and Actuaries Institute projections due to expected changes in the demography and health needs of Australia's growing and ageing population.

In terms of demographic changes, Australia's population is estimated to grow from 25.7 million in 2021 to 38.8 million in 2060-61. As the IGR notes, "Australia is currently in the middle of an important demographic transition, as people in the baby boomer generation reach 65".[21]

By 2060-61, 1.9 million people are projected to be 85 and older (5% of the population, more than double the 2% in 2019-20). However, the rate of growth of the age 85+ cohort is expected to slow after the 2030s, by which time much of the baby-boomer generation will be passing through the aged care programs.

These changing age profiles will drive a growing demand for aged care services. In addition, a proportionately smaller working population reduces the growth of the workforce and the per capita income taxation base.

Changes in the health and wellbeing of older Australians directly affect aged care demand and costs. The Australian Bureau of Statistics (ABS) 2018 Survey of Disability, Ageing and Carers showed that whereas about 12% of people aged 0-64 years reported having a disability, this increased to almost half of all people (49.6%) aged 65 years and over.[22]

Modelling by the Australian Institute of Health and Welfare (AIHW) indicates that at a national level, average life expectancies are increasing but the proportion of a person's remaining life spent in good health remains relatively constant.[23] However, averages can mask important variations that are critical to the development of sound public policy. To illustrate, the AIHW found that people "aged 65–69 living in the lowest (least advantaged) socioeconomic areas had a shorter life expectancy and a smaller percentage of life in full health, compared with those living in the highest socioeconomic areas".[24]

Support for people with dementia and their carers is a core mission of the aged care system. The largest share of dementia spending in Australia is on residential aged care services (56% or $1.7 billion), followed by community-based aged care services (20% or $596 million).[25] It is estimated that among Australians in 2021:

- 1 in 12 Australians aged 65 and over have dementia; and
- 2 in 5 Australians aged 90 and over have dementia.[26]

In addition to the impacts of demography and health, various other factors will influence the growth of aged care expenditure. One demand-side driver of costs is the urgent need to improve the quality and safety of services to a standard that meets community expectations (see Section 2.2). Supply-side constraints arise from limited workforce availability and capability (Section 2.3) and acceptable government funding levels, provider business models and capital financing requirements (Section 2.4).

Changes in the health and wellbeing of older Australians directly affect the demand for and cost of aged care services.

2.2 Societal sustainability

From a societal perspective, aged care is more likely to be sustainable when the community is satisfied with the quantity, timeliness, quality and safety of care provided to senior Australians in need, considers the funding arrangements to be fair and is assured that taxes are spent effectively and efficiently.

Sufficient supply to meet demand

One of the challenges in determining whether demand for subsidised services is being met is that 'demand' is a multifaceted concept. It is driven by underlying factors, such as the frailty or dementia needs of senior Australians, their personal income and assets that enable them to live without public subsidies, and the public perception of the quality and safety of the care being delivered.

Of equal importance, perceived demand is determined by the eligibility criteria adopted by the Government for access to the services, the integrity of the assessment processes, and the types of services that the Government chooses to subsidise. Issues of over-assessment for eligibility for subsidised services, too wide a scope of services that are subsidised, or the level of subsidy, are all matters that warrant ongoing national debate.

A challenge in assessing the adequacy of supply is that there is no consolidated tracking regime. The Commonwealth Home Support Programme (CHSP) accounted for a little over 70% of all people receiving aged care in 2019-20 (Table 1), but neither supply nor unmet demand are readily evident for this program. CHSP providers receive block grants and distribute their funding according to their assessment of relative need in their designated area.

Supply data is available separately for Home Care Packages (HCP) and residential care but, at the assessment stage the data does not correct for the overlapping approvals that many people have for these two services.

The creation of the National Prioritisation System for Home Care Packages has provided some insight into the level of assessed demand for these services. As at 31 December 2021, there were 68,429 people on the waiting list for a package at the level of those persons' assessed needs.[27] Waiting times are longer for higher level packages, and currently range from 3-6 months for a Level 1 package to 6-9 months for a Level 4 package.[28]

In the 2021-22 Budget, the Government announced funding for an additional 80,000 packages at a projected cost of $6.5 billion.[29] It is expected that by June 2023, there will be 275,600 Home Care Packages available to senior Australians every year, which is likely to meet much of the current waiting list. However, the Grattan Institute notes that the waitlist will only be cleared if demand for home care stays stable and the average length of stay on HCPs does not grow. In Grattan's view, as the number of baby boomers needing aged care services grows, the total number of available packages will likely be insufficient.[30]

Forecasts from ACFA indicate that the projected demand for home care will likely exceed the supply of 276,000 packages within the next five years.[31] Any further increases in HCPs will be reliant on additional budget commitments by the Government.

In relation to meeting the demand for residential care, the Government currently limits the supply of subsidised places through the periodic release of bed licences in Aged Care Approvals Rounds (ACAR). In recent years, occupancy rates have been falling, suggesting a supply surplus.[32]

The Government recently announced the removal of the ACAR from 2024 and advised that at an aggregate level, the supply of subsidised places under the current provision ratio applied for ACAR releases is expected to exceed demand. This is because the formula links supply to the population aged 70+ which, due to the baby boomers, is growing faster than people currently using residential aged care, who are mainly in the 80 years and over cohort of the population. They have also indicated that "there are no plans to ration the assignment of places at a national level".[33] However, targeted measures may be necessary to promote additional supply, including in rural and remote areas and for other special needs groups.

Interestingly, demand for residential care may increase faster than expected if, as expected, the reforms lead to greater competition between providers and the offering of more innovative and high quality services that better meet consumer needs and preferences.[34]

Higher quality and safety and greater transparency

Improvements to the quality and safety of services delivered by the sector are critical to social sustainability. However, they will also introduce additional costs for services, compliance and administration. For example, in the 2021-22 Budget, the Government's commitment of an additional $17.7 billion over five years included $3.9 billion to implement the minimum staffing standards in residential care to improve care quality. Projecting into the future, Deloitte Access Economics has estimated that implementation of the package of reforms suggested by the Royal Commission would require an additional 0.3% to 0.8% of GDP by 2050, contingent on the level of staffing uplifts in residential care.[35]

Transparency and accountability are key to societal confidence in the quality of the services being delivered to senior Australians. Although many providers have been undertaking governance improvements, the Government is introducing more substantial legislative obligations, including provider improvements to complaints management processes, increased reporting requirements, increased regulatory activities and strengthened prudential conditions. The measures will result in increased checks by the Aged Care Quality and Safety Commission and include the introduction of two new quality indicators, star-ratings for residential aged care and in-home care, and an expanded Serious Incident Response Scheme.

While these changes will likely yield improvements to address expectations that aged care services be more transparent and accountable, they are also likely to increase the resourcing needs of regulators and compliance costs for providers. ACFA noted that these measures "will make management and governance of residential aged care services more demanding, especially for many smaller providers who lack economies of scale".[36]

2.3 Workforce sustainability

Aged care services are labour intensive. The demand for workers is currently increasing rapidly due to the growing numbers and health needs of senior Australians (described earlier), the expansion of the HCP program (described below), and recent reforms to increase minimum staffing levels within residential care.

Many people are reluctant to become aged care workers due to low wages, a lack of career progression, poor training outcomes and negative public perceptions of the sector. Furthermore, existing labour supply constraints have been exacerbated since early 2020, when the COVID-19 pandemic halted immigration, which is typically an essential source of labour for the sector.

The Health Services Union and the Australian Nursing and Midwifery Federation currently have work value cases with the Fair Work Commission in which they are arguing for a 25% increase in wages.[37] The Committee for Economic Development of Australia (CEDA) notes that any wage increases need to be regulated and adequately funded to avoid providers responding by lowering overall staff hours or increasing staff workloads.[38] CEDA has estimated that to meet Australia's direct care workforce needs by 2030, there will need to be a net increase of around 170,000 workers.[39] This demand is particularly acute in home care, with the Grattan Institute estimating an immediate need for 58,000 more carers by 2024-25.[40]

In the longer term, according to the 2021 IGR, "the ratio of working-age people to those over 65 is projected to fall from 4.0 to 2.7 over the next 40 years".[41] As the workforce declines as a proportion of the total population, there will be greater competition for workers across the economy, especially in labour-intensive sectors such as aged care, disability and childcare. This competition is expected to spill over into demands for higher wages and better conditions for care workers across all professional levels. This effect is already evident as workers in the disability services sector are currently being paid at a higher rate than those performing similar work in the aged care sector.[42]

2.4 Financial sustainability

For senior Australians to receive services, there must be viable providers and, to be sustainable, the sector must be viable over the long-term.

Efficient providers who deliver quality aged care services should be funded (from taxpayers and consumer contributions) to a level that enables them to be viable and prevent disruptive exits; funding should not be at a level that unnecessarily sustains poorly performing providers.[43] It is important to recognise that the business models and managerial competence of providers vary widely, as is shown by the differences in financial performance between the top and bottom quartiles of providers.[44]

This Paper focuses on the three main subsidised aged care services: the CHSP, HCP and residential aged care. Table 1 below provides a snapshot of each program, followed by a discussion of key issues affecting the current and possible future financial performance of providers.

Table 1: Snapshot of the three main aged care services, 2019-20

	CHSP	HCP	Residential care
Nature of program	Entry-level care	Structured home-based care	Accommodation and 24/7 nursing and personal care
No. of consumers	839,373 (2019-20)	142,436 (at 30 June 2020)	189,954 (at 30 June 2020)
Average value of services received by consumer (p.a.)	$3,025	$23,802	$112,154
Nature of funding	Block funding for providers	Funding assigned to the consumer	Providers receive government funding directly, based on assessed needs of residents
Government funding	$2.8 billion	$3.4 billion	$13.6 billion

Source: Compiled from information in the Aged Care Financing Authority (2021). Ninth Report on the Funding and Financing of the Aged Care Industry.

Provider viability

There is little information publicly available about the financial performance of providers who deliver services under the CHSP. However, a leading CHSP provider organisation gave evidence at the Royal Commission hearings that CHSP pricing does not account for the actual cost of providing services and is less viable than that provided through the HCP program.[45] It is not yet clear what the provider outlook will be from 1 July 2023 when the Government integrates CHSP and HCP into a single, unified support at home program.[46]

Data for providers of HCP show a tightening of their financial performance in recent years. Before the change in the allocation of home care funding to consumers in 2017-18, providers typically generated earnings before interest, tax, depreciation and amortisation of more than $3,000 per annum per consumer. However, this has dropped substantially to $1,211 per consumer in 2018–19 and $1,369 in 2019–20.[47] More recently still, data from the first six months of the 2021–22 financial year show that the operating result of home care services has declined by 25.5% compared to the same period a year prior.[48]

The recent decline in profitability is mainly due to the plateauing of revenue while costs have continued to increase, particularly for care management, advisory administration and support. ACFA has noted that a reduction in revenue from consumer contributions was likely due to increased competition after the introduction of funding following the consumer and greater consumer choice of provider.[49] The decline in profitability has been most acute for providers with package mixes comprising more lower level packages.[50]

In residential care, where the financial viability issues are most acute, sector data show that the financial performance of residential aged care homes has been in decline for the last five years. ACFA shows a 44% fall in Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) per resident per day, from $11,481 in 2016–17 to $6,445 in 2019–20.[51]

Data from *Australia's Aged Care Sector Report*, based on StewartBrown survey data, shows that the financial performance of aged care homes has worsened further in the first half of this financial year. As of December 2021, over 60% of surveyed homes are operating at a loss, with an average deficit of $11.34 per resident per day (equivalent to a loss of $3,437 per bed per annum), almost double the operating deficit of $5.33 per resident per day for the same period in the year prior. Furthermore, 35% of surveyed homes had a negative Earnings Before Interest, Tax, Depreciation, Amortisation and Rent (EBITDAR).[52]

These ongoing trends have raised significant concerns about the continued financial viability of many providers across the sector. As StewartBrown's own commentary highlights:

> *Homes with a continual EBITDAR losses will need to be cross subsidised by other business activities, which may be difficult or, in the case of small providers, unlikely to be feasible. If cross subsidisation is not possible, then these providers can only erode their balance sheet position.*[53]

One of the main contributors to this poor financial performance has been the divergence between the rising costs of care delivery and the lower rate of indexation of the Aged Care Funding Instrument (ACFI) funding for nursing and personal care. Care-related services comprise the bulk of residential homes' business, with care revenues representing 63% of providers' total revenue.[54] Between 2017 and 2021, there has been a cumulative increase of 22% in the costs of providing ACFI care services, whereas ACFI revenues have only increased by 9%.[55]

To a certain extent, this issue may be addressed in the near term with the introduction of the Australian National Aged Care Classification (AN-ACC) funding tool in October 2022. This provides a new methodology for calculating care subsidies based on independent assessments of residents' needs, as well as a vehicle for annual changes in prices and indexation. However, there is ongoing uncertainty within the sector about the appropriate level of funding that will result from AN-ACC and from the future costings undertaken by the proposed Independent Hospital and Aged Care Pricing Authority which will inform price setting. The Government will need to strike the right balance between ensuring the ongoing viability of efficient providers of quality services and the long-term sustainability of public funding.

A further residential aged care funding issue has been the inadequacy of the Basic Daily Fee to meet everyday living costs. In 2021, the Government accepted the Royal Commission's recommendation that a new $10 per resident per day basic daily fee supplement be introduced, at a public cost of an additional $3.2 billion over the next four years. However, even with this additional inflow, homes are still reporting that they are not receiving sufficient revenue to cover the costs of providing everyday living services.[56]

Capital financing

The long-term investment in capital infrastructure across the sector remains a concern. ACFA modelling, based on the provision ratio discussed earlier, predicted that the sector will need to build 79,000 new residential operational places (i.e. beds) over the next decade and refurbish or rebuild a further 60,000 places. This will require an investment of approximately $55 billion, about double the value of investments made in the last ten years. Furthermore, while new places generally have been created by expanding existing aged care homes in recent years, future places will increasingly need to be created by building on new, 'greenfield' sites.[57]

Recent trends indicate that fewer providers are currently willing to invest in the physical infrastructure necessary to meet this future demand for residential care. Since 2015, the proportion of providers planning to upgrade facilities has fallen from 14% in 2015 to 4% in 2019, as have providers planning to rebuild facilities (from 5% to 1%). During the same period, the number of aged care building approvals has also fallen from 417 to 316.[58]

Feedback from providers to ACFA has indicated that factors driving this reduction in investment have included depressed returns, policy and regulatory ambiguity, uncertainty about the continued availability of Refundable Accommodation Deposits (RADs), and the impact of increases in HCPs.[59] Also, the removal of ACAR may create further disruption, although, for many providers, it will create more flexibility for investment.

While recognising the role that each of these factors plays, the overarching concern is that without a sector that has long-term financial viability, there will not be sufficient investment in aged care and eligible consumers will not have access to high quality and safe services.

3.

Supporting personal independence

This Section focuses on the importance of investing in the personal independence of people as they age. Support can include helping people to improve their health and wellbeing, provide assistance to their informal carers and facilitate opportunities to purchase non-subsidised top-up services that enable them to age in place.

Sustainability is enhanced when the investments that support personal independence achieve better outcomes with lower resource use than through the funding of aged care subsidies.

3.1 Investing in more effective and efficient wellness services

One way to improve the sustainability of subsidised aged care is to reduce the rate of growth of demand for the services and thereby reduce the level of public expenditure. This can be accomplished by investing in more effective and efficient ways of supporting older peoples' personal independence, wellness and wellbeing, thus lessening or deferring their need for more complex and costly forms of aged care. On average, Australians are enjoying increased life expectancies and can participate in community life for longer.

Healthy ageing can have a range of personal, economic and social benefits. Apart from enjoying active lifestyles and social engagement, many senior Australians contribute substantial unpaid work, such as informal caregiving, which can alleviate the demand for formal care services and allow others to participate in the workforce. Others continue to participate in paid work.[60]

Policies and programs that support healthy ageing can lessen the demand for more acute and costly aged care services by reducing or delaying disability and functional limitations, and by helping people cope with frailty and chronic disease while remaining at home. Beneficial health interventions include: improved primary and allied health services; preventative health strategies that promote wellbeing earlier in life and reduce dependency in older age; and the early detection and treatment of complex chronic conditions. Restorative care and rehabilitation services also play a significant role, as discussed in greater detail in the next Section of this Paper.[61]

One of the current challenges for aged care is that primary care delivery relies heavily on medical professionals. The Royal Commission noted that medical-led care models tend to provide reactive care in response to episodes of poor health rather than supporting good health and wellbeing.[62] The Royal Commission heard evidence that a number of General Practitioners (GPs) were not performing home visits, including to those residing in aged care homes, that residents were not having access to their GP of choice, and that there were long waiting times and poor-quality locum services.

There have been small-scale trials of in-house GPs in residential aged care, which saw reductions in unplanned hospital transfers and admissions but increases in falls.[63] Such trials experienced difficulties recruiting GPs and have not yet been subject to cost-benefit analysis.

Reliance on GPs is caused partly by the Government's structuring of the Medicare Benefits Schedule (MBS), in which a range of other relevant health professionals (including nurses, allied health providers and dentists) are only eligible for a restricted number of services. Also, a recent review of the MBS identified problems with the fee-for-service model. It suggested that block or blended payments could provide greater incentives for ongoing care, encourage care coordination, enhance a broader range of health workforce engagement and provide greater fee transparency for patients with chronic diseases.[64]

The Royal Commission suggested that general practices could become aged care accredited and receive annual capitation payments for enrolled patients receiving residential care or personal care at home.[65] However, this would serve to exclude those who rely on their own resources or the support of family and friends rather than receive subsidised aged care services.

One strategy that may enhance the delivery of wellness services would be to strengthen the contributions of Nurse Practitioners (NPs) within aged care. An NP is an advanced practice nurse with an endorsed scope of practice. Their role has long been recognised in other countries.[66] In Australia, however, they have only been able to provide a limited range of publicly funded services under MBS and prescribe certain medications under the Pharmaceutical Benefits Scheme (PBS).[67]

In the 2010-11 Federal Budget, the Government funded an initiative to support five new NP models of aged care delivery across Australia. An independent evaluation found that the viability of care models using NPs would require the development of a portfolio of income sources as the limited range of MBS funding was not sufficient.[68]

One strategy that may enhance the delivery of wellness services would be to strengthen the contributions of Nurse Practitioners (NPs) within aged care.

A more recent cost-benefit analysis of NP models of care showed that an expansion of ten NP positions in aged care would entail an outlay of $1.5 million per year and result in 5,000 avoided emergency department visits each year, with an annual saving of over $5.7 million.[69] However, this review similarly found that the level of reimbursement available through the MBS items was insufficient for a sustainable business model for NPs in primary or aged care. The Medicare Benefits Schedule Review Taskforce has failed to act on any of the recommendations from the NP Reference Group or support the expansion of MBS items to NPs.[70]

Another opportunity to improve primary care could be to expand the role of Primary Health Networks (PHNs). Although 'aged care' is one of their seven priority areas, this scope could be broadened by reframing the priority area to 'supporting senior Australians'. With this adjustment, PHNs could also focus on helping all senior Australians retain or regain their independence, whether they were receiving subsidised care services or not. PHNs could be funded to commission, coordinate and integrate primary, allied and aged care services to address older people's unmet needs within their regions. By way of example, they could enlist more allied health professionals to support older people to cope with increasing frailty, without invoking a medical care model.[71]

Palliative care is another significant requirement for supporting the elderly, including those who wish to remain at home while possible. The Government has committed to strengthening palliative care coordination through additional funding for PHNs.[72] These resources foster linkages across the health and aged care systems to implement innovative and locally appropriate activities that support improved access to safe, quality palliative care for senior Australians.

3.2 Providing more assistance to informal carers

The sustainability of Australia's aged care system is heavily dependent on the wide range of care and support that informal carers provide. The majority of the care received by older people is provided by informal carers, including partners, family and friends.[73] They make significant contributions to fulfilling older people's spiritual, social, and personal wellbeing needs.

For many senior Australians, this enables them to live at home with their increasing frailty and access the health system as required, without needing to draw on public funding to meet their everyday living requirements.

Informal carers also help older people navigate the health and aged care systems and act as their ongoing advocates. Informal carers may appoint service providers and coordinate care delivery, enabling care recipients to receive aged care in their homes and alleviating the need for more complex, full-time residential care.[74]

Carers are supported through policies that account for the impact that their caring responsibilities have on their expenses, income earning and careers.[75] As employees, carers have a legal right to request flexible working arrangements within Australia's national workplace relations system.[76] However, Australia's carer leave entitlements lag other OECD countries.[77] In its response to the Royal Commission, the Government accepted the recommendation that the National Employment Standards be amended to provide an additional entitlement to unpaid carer's leave, pending an examination by the Productivity Commission.[78]

Informal carers are also supported through the availability of subsidised respite care, which provides them with essential short-term breaks from their caring role. In 2020-21, 46,527 clients received respite services through the CHSP, and 67,775 clients received residential respite care.[79]

In a recent review, ACFA identified several consumer and provider issues concerning respite care in Australia.[80] These included: a lack of availability and other difficulties in accessing respite care; funding, financial and viability concerns; pricing arrangements; fee disparities; and administrative complexity.

ACFA made 19 recommendations, some of which were addressed in the Government's response to the Royal Commission. The Government committed to increasing funding for CHSP and HCP respite services (with HCP recipients not needing to fund respite from their packages), improving referrals to the online Carer Gateway, and removing the financial disincentives to providers by aligning funding for residential respite with permanent residential care.[81]

Carers Australia has welcomed many of the Government's announcements.[82] They also note that informal carers will be supported indirectly through broader changes in aged care program design, workforce, navigation and quality regulation. However, there remain several respite-related proposals that deserve further analysis, including:

- ensuring the needs of carers and care recipients are recognised when assessing access to respite care;
- ensuring access to, and suitability of, respite care for special needs groups;
- reviewing the contributions by care recipients for respite to ensure that those with the capacity to pay do so by contributing equitably to the cost of their care and accommodation; and
- encouraging a consumer-driven system for residential respite by removing the minimum and maximum allocation rules and allowing providers to respond to consumer demand.[83]

The majority of the care received by older people is provided by informal carers, including partners, family and friends, who make significant contributions to fulfilling older people's spiritual, social, and personal wellbeing needs.

3.3 Facilitating opportunities to purchase non-subsidised top-up services

As noted earlier in this paper, at any one time, most senior Australians do not use subsidised aged care services and instead purchase or receive their daily goods and services from the market, their family, friends, community organisations and generally available healthcare services. Personal independence could be enhanced by facilitating more opportunities for individuals to purchase non-subsidised top-up care services that enable them to age in place.

There is already an active market in Australia where individuals may purchase non-subsidised community care services as they wait for a Home Care Package, or to supplement the subsidised services they receive. Some providers have developed innovative and viable business models that offer combinations of retirement living, small household living and shared care services. These are funded through a blending of home care subsidies, personal assets and private fees.

It is anticipated that the removal of ACAR supply constraints will promote further diversification of accommodation settings in which non-subsidised and subsidised care and support services can be provided. These flexible options may become increasingly attractive and bridge the space between individual home care and residential care. For example, as noted by ACFA, the baby-boomer generation is more likely to demand innovative delivery of care and support:

> *A key characteristic of the baby boomer generation is that they are wealthier than previous generations. The bulk of the people likely to be demanding care in the next two decades have benefitted from high growth in property prices while paying down their mortgage, and are the first generation to have compulsory superannuation. It is reasonable to assume that they will both expect and be able to afford higher standards of residential accommodation, lifestyle amenities and quality of life than previous generations have been willing to accept.*[84]

At the moment, however, these flexible and innovative combinations that blend non-subsidised and subsidised services potentially create a range of regulatory grey areas that require further consideration. For example, outside the remit of the Aged Care Act 1997 (Cth), recipients of personal care services may not have the same safeguards around quality and safety other than general consumer protection laws and health profession regulations. Also, the regulation and pricing of accommodation options, such as serviced apartments and retirement living communities, is the responsibility of the different states and territories and falls outside the remit of the national Government.

In addition, while the removal of ACAR facilitates the delivery of residential care across a broader range of accommodation settings, this needs to be accompanied by the delivery of increasing levels of care to senior Australians in either their current home or in an alternative domestic accommodation setting.

Further investigation is warranted to understand the nature of the current and potential markets for non-subsidised aged care-related services and accommodation settings, and how they may be combined with services that are subsidised and regulated by the Government.

4.

Delivering more effective services

This Section focuses on the design of services, assessment processes and accountability mechanisms that contribute to the effectiveness of subsidised aged care services.

Sustainability is enhanced when the services that are delivered produce better outcomes for the same or lower levels of resourcing and thereby reduce the overall growth in expenditure required for aged care services.

The concept of 'effectiveness' relates to the degree to which subsidised services (the outputs) contribute to the aged care policy objectives (the intended aims and outcomes of the program). According to the Report on Government Services:

> *The aged care system aims to promote the wellbeing and independence of older people (and their carers) by enabling them to stay in their own homes or by assisting them in residential care. Governments seek to achieve this aim by subsidising aged care services that are: accessible — including timely and affordable; appropriate to meet the needs of clients — person-centred, with an emphasis on integrated care, ageing in place and restorative approaches; and high quality.*[85]

Following this definition, options to improve effectiveness should be assessed against criteria that reflect the desired outcomes, such as: providing high quality and safe care that meets or exceeds the standards; providers being responsive to consumer needs and preferences; addressing unmet needs; timely access to subsidised care services; and improving sustainability by targeting subsidies to those without the capacity to pay, and ensuring there are incentives to produce and deliver efficient services that more effectively meet the policy objectives.

4.1 Redesigning of aged care programs

Program design has a major influence on the effectiveness of the services in meeting consumer needs and preferences. Various proposals for program redesign to improve aged care effectiveness have been put forward.[86] Several common themes have been:

- overcoming the fragmentation and complexity of the various service offerings by developing a holistic, coherent program of graduated services
- supporting more consumer choice and control and promoting provider competition
- undertaking regular assessments of need against clear criteria to ensure funding reflects and is targeted to those in greatest need
- increasing the availability of services that facilitate independence and reablement, such as respite and restorative care, assistive technologies and home modifications
- providing services on both ongoing and episodic bases
- enhancing care planning, case management and care coordination
- improving regulatory oversight.

One of the main concerns relating to program redesign over the last decade has been the lack of a unified in-home care program. There have been long-standing calls to replace the separate CHSP and HCP and their attendant assessment processes, providers, funding and consumer contribution regimes.[87]

The Government recently set an implementation date of July 2023 for a unified support at home program, and the Department of Health issued an Overview Paper in January 2022.[88] There are several concerns with the underlying design principles embedded in the proposed structure. They will be the subject of a separate Paper by the authors of this Discussion Paper.

In terms of sustainability, it will be critical that system effectiveness be a core principle in the design of the new program. Relevant issues include using more granular classification systems to ensure better matching of care services with needs, evaluating the effectiveness of the current suite of care and support services, and considering the degree to which services outside the subsidised programs already address the needs of older people.

4.2 Establishing robust and transparent needs criteria and assessments

Clearly defined eligibility criteria and associated assessment processes are critical to ensuring that subsidised aged care services are effective in addressing individuals' needs. They should be targeted in the scope of services that are subsidised, in the financial circumstances of the people who are eligible to receive the subsidies and in the level of subsidies attached to the various services.

Transparency of the eligibility criteria ensures that people understand their rights to care, and that there is public accountability for the equitable nature of the criteria and service delivery.

Assessments need to be transparent, robust, timely and ongoing as people's needs change over time.[89] However, the existing assessment processes are complex, inefficient and time-consuming.[90] There is a concern that the current processes do not necessarily result in the delivery of home care services that reflect consumers' assessed needs.[91] By way of illustration, analysis by StewartBrown has shown that in the case of Level 4 package recipients, only 2% of funds are being used for nursing care services.[92] These people have the highest assessed level of need for nursing, domestic assistance and other support to be able to remain at home.

The Government has committed to creating a single assessment workforce by consolidating the Regional Assessment Teams (RAS), the Aged Care Assessment Teams (ACAT) and residential care providers' self-assessment processes.[93] This workforce will provide needs assessments for residential aged care in 2022 and the new unified support at home program in 2023.[94] For residential care, this means that the assessment for funding will be conducted at arm's length by external assessors and separated from assessment by providers for their care planning purposes.

The move towards a more streamlined, independent assessment process aims to improve equitable access between people with different needs across diverse regions and over time, reduce inefficient duplication, target the subsidies to those with the greatest need, reduce concerns of 'overclaiming' by providers and inform projections of aged care spending.
To properly address the current shortfalls in the arrangements, the assessment process will need to have rigorous criteria to be effective. Further, its workforce will need to be sufficiently resourced, qualified, attuned to the diversity of individuals' needs and backgrounds, and be independent of aged care providers.[95]

One of the additional benefits of improved assessment processes is that they may better support older people to access restorative and transition care programs. As noted in Section 3 of this Paper, the sustainability of aged care can be improved by promoting personal independence through healthy ageing and improved wellbeing.[96]

Restorative and transition care programs aim to support independence and can have far-reaching impacts on sustainability by reducing or deferring the utilisation of other more highly subsidised and intrusive aged care services. These programs can also reduce caregiver burdens and minimise applications for permanent residential care when older people have been hospitalised.[97] In the case of people with dementia, restorative care can avoid or postpone the need to access residential aged care.[98]

A recent trial among a group of RAS providers who undertook more active assessment showed that this led to increased reablement opportunities and greater client follow-up. The rate of clients undergoing reablement increased from 13% at commencement to 30% by the end of the trial. Client follow-up throughout the reablement period added an extra $51 per client per year; however, this cost was offset by reduced CHSP service utilisation, saving approximately $100 per client per year.[99] Notably, the trial reported that it only included the RAS assessment workforce and did not directly involve CHSP providers. More active involvement of providers during reablement could lead to further benefits to clients.

Despite these benefits, the existing Transition Care and Short Term Restorative Care (STRC) programs currently represent 2.4% of all aged care places in Australia and represent only 1.46% of all government expenditure on subsidised aged care.[100]

However, it is positive to note the emphasis on reablement and restorative care that is written into the Overview Paper for the proposed Support at Home program, including its availability to all senior Australians who would benefit.

Restorative and transition care programs can reduce the use of more highly subsidised and intrusive aged care services.

4.3 Enhancing the transparency and accountability of funding for aged care

The processes by which public funding is assigned to consumers and paid to providers operate as mechanisms to ensure that financial resources are used to effectively deliver desired outcomes. These processes make an important contribution to overall system effectiveness, allocative efficiency (Section 5) and sustainability.

In home care, changes to the payment processes for subsidies will, over time, result in providers no longer holding any unspent funds on behalf of consumers.[101] Whereas previously providers were paid in advance, since February 2021, they have been paid in arrears and from September 2021, providers have been paid for services actually provided.

The Government is introducing several measures to improve the transparency of how residential care providers use their funds. They have or will be required to:

- report care staffing minutes at the facility level (from July 2021);
- report on the adequacy of daily living services, such as food, linen and cleaning, in order to receive the basic daily fee supplement (from July 2021);[102]
- provide a monthly care statement to residents (and their family members) (pilot trials from July 2022);[103] and
- comply with a Quarterly Financial Reporting regime, with an expanded set of reporting requirements at the facility or service level (from July 2023).

Transparency and accountability requirements should be under ongoing review, as they are important contributors to ensuring effectiveness and efficiency. They also support social sustainability by informing taxpayers and the broader community that the programs and their funding are fair and equitable and represent value for money. Nonetheless, information gathering and reporting have their own costs, and information requirements should also demonstrate that the benefits to society materially exceed provider costs.

4.4 Enhancing service delivery to special needs groups

One of the core objectives of Australia's aged care policy is to ensure equity of access to services, and this is a primary rationale for providing publicly funded subsidies. There are nine special needs groups identified in the *Aged Care Act 1997* (Cth), who by rights should enjoy the same access to quality services as the broader community. Equity of access should encompass cultural, linguistic, geographic and physical dimensions, as well as financial access. It may be that the generally available aged care services are ineffective in meeting the health, social, cultural and/or linguistic needs of particular groups, that appropriate services are more challenging to locate, or that individuals themselves face unique barriers in accessing services.[104]

There are often additional costs associated with accessing and delivering specialised services, including limited economies of scale and scope and less availability of workers who have the appropriate knowledge, skills and professional attributes. These can be grounds for additional government financial support to ensure that affordable and appropriate services remain available and viable.[105]

There are several existing mechanisms designed to support equitable access. These include dedicated programs such as Multi-Purpose Services and the National Aboriginal and Torres Strait Islander Flexible Aged Care Program; targeted funding supplements, capital grants and block funding arrangements; culturally appropriate and multi-lingual consumer information and assessment tools; and compliance requirements for supporting diversity.

Following the launch of the *Aged Care Diversity Framework* in 2017, a range of consumer, provider and government action plans were developed to support the needs of diverse groups.[106] However, achieving the *Aged Care Diversity Framework* goals will require more comprehensive data about the needs of different groups and the adequacy of the aged care services in meeting those needs. The *National Aged Care Data Strategy* is currently timed to be implemented in 2024.

Any discussion of sustainability should accept that under current policies and programs there are significant unmet needs that should be addressed on the grounds of equity, noting that any additional pressure on overall fiscal sustainability may be more than offset through the personal and community-wide benefits of such support.

An area for improvement is the visibility around how well providers meet the requirements of special needs groups. As further changes are introduced to improve consumer choice, there will be a need to increase monitoring and transparency to ensure that senior Australian members of these groups are not adversely impacted.[107] In this respect, the Government has committed to introducing a specialisation verification framework and audit process to oversee the actions of providers.[108]

5.

Delivering services more efficiently

This Section examines opportunities to improve efficiency within the system. This includes the efficiency of aged care delivery through increasing workforce skills; innovation in technology and building design; and strategic use of pricing to provide clear incentives for the more efficient production and delivery of services, and to improve overall allocative efficiency.

Sustainability is enhanced when a given level of resources is used to produce more services, when resources are allocated to higher valued services, and when there are competitive incentives for innovation and fewer constraints on its development and adoption.

Efficiency is about maximising the collective wellbeing of the members of the community, given the limited resources available.[109] Efficiency is a critical driver of financial sustainability by ensuring the resources are used to achieve the highest net benefit.

Within aged care, efficiency will be achieved through policy frameworks and program designs that ensure: high quality and safe aged care services are delivered at the minimum cost (productive efficiency); resources are directed to where the community gets the greatest benefits (allocative efficiency); and conditions are conducive to future efficiency gains through innovation and growth (dynamic efficiency).[110]

5.1 Improving workforce productivity

Aged care providers are heavily reliant on the quality and productivity of their workforces. Productivity gains help to increase the quality of services delivered. They can be achieved by reducing staff turnover, upskilling the staff, identifying more efficient ways of working, reducing the time spent on low value-adding activities and developing more innovative models of care that better meet consumers' needs.

Staff turnover in the aged care sector is high; it adversely impacts the continuity of care and personalised services for the consumers and has flow-on effects on existing staff. Recruiting, training and inducting new staff is costly. Accordingly, attracting and retaining appropriately skilled and productive staff within the sector is a high priority.[111] The newly elected Federal Government has committed to reducing the high staff turn-over associated with an overreliance on temporary staff and has undertaken to work with providers, workers and unions on the implementation of a direct employment preference, to commence from January 2023.[112]

Migration pathways have previously been an important means of attracting high quality, motivated workers,[113] although the post-COVID-19 immigration outlook remains uncertain.

As competition for workers intensifies and wages are necessarily increased to attract and retain staff, productivity assumes even greater importance. In a recent report, CEDA advocated for improved working conditions, including better rostering, more consistent working hours and higher wages.[114] On this point, and as already noted in Section 2, the Health Services Union and the Australian Nursing and Midwifery Federation currently have work value cases with the Fair Work Commission in which they are arguing for a 25% increase in wages.[115] The newly elected Federal Government has committed that it will fund the outcome of the case.

Another ongoing priority is to invest in training and development to improve aged care workers' knowledge, skills and professional attributes. Skilled workers tend to complete tasks in less time, make fewer mistakes, help train others, and be more innovative and adaptable to new or different contexts. There have been repeated calls to update the qualifications framework for aged care and align this with additional formal education, on-the-job training and other developmental opportunities.[116] In the 2021-22 Federal Budget, the Government announced $338.5 million for workforce skills, training and registration over four years from 2021-22.[117]

The Aged Care Workforce Industry Council will continue to lead the implementation of the Aged Care Workforce Strategy, including by reframing the qualification and skills framework and accreditation of the workforce, and defining new career pathways.[118] Established in March 2022, the Aged Care Centre for Growth and Translational Research has the remit to increase the aged care workforce capability and capacity to adopt and embed evidence-based practice across the sector.[119]

The new Federal Government has committed to fee-free TAFE and 20,000 extra university places to support an increase in nurses and care workers in aged care.

In addition to these initiatives, future efforts to improve the skills and competencies of aged care workers should prioritise personal care workers (PCWs), who deliver the majority (75%) of direct care.[120] In addition, given registered nurses (RNs) are responsible for supervising and coordinating care delivered by PCWs, there is an argument in favour of a regulated and qualified PCW workforce.[121]

The Royal Commission recommended the establishment of a national registration scheme for PCWs, with a key feature being a mandatory minimum qualification of a Certificate III. The newly elected Federal Government has committed to establishing a national registration scheme for PCWs with the aim of protecting residents and further professionalising the aged care workforce. It will include requirements for ongoing training, criminal history screening, English proficiency and a new code of conduct.[122]

5.2 Facilitating innovation through technology

Technology can help providers deliver more tailored and efficient services that satisfy older peoples' needs while alleviating future cost pressures.[123] For example, by embedding technology within assessment, care planning and client monitoring, providers may better predict and match services to individuals' specific and changing care needs while automating administration and reducing paperwork.[124]

Technologies can also enhance people's wellness, quality of life and care by supporting independent living; enhancing monitoring and communication; improving social connection; predicting and detecting falls; managing pain, continence and medication; and supporting people living with dementia.[125]

The rapid pace of technological development means that adoption is less a question of the availability of technical solutions but more about the broader social and organisational adaption and adoption of those solutions, and facilitative policy settings. For instance, despite robust evidence of the benefits of telehealth in managing chronic health conditions,[126] it has remained under-developed within aged care.[127] However, a recent survey found that the COVID-19 pandemic coupled with changes to Medicare has created strong incentives to accelerate adoption, to the point that 51.5% of providers are now using telehealth and telecare technology.[128]

Another significant development has been the change in consumer attitudes towards technology. Many senior Australians are gaining proficiency in everyday technologies, such as smartphones, and are more likely to embrace innovations that fulfil their preference to age at home.[129] Nonetheless, to ensure specific populations are not disadvantaged or excluded, strategies will be required to improve digital literacy and access to IT infrastructure, as will the development of user-friendly innovations based on co-design.[130]

A persistent issue is the technological readiness of providers.[131] The survey referred to above found that only one third of organisations integrated their internal data into single, holistic consumer records.[132] Thus, technology use will need to become more consistent, integrated and systemic to achieve efficiencies.[133] One small step was the Government's 2021-22 Budget commitment of $45.4 million to introduce electronic medication charts in residential aged care homes, increase utilisation and integration of the My Health Record, and establish digital support for transitioning between aged care and hospital settings.

Another organisational-level challenge is workforce skills, particularly around digital literacy.[134] Digital health training for nurses and midwives is being addressed by developing the *National Nursing and Midwifery Digital Health Capability Framework*, though this will take time to have a significant impact across the current workforce.[135]

Finally, cost is a barrier.[136] Technology is one of the main drivers of healthcare expenditure growth, and thus new investment must be rigorously evaluated for its effectiveness and enhancement of efficiency.[137] The proposed Support at Home Program has 'Digital Technologies, Equipment and Home Modifications' as one of the seven service categories. This will enable clients to purchase assistive technologies for mobility, communication, reading, personal care and maintaining independence. Further, under the 'Independence at Home' category, education assistance or advice will support consumers to use digital technologies.

Greater support to community organisations that offer courses and individual help with technologies to senior Australians would also be beneficial. This can often be at minimal public cost and helps build local social capital.

5.3 Improving the efficiency of the built environments

There is considerable evidence that the built environment contributes to the quality of life and health outcomes of residents in aged care homes.[138]

Improvements in these outcomes can reduce overall system care costs, including by lowering hospitalisation rates. In addition, there is scope for providers to achieve significant operating efficiencies through the layout and fit-out of their aged care homes. There is some early evidence that care models bundled with home-like built environments can lead to better care outcomes and lower operating costs (estimated to result in cost reductions of 16%).[139]

The Government has commenced work with the aged care sector and relevant stakeholders to develop new National Design Standards for residential care.[140] This will include innovative, accessible and dementia-friendly design for traditional aged care homes, as well as for small household models, although many stakeholders are advocating for a focus on the care outcomes and greater flexibility in the accommodation settings within which it is delivered. Furthermore, recommendations have been made to undertake reforms to capital funding of residential aged care accommodation to more accurately reflect investment costs.

In home care, assessment processes could focus more clearly on how modifications to the physical home environment could enable greater self-care, reduce the risk of falls and improve safety, personal functioning and independence. Modifications can influence whether frail older people can stay in their own home or require a move to residential aged care.

Consequent reductions of direct care costs following the installation of home modifications prove to be less straight forward. Exploratory research has demonstrated average labour saving for informal care (46%) as a result of family and other informal carers being flexible and responsive to a reduction in care needs. In contrast, formal care showed a smaller 16% reduction in hours of care needed for older people living in their own homes.[141] There are arguments that formal care support is more difficult to change due to administrative costs and less flexibility over staff utilisation and rostering. There may also be a reluctance by providers to reduce service provision or by consumers to relinquish heavily subsidised services, even if they are no longer needed.[142]

5.4 Improving informed consumer choice

Improving consumer choice has been a central principle guiding aged care reforms over the past decade. Informed choice empowers people to make decisions that best meet their needs and preferences, allowing for allocative efficiency across the aged care system.

Informed consumer choice requires access to meaningful and transparent information about the availability, price and quality of services. While pricing transparency has been introduced for HCPs, the Government has committed to introducing further improvements.[143] There will be a new star rating system, an expanded National Aged Care Quality Indicator Program, and the introduction of consumer experience and quality of life measures across home and residential care.[144]

Research from the United States (US) Nursing Home Care Program indicates that while resident and family satisfaction were generally correlated with health inspection outcomes and staffing levels, there was less correlation to quality ratings. This means that some US facilities with poor resident or family satisfaction may still receive a high star rating.[145]

Improvements in consumer information should be accompanied by services that assist older people in exercising choice, including navigation of needs assessments and means-testing, identification of locally available services and negotiation of service delivery. With access increasingly centralised through the My Aged Care website, there are concerns for consumers who lack digital literacy, English-language proficiency or access to the internet. The Government will be funding a face-to-face community care finders system and providing additional funding for the National Aged Care Advocacy Program and Older Persons Advocacy Network.[146]

These initiatives need to be actively monitored and assessed against comprehensive baseline data, and the results should be openly published.

5.5 Facilitating provider competition

Productive efficiency can be enhanced by facilitating competition amongst providers. Competition creates incentives for providers to deliver services that are more efficient, so as to reduce their operating costs relative to their revenue. Competition incentivises greater effectiveness in responding to changes in demand and to consumers' needs and preferences, to build residential occupancy or home care client bases, and more innovation in how age care is delivered.[147]

As noted in Section 2 of this Paper, from 2024, funding for residential places will be assigned directly to eligible consumers, similar to the allocation process for HCPs.[148] By abolishing ACAR, there will be greater scope for high quality providers to expand their businesses (subject to maintaining quality, safety and prudential standards), create more direct competition between providers, and generate market incentives to differentiate on innovation and quality.[149]

In addition, by no longer having to submit 'standardised' proposals to compete for bed licenses under ACAR, providers will have greater flexibility regarding the location, diversity and scale of their services, and greater capacity to build new, or expand existing, aged care accommodation as they see fit and as they judge consumers would be responsive to their offerings. However, there will also be a need for appropriately sequenced reforms with safeguards for vulnerable consumer groups and those living in thin markets.

As the aged care sector becomes more consumer-driven and competitive, some providers will likely thrive and grow while others struggle to remain viable. At a sector level, the withdrawal of inefficient and low-quality providers improves overall service standards. These changes will increase overall efficiency and improve the sustainability of aged care.

To reduce the risk of unplanned provider exits from the sector, the Government is introducing a new *Financial and Prudential Monitoring, Compliance and Intervention Framework* over three phases during 2021-23. This will include more robust prudential standards and more timely reporting and disclosure obligations through changes to the Aged Care Financial Report requirements.[150]

Enhanced reporting will allow closer monitoring of at-risk providers by the Department of Health and enable short-term support to providers experiencing distress, particularly in regional, rural and remote areas (where alternative services may not be readily available), through the Business Advisory Service,[151] Business Improvement Fund and Structural Adjustment Program.[152]

5.6 Creating efficiency incentives through pricing

Within competitive markets, prices provide incentives to providers to produce the services most valued by consumers and maximise their efficiency by keeping costs low.[153] However, pricing in aged care is heavily regulated. The pricing policies adopted by the Government need to balance the community's fiscal sustainability goals with ensuring viability at the sector level, and with creating incentives for efficient providers to achieve an appropriate return while delivering high-quality services. Adequate protections for this vulnerable cohort of consumers are also required.[154]

Future pricing policies and reforms should aim to have more robust, evidence-based costing and pricing of the subsidised components of age care services; greater transparency and stability; and improved trust between service providers, consumers and the Government.[155] If the pricing of these services was based on facilitating the viability of best-practice providers, there would be greater incentives to make appropriate and cost-effective investments in the workforce, technology and the built environment, with flow-on improvements to overall sustainability.[156]

In residential care, various price settings have undermined efficiency and threatened provider viability.[157] Four of these pricing issues are currently being addressed, either with long-term solutions or through interim measures.

First, the ACFI indexation has failed to keep pace with care expenses, particularly wages growth. The new AN-ACC model of fixed and variable funding may increase the value of government subsidies and consumer contributions, depending on the price given to the units of care. The Government has promoted the reforms on the basis of providing fairer and more equitable funding and a more stable and efficient funding model, a critical precursor to greater provider investment in the sector (see Section 7).

The Government will require the proposed Independent Hospital and Aged Care Pricing Authority (IHACPA) to provide independent advice on the costs of delivering aged care services funded by the Government through subsidies, supplements and capital grants, including under AN-ACC, and appropriate price regulation for services funded by private contributions.[158] The IHACPA will also be asked to design appropriate funding models, such as funding classification and case-mix schemes, and grants and block funding for specialised services in thin markets.[159] IHACPA's remit will extend to the Support at Home Program when it has commenced.

Second, the Basic Daily Fee, capped at 85% of the single age pension, has been inadequate to cover the cost of providing basic amenities and has dampened incentives for providers to innovate or offer differentiated services to residents.[160] This has led to cross-subsidisation, primarily from care funding.[161]

Reducing cross-subsidisation has a range of benefits, such as improving transparency of the revenues and costs associated with each activity to inform appropriate pricing and funding models and enable greater accountability, particularly for the delivery of care services.[162] There is also clearer demarcation of the costs considered a private responsibility (food, utilities and self-funded accommodation) from those subsidised by taxpayers (care and supported accommodation).[163]

As an interim measure, the Government recently introduced a basic daily fee supplement of an additional $10 per resident per day.[164] As the Government states, "the new supplement supports aged care providers to deliver better care and services to residents, with a focus on food and nutrition".[165] From 1 October 2022, this additional funding will be paid through the new AN-ACC model, rather than as a standalone supplement.[166] While this will alleviate some of the immediate pressure, it does not address long-term structural issues, such as the overall inadequacy of the capped basic daily fee.

Third, and related to the second issue, providers can also earn revenue from providing 'additional services', such as pay-TV, alcohol with meals, hairdressing and other non-standard personal services. Additional services are those over and above the services required by legislation.[167] Fees for additional services are negotiated between providers and residents, although it is recognised that a number of homes charge an additional service fee to all residents (including supported residents) and there is a high rate of payment among the residents.

The potential for both consumers and providers to benefit from these additional services has been long hampered by governmental guidelines that are opaque in terms of pricing and allowable service offerings. From a consumer perspective, there are concerns that services are being bundled and sold as a compulsory package to new residents. Equally, regulatory uncertainty limits providers' willingness to offer additional services, yet it is an important distinguishing feature for competition in the post-ACAR environment.[168]

Two reform options have been proposed to address these issues:

1. Raising the maximum amount providers can charge for ordinary living amenities, with a taxpayer subsidy for supported residents to meet the cost of any amount above the current basic daily fee.[169] Providers could continue to offer additional services to all residents at residents' own cost. ACFA saw this option as a balance between costs and risks by providing a means-tested contribution, while improving adequacy and reliability in funding streams.[170] The opaque nature of the regulation of additional services would require resolution.

2. Deregulating the basic daily fee for non-supported residents, including the provision of additional services, with amounts over $100 to be approved by the pricing regulator.[171] This option offers administrative simplicity and opportunities for generating additional revenues from differentiated services. However, there are risks, such as providers increasing fees without improving the quality of services and discrimination where providers prefer residents with greater financial means. Apart from regulatory oversight, these risks may be mitigated by other measures that increase competition and choice. Furthermore, a pricing penalty for not providing a minimum amount of accommodation for supported residents could be retained along the current lines.

A fourth issue is that the arrangements for the pricing of accommodation payments and supplements are not conducive to capital investment, particularly in the current low-interest environment. There have been some calls for accommodation pricing reform, centred on the Maximum Permissible Interest Rate (MPIR) used to calculate the Daily Accommodation Payments (DAPs). This is especially relevant in a low interest rate environment, where there is a range of inequities between the values of RADs and DAPs that impact on both providers and residents. Various suggestions include lifting the MPIR or replacing it with a rate approximating providers' cost of capital.

However, reforms would need to be designed in ways that avoid creating unfair advantages for providers with a lower cost of capital rate or result in consumers paying more than is required to ensure sustainable investment in accommodation.[172]

The potential for both consumers and providers to benefit from additional services has been long hampered by governmental guidelines that are opaque in terms of pricing and allowable service offerings.

6.

Equitably funding subsidised services

This Section considers how to achieve a more equitable and sustainable balance in funding the costs of subsidised aged care services between taxpayers and consumer contributions. This includes ensuring the safety net provisions properly target those with low means, while increasing contributions by those who can afford to pay more and providing better support for aged care financial planning.

Sustainability is enhanced when consumers who have the capacity to pay make fair contributions to the cost of the services they need, reducing an otherwise unsustainable impost on current and future taxpayers.

The Government has committed to further reforms to improve access to aged care and its quality and safety. As described in Section 2 of this Paper, these reforms, coupled with demographic changes, will require a substantial uplift in funding.[173] Sections 3-5 have identified opportunities to moderate the uplift by: reducing the rate of growth of demand through improved wellness of senior Australians; increasing the effectiveness of the services being delivered; and improving the efficiency of the production and delivery of those services. Nonetheless, funding requirements will increase, which raises the critical questions: who is currently paying for aged care services; is the current balance both equitable and sustainable; and what changes will be necessary in the future?

Fundamentally, there are only two main sources of funding for aged care services – taxpayer subsidies and consumer contributions. As noted in Section 2 above, taxpayers currently pay for more than 90% of the care costs across the three main programs, while residents in aged care homes pay almost all of the cost of their basic daily services, and many residents make a contribution toward or pay all of the cost of their accommodation.[174] Many stakeholders agree that for subsidised aged care to be financially sustainable, individuals who can afford to do so will need to contribute more significantly to the cost of services.[175] For example, ACFA argues:

> *Sustainable aged care funding arrangements will require consumers who can afford to do so, to make a greater contribution towards the cost of their care, complemented by greater choice of high-quality services. Given the substantial increase in funding announced and the ageing of Australia's population, it is unsustainable to not address the proportion that consumers contribute.* [176]

In contrast, the Royal Commission proposed that people should not be required to contribute to the costs of care and support services (Recommendation 125). To an extent, Commissioners saw an alignment between aged care and medical care. However, even in the broader health care system, there are many examples of patient co-contributions, such as for pharmaceuticals, visits to non-bulk bulling GPs, dental care and allied health services. Eliminating co-contributions to aged care would likely accelerate current sustainability challenges and jeopardise the future quality, safety and availability of services.

Determining how to achieve a more sustainable recalibration of funding between taxpayers and consumers invites consideration of what is fair and equitable. Three different principles of equity are relevant here.[177]

- The first principle is **vertical equity**, which is that those with low means should receive more subsidised assistance and those with the capacity to pay should do so.[178] This expectation underpins the means-testing of public funding, the safety-net support for financial hardship and the tiering of personal contributions.
- The second is **horizontal equity**, which requires parity in contributions from individuals of similar circumstances.[179] On this basis, the amount that people pay for the care component of their services should be agnostic towards the types of income and assets they have or the settings in which they receive subsidised care.
- Finally, **intergenerational equity** relates to how the costs of aged care services are shared across different generations. This principle suggests that increased contributions from consumers will be necessary to ensure contemporary taxpayers are not overwhelmed by the cost of subsidised care for their elders; nor should future taxpayers face an unsustainable burden of public debt arising from current and future public expenditure on aged care subsidies.[180]

6.1 Retaining safety nets targeted to those with low means

One way to improve equity is to ensure that subsidies and safety net provisions are targeted to senior Australians who genuinely need financial support, and to ensure these provisions are equitable across people with similar circumstances.

In analysing this issue, it is worth distinguishing between the private and public costs of services that senior Australians need. Generally, people are personally responsible for the costs of their essential daily services, such as food, transport, social engagement and accommodation. Public costs generally revolve around health, education and related services.

In terms of meeting the costs of essential services, those with low means during their lifetime can be eligible for a range of income support and concessional fees. Senior Australians in these circumstances are eligible for the age pension and receive a wide range of concessions for transport, rates payments and the like. Other than in exceptional circumstances, all residents of aged care homes have been expected to pay for their basic daily services (with the fee capped at 85% of the single age pension).

Government supplements are provided to meet the accommodation costs (in full or in part) for residents of aged care homes who have low or moderate means. In some respects, this mirrors the accommodation assistance (public and social housing, rental support) available to other community members in need who cannot afford to meet the full cost of their accommodation.

A further safeguard is maintaining appropriate limits on mandatory contributions from individuals with less financial capacity. Under the current means-testing arrangements, those with low means do not have to contribute to the costs of their care, whether at home or in an aged care home. However, as noted in this Discussion Paper, the level of contributions to the care component by consumers with higher means is low, and there are inconsistencies in the consumer contribution regimes between the three care programs (CHSP, HCP and residential aged care).

Another safety provision is the annual and lifetime caps on care contributions. These were recommended by the Productivity Commission in 2011 and adopted by the Government. They were designed as a complementary measure to higher consumer contributions to provide a stop-loss safeguard to protect consumers from very high care costs for situations that were outside their control.[181] This had particular application to people with dementia who may reside in an aged care home and require very high levels of care for a lengthy period

Given the low level of consumer contributions that have been introduced, modelling by ACFA shows that only a very small percentage of consumers reach either cap and that these individuals have higher levels of wealth.[182] On this basis, the 2017 Legislated Review of Aged Care recommended that the caps be abolished to ensure wealthier consumers contribute according to their financial capacity to pay.[183] Were the consumer contributions to be higher, the caps would continue to play an important social insurance role.

6.2 Reforming consumer contributions across the programs

At any one time, most older people rely on the age pension, the market, their family, friends, community organisations and generally available healthcare services to meet their personal and health care needs. However, the subsidised aged care programs are predominantly taxpayer-funded, meaning consumers contribute only a small fraction of the costs for many of these care services.

The final ACFA report demonstrated the differences in consumer care contributions across the programs, which arise from differences in pricing, means-testing and the charging practices of providers:[184]

- In **CHSP**, client contributions for care services are not based on a formal means test. Instead, they are set at each provider's discretion, guided by the CHSP Client Contribution Framework.[185] In 2019-20, CHSP recipients contributed $251 million (8.7% of total program expenditure).
- For **HCP**, care contributions are intended to comprise a basic daily fee (up to 17.5% of the single age pension) and an income-tested fee, so those with higher income pay a higher contribution level. As noted elsewhere in this Paper, many providers do not charge the basic daily fee – in part a response to competition in the marketplace. Income tested contributions are capped on an annual and lifetime basis and the value of the assessed payment is deducted from the subsidy paid by the Government. In 2019-20, HCP recipients contributed only $102 million (3.0% of total program expenditure).
- In **residential care**, means-tested (income and assets) care fees are paid by 'non-supported' residents. There are significant limits on the inclusion of the value of private housing within the assets test. Care contributions are subject to annual and lifetime caps. Residents also pay a basic daily fee to meet their everyday-living costs and higher means residents pay (in part or in full) for their accommodation. In 2019-20, residential care consumers contributed $700.3 million towards the care component of their costs, representing 5.4% of care-related expenditure.

Consumers of other aged care programs, such as respite, transition and restorative care, are subject to an even more diverse range of charges, as are rural and remote residents in multipurpose service facilities.

The inconsistencies across aged care programs described above create inequities between the care contributions of people receiving subsidised care. The remainder of this Section outlines various opportunities to address these disparities, improve equity and enhance the financial sustainability of aged care.

Adopting a common contribution scheme across all forms of care

Inconsistencies in mandated care contributions, and the charging practices of providers, create inequities between older people with similar needs and financial means.

One inconsistency is the lack of clarity regarding the role of the basic daily fee payable for home care. In the residential care setting, it is clear that the basic daily fee is intended to meet the everyday living costs of residents. The fee is explicitly tied to the publicly funded single age pension, which, for many, is their only source of income. However, in home care, the basic daily fee role is uncertain, and indeed, many providers do not collect it from their clients.

One first step towards greater clarity would be to charge only an income-tested fee for home care (i.e. the care contribution paid by those with sufficient means). This would more clearly signal the contribution as relating to care and would more closely align with the fee structure for the care component paid by residents in aged care homes.

Another inconsistency is that many pensioners are not required to make a contribution under the income-only test for care delivered in a person's home.[186] However, if they were receiving care in an aged care home, they would be subject to a means test that would include their income and wealth assets, including a capped value of their home where there is no resident protected person, and may be required to make a care contribution.

The Productivity Commission, *Legislated Review of Aged Care and Aged Care Roadmap* have all recommended that means-testing for care contributions be more consistent and standardised, creating equivalent contributions for people with similar financial capacity and care needs, and thus enhancing horizontal equity and improving sustainability. A first step could be achieved during the development of the unified Support at Home program, but the recent Overview Paper lacked clarity on the proposed consumer contributions. The home-based and residential care disparities also need further reform.

Makeing all care contributions mandatory

Another disparity is the charging practices across the program. As noted above, the CHSP guidelines are not clear on the requirement for providers to collect client contributions. Likewise, for HCPs, ACFA has drawn attention to some providers not collecting the basic daily fee.[187]

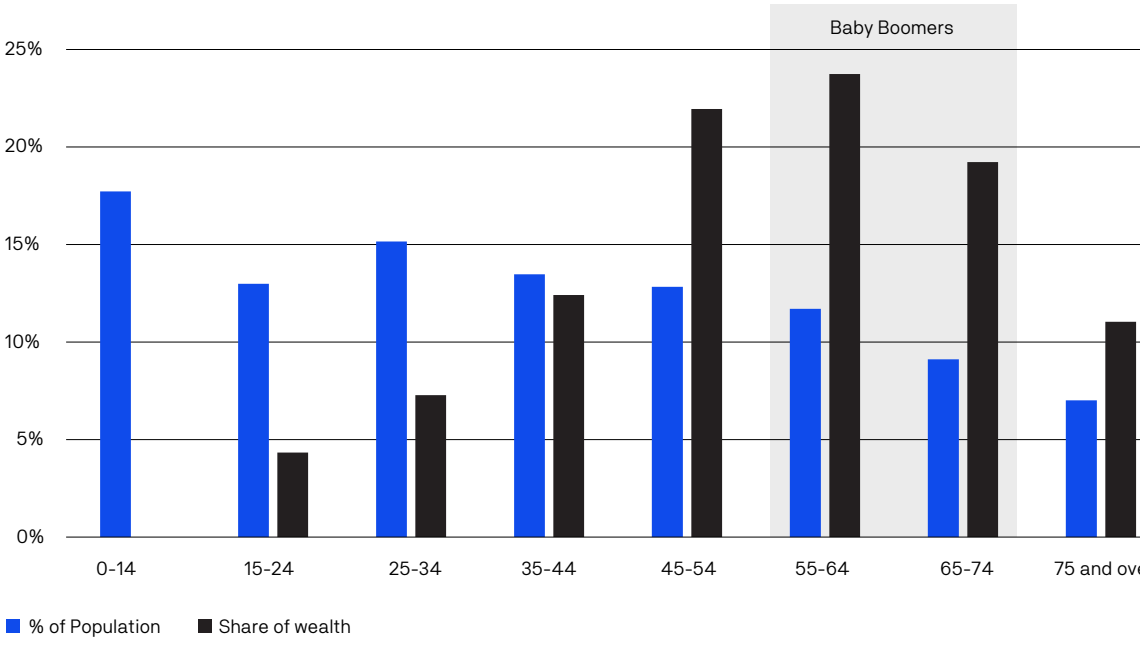
However, from both equity and sustainability perspectives, there is considerable merit to making consumer care contributions for CHSP and HCP mandatory. As the Legislated Review noted, making these contributions mandatory would align them with the charging practices adopted by providers of residential care.[188] It could also encourage consumers to demand greater value for their funding. Design of the new unified support at home program provides an opportunity to mandate the contributions.

Treating the home and other forms of wealth equally within the common contribution regime

Analysing the distribution of household income and wealth in 2015, the Productivity Commission noted that older Australians today are *wealthier* than both their younger counterparts and past generations of older people. A key source of wealth is their home: about 80% of the current cohort of older Australians are homeowners who have benefited from significant growth in housing prices over the past decade.[189] A second source of wealth, as discussed later, is the balances held in superannuation accounts.

Although wealthier than past generations, many older Australians tend to live on low incomes, with the majority relying substantially on the aged pension.[190] This paradox for older Australians – high wealth but low income – can be seen in the figure below, which shows wealth distribution by age.

Figure 2: Wealth and population distribution by age[191]



Source: Ansell Strategic, based on data from Australian Bureau of Statistics, Household Income and Wealth, Australia 2017-18.

Nevertheless, these conditions are unlikely to hold for generations beyond the baby boomers. Higher housing prices are leading to lower levels of home ownership and sustained levels of debt through to a later age.[192] The current cap for the primary residence in the residential aged care assets test (approx. $160,000) means that the property of an individual with a high-value home is assessed for that asset the same as someone with a much more modest house. This treatment of the principal residence in determining care contributions for residential care significantly undermines equity and contributes to the situation, identified by the *Retirement Income Review*, that "most people die with the bulk of the wealth they had at retirement intact".[193]

The *Legislated Review of Aged Care* recommended that the means test for residential care be adjusted to include the full value of the owner's home.[194] This aligns with the long-term goal of the *Aged Care Roadmap* to ensure all income and assets should be means-tested and treated equally across the care contribution regime.

An alternative would be for the current cap to become a floor. Under this model, those who own a higher valued house would pay more without affecting those of more modest wealth. A higher cap or a tapered contribution rate could be considered a further variation.

However, these alternatives do not overcome the disparity between how the wealth of homeowners and non-homeowners is assessed under the arrangements for residential care. While a capped value of the principal residence is currently included within the assets test, the value of other financial assets is not. This disadvantages not only those who have accumulated non-home assets over their lifetime but impacts equally on those who have recently sold their home and, when means-tested, are assessed against the proceeds of the sale if they remain held as (now financial) assets.

An important source of non-home wealth for senior Australians is superannuation, which is becoming more significant as the system matures. Treasury projections suggest that the median superannuation balance at retirement will increase, on average, from $125,000 in 2020-21 to around $460,000 in 2060-61.[195]

For some, a high level of savings at retirement will compensate for a lower level of asset wealth. However, those with broken employment paths (often women) and those who were on lower wages (again, often women due to part-time work) will not be able to rely on high superannuation balances at retirement. For example, in 2017-18, the gap in the median superannuation balance between men and women aged 60-64 was 22%.[196] Thus, maintaining financial equity of access through robust safety net provisions will continue to be a necessary part of any reforms.[197]

Given the complexity of these issues and the financial modelling and microsimulations that would be required, as well as the equity and sustainability consequences that would ensue, the range of options for the implementation of potential reform warrant close analysis.

6.3 Supporting individuals' aged care financial planning

Changes to the contribution and means-testing regimes may provide the technical apparatus for how a number of consumers could make greater contributions to their aged care costs. However, such changes will only be effective if individuals are willing and able to pay for aged care services.

Consumers may be more willing to increase their contributions for aged care services if they have better awareness about the costs and contributions of aged care services.[198] A recent survey revealed that while most Australians expect the Government (i.e. taxpayers) to pay for care and support services when they are older, they also significantly underestimate the proportion that taxpayers already contribute.[199] This could be remedied by including a breakdown of what is covered by taxpayer subsidies and their own contributions and fees on consumers' statements.

Consumers are more likely to perceive services as valuable when choosing those that best meet their needs. [200] Thus, reforms that support informed consumer choice are likely to have a positive effect. These include enhanced transparency about service offerings, pricing and quality, greater flexibility in selecting providers, purchasing additional services and improved consumer support and advocacy.

A significant current barrier to consumer contributions is the lack of financial planning for future aged care costs. A study by ACFA found that while most senior Australians expect to access aged care services in the future, few have considered the associated costs, and fewer still have financially planned for them.[201] Most aged care consumers tended to plan for aged care only when the need arose, meaning that planning is taking place at a crisis point.[202]

Likewise, in a recent survey, National Seniors Australia reported that only 38.5% of respondents over 50 had thought about aged care costs, and only 14.5% had financially planned for them.[203] Whereas many people plan for their retirement years in general terms ahead of the event, aged care planning tends to be reactive, starting when consumers begin to experience care needs.[204]

There are several advantages to individuals being more proactive in planning future aged care funding needs. It allows for the early establishment and contribution to accumulation-based arrangements (e.g. savings, superannuation, investments), leading to increased capital growth and protection from short-term market volatility.[205] In addition, for some insurance-like products, such as deferred annuities, the premiums or purchase prices tend to be lower if entered into or bought at an earlier age. By planning in advance, these decisions can be made before crises arise or when the consumer might be more vulnerable. [206]

Both ACFA and National Seniors Australia have made recommendations to improve aged care financial planning and awareness about the range, quality, safety and costs of aged care services.[207]

However, lack of planning, plus lack of take-up of savings and insurance products, can be the result of several factors, including uncertainty about: whether a person will require high cost aged care at all during their lifetime; the age at which services will need to commence; the duration of care; and the adequacy of the safety nets and stop-loss safeguards for those who need care. These issues are explored in the next Section.

7.

Exploring alternative funding and financing arrangements

This Section examines the range of alternative financing and funding sources for aged care services. This includes financial products that individuals could use to pay their aged care contributions, as well as taxpayer-based options for publicly funding care, together with the range of sources of capital financing.

Sustainability is enhanced when the level of funding is sufficient for efficient providers of quality aged care services to be viable on an ongoing basis and attract investment into future infrastructure and operational needs.

This final component of sustainability relates to ensuring that funding and financing sources for the sector are both sufficient and affordable, while preserving the equity considerations discussed in the previous Section.

The two main contributors to operational funding for aged care services are Australian taxpayers and individual consumers. The financing systems that they draw upon fall into three broad categories:[208]

1. **Pre-funded:** systems by which senior Australians or governments (on behalf of taxpayers) set aside funds in advance of aged care costs arising
2. **Pay-as-you-go:** systems that pay for aged care costs as they arise
3. **Post-funded:** systems that recoup aged care costs after they have been incurred

Most operational funding is currently provided through pay-as-you-go taxpayer funds paid from the Government's Consolidated Revenue and supplemented by individuals' contributions, funded from current income or financed through personal savings, non-financial assets and superannuation.[209] A more diverse range of financing options may allow higher means individuals to make increased contributions to the costs of their care.[210]

Furthermore, alternative taxpayer funding models may supplement or substitute the current reliance on Consolidated Revenue. A range of options is explored in this Section and summarised in Table 2 below.

Table 2: Potential financing arrangements to fund aged care services

	Pre-funded	Pay as you go	Post-funded
Individuals	▫ Superannuation ▫ Personal savings, assets and investments ▫ Deferred annuities ▫ Private insurance	▫ Deposit-based accounts ▫ Pension Saving Account	▫ Reverse mortgages ▫ Pension Loans Scheme ▫ Other equity release products ▫ Accommodation bond loans
Taxpayer	▫ Levy ▫ Social insurance	▫ Consolidated Revenue ▫ Levy ▫ Social insurance	▫ Public debt

7.1 Expanding financial products for individuals to pay for aged care services

The majority of consumers indicated that they would use traditional sources to fund their contributions to their future aged care costs, using a combination of the age pension (72%), superannuation (48%), personal savings (45%) and selling the family home (29%).[211] Very few plan to use alternative financing sources, such as pre-funded financial products, post-funded equity or debt release products.[212]

The Retirement Income Review found that older Australians often make decisions about how to use their savings in retirement that may in fact be detrimental to their quality of life.

> *It appears they see superannuation as mainly about accumulating capital and living off the return on this capital, rather than as an asset they can draw down to support their standard of living in retirement. The family home is an underutilised source to support living standards in retirement.*[213]

An expanded range of financing mechanisms may offer higher means individuals more choice, control and affordable strategies for accessing their accumulated assets.[214] A summary of funding and financing sources is described in Table 3.

Pre-funded financial products

By purchasing pre-funded financial products, such as deferred annuities and private insurance, individuals can mitigate the risk of encountering significant long-term care costs until safety net caps cut in, or living longer than their financial means, after which they would be dependent on the age pension.

Australian finance businesses have chosen to not establish competitive markets that offer a range of affordable insurance-like products, such as deferred life annuities. This is partly due to a lack of demand resulting from consumer hesitancy, the income and asset drawdowns available from compulsory superannuation, and the age pension (which provides default longevity insurance).[215] Private insurance products also suffer from additional issues, such as adverse selection and moral hazards, making them more expensive.[216] Without the benefits of risk pooling across a broad cohort of premium payers, it is unclear what value aged care-specific insurance products offer above more straightforward precautionary savings strategies.[217]

As more individuals accumulate substantial superannuation savings, there is likely to be more demand for financial products purchased at retirement that provide individuals with a more certain income stream in their later years.[218] This demand may offset the current preoccupation with the accumulation phase of superannuation:

> *Voluminous research has been dedicated towards understanding the accumulation phase of superannuation (savings and investments during an individual's working life) … In contrast, little attention has been allocated to the retirement (and aged-care) phase.*[219]

There is scope for policy to facilitate market and regulatory conditions that can encourage financiers to offer more products of this nature. However, if this requires incentives, tax waivers or subsidies, or additional administrative costs and inefficiencies, this may increase rather than ameliorate the Government's fiscal pressures for no net benefit.[220]

Equity and debt release products in general

In terms of post-funding options, equity and debt release products enable senior Australians to access some of their wealth invested in their home while they, and possibly their partner or other carer, continue to live there.[221] The Productivity Commission reports:

> *Most older Australian home owners on low incomes could achieve a modest retirement living standard over the remainder of their lives by drawing on their home equity.*[222]

The Productivity Commission estimated (conservatively) that having individuals contribute even half the annual real increase in their home values towards aged care services could reduce government expenditures by around 30%.[223] This is because house price values have grown at a consistently higher rate than health costs and CPI (Consumer Price Index). Such an approach would significantly reduce fiscal pressure yet still leave older households with an appreciating asset.

Consumers are yet to embrace these products, expressing an unwillingness to take on debt in retirement and concerns about diminishing the value of inheritance assets, particularly the home, while preferring to rely on taxpayers to pay for the costs of their care.

Reverse mortgages

Concerning reverse mortgages, there is the risk that without adequate planning, some retirees may initially access and drawdown too large a portion of their equity (which attracts higher interest charges), and thus compromise their ability to pay for future care and support as they age.[224]

Australia's largest banks have expressed a reluctance to offer these products, concerned about reputational risks of being perceived as predatory and being associated with any estate disputes or potential financial elder abuse.[225] There are also issues in offering these reverse mortgages in some non-metropolitan areas because of lending restrictions on properties that do not have liquid real estate markets. The limited market in Australia means that fees and interest rates are much less competitive (i.e. higher) than other consumer credit types.[226]

Pension Loans Scheme

The Retirement Income Review identified the Pension Loans Scheme as an effective option to improve retirement incomes and allow older people to access their accumulated wealth. [227] The Pension Loans Scheme is a government-backed arrangement that allows senior Australians to borrow against the equity value of any property they own to increase the value of their fortnightly pension payments or to receive as one or more payments (for self-funded retirees). It has some of the characteristics of a reverse mortgage, with the benefit that payments are not taxable nor assessable under the Age Pension means test.

However, the Pension Loans Scheme has had a relatively low uptake to date. Partly, this has to do with poor promotion and confusion about who may access the scheme (since 2019, it has been available to all senior Australians). Another issue is its unattractive interest rate, currently at 4.5%.[228] Although this is lower than commercial reverse mortgages, it is higher than rates for conventional mortgages.

In the 2021-22 Budget, the Government announced several further changes to increase the scheme's uptake.[229] First is the introduction of lump-sum payments, where participants can access up to two lump-sum advances in any 12 months. This will give individuals more flexibility to pay for large one-off purchases, including contributing to aged care accommodation costs. Second, the Government will introduce a No Negative Equity Guarantee. This is a common feature of commercial reverse mortgages that ensures borrowers will not have to repay more than the property's sale value.

Table 3: Potential sources of funding for aged care consumers

Sources	Description
Superannuation	Individuals and their employers make compulsory and additional contributions to superannuation throughout their working lives. Once retired, consumers can access income streams through account-based pensions or withdraw capital as a lump sum that can be deposited in another account or used to purchase other financial products.
Personal savings, assets and investments	Individuals may have private saving strategies, including accumulation deposit-based accounts, investment funds, asset accumulation (e.g. property, shares, bonds, business assets) that can be drawn upon in retirement to fund living and lifestyle costs, as well as aged care. The main asset of most people aged over 65 is the equity in the family home.[230]
Financial products	Individuals may purchase financial products, such as deferred annuities, which pay a guaranteed income stream from a specified future point for an agreed period (e.g. a set number of years or for the remainder of their life).
Private insurance	Individuals purchase private insurance, similar to health or life insurance, in which they periodically contribute premiums to have costs of aged care paid for if they arise.
Deposit-based accounts	Consumers deposit and accumulate funds in an account (including the proceeds from selling assets) from which they can draw to cover current and future costs. These products also include longer-term investment-based accounts (such as term deposits, investment funds) and equities, which aim to generate additional income and capital growth sources to hedge against inflation.
Pension Savings account	A proposal for a deposit-based account scheme in which individuals could deposit the cash proceeds from selling the family home, from which they could draw to pay aged care costs. As an incentive, the value of this asset would be excluded from asset tests and thus not affect age pension entitlements.[231]

Sources	Description
Reverse mortgages	Allow consumers to borrow against the equity in their home while allowing them to continue living in and owning their home. The funds may be accessed as a lump sum, line of credit or income stream. The repayment occurs at some future time, such as when the property is sold, or the consumer moves into residential care or passes away.
Pension Loan Scheme	This is a government-sponsored reverse mortgage scheme with interest rates subsidised by the Government. It allows senior Australians to borrow against the equity value of any property they own to increase the value of their fortnightly pension or to receive as one or more payments (for self-funded retirees). The outstanding debt is recovered either when the property is sold or from the person's future estate.
Other equity release products	Including deferred sale contracts, these allow consumers to sell a percentage of the future sale proceeds of their home while they remain living in the property. Unlike reverse mortgages, these arrangements do not involve any additional debt for the consumer.
Accommodation bond loans	Where households borrow money against the equity in their home, usually for a limited time (3-5 years), to meet the cost of an aged care accommodation bond.

7.2 Understanding taxpayer-based funding options

Table 4 summarises the range of taxpayer-based funding options and their advantages and disadvantages. The features of the various options are presented in more detail in the following text.

Table 4: Advantages and disadvantages of alternative taxpayer funding options

Financing system	Potential mechanisms	Advantages	Disadvantages
Pre-funded	▫ Levy ▫ Social insurance	▫ In the long-term, funds are raised by the generation that will consume aged care services ▫ Allows for risk-pooling across the population ▫ Provides some assurance that taxpayer funds will be directed towards aged care services	▫ Resource allocation risk, as future aged care costs may be over- or under-funded ▫ Relies on complex actuarial assumptions and models ▫ Administrative complexity of infrastructure required to maintain and manage the funds ▫ Security risk that future governments may alter funding arrangements ▫ Transitional intergenerational issues, with a disproportionate share of funding born by the current working-age population
Pay-as-you-go	▫ Consolidated Revenue (general taxation) ▫ Levy (pay-as-you-go) ▫ Social insurance (pay-as-you-go)	▫ Simplicity and clarity ▫ Flexibility, as funds are raised when they are needed and adjusted as needs change, which means they generally avoid being under- or over-funded ▫ Aligns with social values that each generation pays aged care costs of its elders	▫ Vulnerable to demographic changes in the dependency ratio ▫ Can amplify intergenerational inequities as different generations may experience different economic conditions, opportunities for wealth accumulation, social welfare and tax settings ▫ Security risk as future generations may be less willing to contribute and the fiscal priorities and capacity of the government may change
Post-funded	▫ Public debt	▫ Simplicity in resource allocation and administration, funding requirements are known	▫ Vulnerable to changes in interest rates and availability of credit ▫ Intergenerational issues as future generations would be required to repay debt and accrued interest ▫ Security risk as future generations may be less willing to take on debt and the Government's fiscal priorities may change

Sources: Royal Commission into Aged Care Quality and Safety. (2020). Financing Aged Care. Consultation Paper 2, June; Transcript of Ken Henry, Royal Commission into Aged Care Quality and Safety, Sydney Hearing 5, 16 September 2020; Productivity Commission (2011) Caring for Older Australians; Productivity Commission. (2013). An Ageing Australia: Preparing for the Future

Consolidated Revenue

Most subsidised aged care services are currently paid for on a pay-as-you-go basis from Consolidated Revenue collected from general taxation. As this system builds upon Australia's income tax regime, it is comparatively simple, efficient to administer and progressive, in that taxpayers with higher income pay higher tax rates.[232]

An additional advantage of the current system is the flexibility to expand and contract annual funding in response to changes in demand, program changes or population growth.

However, as there is no ability to build up reserves, there is less certainty in funding being available to meet future needs.[233] The system is susceptible to political change and the competing fiscal priorities of the government of the day.[234]

There are also intergenerational considerations. The working-age population may have to pay increasing proportions of their income in tax as the dependency ratio changes.[235]

Aged care levy

An alternative to general taxation is to fund aged care through a special purpose aged care levy. Like the Medicare levy, this could be both progressive and means-tested if set at a fixed percentage over a taxpayer's marginal rate.[236]

One of the perceived benefits of a levy would be the public perception that funds to be raised were 'earmarked' and set aside for use for aged care. Politically, it may be easier to gain public acceptance for increased taxation if it is explicitly designated for aged care and is seen to be secure from changes in political priorities over time. Funds raised through hypothecated levies are used for the specific purpose for which the tax is created, although this constraint is not immune to the will of Parliament.

Hypothecated levies have significant disadvantages. They limit the ability of a government to adequately respond to the community's priorities at any one time through Budget appropriations. They are also prone to over-saving or under-saving, which represent foregone benefits to the community or aged care needs. However, with hypothecated levies such as Medicare, the levy serves a political role in justifying an increase in income tax while always being well below the amount spent from Consolidated Revenue on the nominated purpose. Because additional funding is always required, the hypothecation does not affect the flexibility of annual Budget allocations. They have the effect of serving the same purpose as non-hypothecated levies.

Social insurance

Social insurance is a system where all individuals contribute compulsory premiums to a pooled fund that the Government or a regulated insurer manages. This type of system operates in Australia, for example, in third-party motor vehicle insurance.

The general advantage of this type of system compared to private insurance is pooling risk across a broad cohort. Premiums remain affordable when there is a low probability of any individual accessing the scheme. However, for aged care, a large number of individuals will likely need to access aged care services at some point in their lives, but the cost of the services and the duration of the need is very variable.[237] Further, there can be a gap of at least two decades between when premium payment ends (if paid during the working years) and when the costs of aged care are first incurred. Also, as the value of consumer contributions for care is low, there would be significant administrative churn relative to the amounts paid. Other concerns include resource allocation distortions where there is either over or under-funding. Hence, it is unclear whether social insurance would deliver better outcomes than the current pay-as-you-go tax arrangements.[238]

There are also intergenerational concerns. A pre-funded social insurance model could impose an unfair doubling-up of costs for the present generation of taxpayers, who will have to finance the current system costs of their parents while also having to pay premiums to cover their own future care costs.[239]

This doubling-up effect may be reduced in the case of a pay-as-you-go social insurance scheme, where each generation insures itself as a cohort. However, it is unclear whether such a scheme would be better than current taxation arrangements.

Public debt

Public debt financing is not considered a sustainable option in the long run, as it must be repaid and only shifts the responsibilities over time.[240] Thus, it raises problems for intergenerational equity, which may be more acute during periods of higher interest rates.

> In aged care, the flow of capital follows appropriate returns, given the risk and uncertainty of the investment.

7.3 Facilitating sustainable capital financing

Capital financing enables new aged care homes to be built, existing homes to be refurbished, and new equipment and technology to be provided. As described in Section 5 of this Paper, developing, upgrading and refurbishing aged care homes can generally increase the effectiveness and efficiency of service delivery and labour productivity, and lead to enhanced quality of life for the residents.

Table 5 summarises the six main sources of capital financing used in the sector to fund these long-term infrastructure improvements.

Attracting investment

A general conclusion in capital financing choice is that policy certainty is an essential element of any initiatives that aim to increase the flow of capital from investors and debt providers.[241] This is particularly relevant given the long-term implications of investing capital in assets.

The central issue with investment in the current residential aged care sector is the deteriorating profitability of provider businesses and their ability to provide a return on equity and service debt. These concerns had been mainly left unaddressed over the last few years, compounded by the hiatus during the Royal Commission process, until the Government's response.[242] Simply put, the flow of capital follows appropriate returns, given the risk and uncertainty of the investment.

This has several implications that relate to other matters explored in this Paper. First, as argued earlier, more effective pricing, improved market design and the ability to create additional revenue streams can create an environment where revenues generated by aged care providers will be adequate, given the level of assets required for service provision. [243]

Second, efficiency gains in service delivery from improvements in labour productivity, innovation, technology and the built environment will enable appropriate cost management and improve returns. The combination of these strategies will provide more stability to the long-term operating cash flows of providers, ensuring well-run providers who deliver quality care are financially viable.[244]

As noted previously in this Discussion Paper, sector level financial viability is one of the four interdependent pillars for the sustainable delivery of subsidised services to senior Australians in need – the other three being fiscal sustainability, workforce sustainability and social cohesion.

Table 5: Advantages and disadvantages of alternative sources of capital financing

Financing	Description	Advantages	Disadvantages
Refundable Accommodation Deposits (RADs)	Lump sum accommodation payment that is refundable (at the same nominal value) on exit and generates an interest payment to the provider for accommodation costs. Unique to the Australian setting. Residential aged care is currently highly reliant on RADs for capital funding, valued at 57% of assets.	▫ An effective financing option and has played a significant role in rejuvenating Australia's aged care stock ▫ Enable financial institutions the capacity to lend to providers at limits higher than if borrowers were solely reliant on operating profit ▫ Given the limited ability of small and not-for-profit providers to borrow, RADs play a major role in raising capital	▫ The MPIR mechanism impacts the level of the equivalent DAPs. Leaves it open to interest rate fluctuations and in the period of low interest rates, DAP payments have reduced ▫ As the average length of stay in residential care becomes shorter along with movement in the housing market, DAPs are becoming more attractive than selling the home to pay for the RAD ▫ The length of time it takes to sell the house can complicate RAD funding ▫ Personal financial circumstances can make it challenging to fund a RAD ▫ At present, there are limited capital financing alternatives to RADs. A significant increase in RAD outflow compared to inflow would also pose risks for liquidity within the sector ▫ The Government provides a backstop guarantee for the repayment of RADs, thus exposing it to risk.
Equity	From owners or contributed equity provided through sources such as capital markets, investment funds, private equity and superannuation funds. As of June 2020, equity represented 20.49% of assets in residential aged care.	▫ Does not require borrowing or commitment of interest payments ▫ Capital is at risk of not being protected, but investors expect capital to be protected and dividends to be paid from profits ▫ No collateral is needed ▫ Reduce debt ratio and gearing	▫ Current returns and uncertainty mean businesses are finding challenges in increasing their equity beyond increasing retained earnings ▫ Increasing equity would be more challenging for the not-for-profit sector ▫ Share issuing is time-consuming and costly ▫ High compliance and regulatory costs ▫ If investors buy a large enough block of shares, they can take over or exercise control over management and the organisation

Financing	Description	Advantages	Disadvantages
Debt	Loans from banks and financial institutions. As of June 2020, this represents 22.41% of assets, not including liabilities associated with RADs.	▫ Suitable for assets and other long-term investments ▫ Interest is an expense and tax deductable	▫ It is often not a viable option for many aged care providers as it is challenging to obtain, given their financial performance and capacity to service debt over time ▫ Collateral is needed ▫ May impact debt ratio and gearing ▫ Interest payments have to be met regardless of profitability and cash-flows ▫ The principal will need to be repaid at designated date
Real estate investment trusts (REITs)	REITs either buy current facilities with a lease-back or develop new facilities and lease them to a provider.	▫ Have the advantage of much greater access to capital	▫ Risk of rent increases and eviction ▫ Reduced flexibility for refurbishment ▫ Inability for providers to increase equity through asset appreciation
Direct funding by government	Capital grants provided by government.	▫ Grants may not have to be paid back ▫ Provides capital in locations (such as small markets) where other forms of capital access may not be available	▫ Time-consuming to apply ▫ May have particular restrictions and regulations imposed by the government ▫ May have limited eligibility criteria
Donations and endowments	Churches, charitable groups, wealthy individuals and philanthropic organisations contribute capital.	▫ Typically does not have to be paid back ▫ No interest costs or dividend payments ▫ Provides a strong public symbol of the legitimacy of the provider ▫ May open up other opportunities for donations	▫ May have limitations on what the capital can be used for ▫ Often very time consuming and resource-intensive to secure and manage ▫ Less common in Australia given the lack of philanthropic culture

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Glossary

ABS	Australian Bureau of Statistics
ACAR	Aged Care Approvals Round
ACAT	Aged Care Assessment Team
ACFA	Aged Care Financing Authority
ACFI	Aged Care Funding Instrument
ACPR	Aged Care Planning Ratio
AHPRA	Australian Health Practitioners Regulation Agency
AIHW	Australian Institute of Health and Welfare
AN-ACC	Australian National Aged Care Classification
CEDA	Committee for the Economic Development of Australia
CHSP	Commonwealth Home Support Program
COTA	Council on the Ageing
CPI	Consumer Price Index
DAP	Daily Accommodation Payment
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
GDP	Gross Domestic Product
GP	General Practitioner
HCP	Home Care Package
IGR	Intergenerational Report
IHACPA	Independent Hospital and Aged Care Pricing Authority
IT	Information Technology
MBS	Medicare Benefits Schedule
MPIR	Maximum Permissible Interest Rate
NP	Nurse Practitioner
NSA	National Seniors Australia
PBS	Pharmaceutical Benefits Scheme
PCW	Personal Care Workers
PHN	Primary Health Networks
RAD	Refundable Accommodation Deposit
RAS	Regional Assessment Service
REIT	Real Estate Investment Trust
RN	Registered Nurse
TAFE	Technical and Further Education
US	United States
UTS	University of Technology Sydney

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