

“IN A NUTSHELL”

THE IMPACT OF BUDGET CUTS TO AGED CARE #2

Budget Cuts Understated and Misdirected

MAY 2016

SUMMARY

In our first analysis of the impacts of the 2016 Budget, we described an unbalanced budget that sought to find short term savings from a sector that urgently requires greater investment.

Our clinical and operations team has now had the opportunity to comprehensively evaluate the proposed changes to the funding instrument. This report highlights major concerns requiring urgent attention:

1. The Government has sought to claw back over \$1.8 billion over the next 4 years, focusing on the complex care domain. This represents a direct cut in funding to the most disadvantaged Australians, particularly those suffering from chronic pain, degenerative disease, severe arthritis and complex wounds.
2. Modifications proposed to the ACFI funding instrument are projected to result in cuts of \$350 million in excess of those announced by Government in the budget and Mid-Year Economic and Fiscal Outlook (MYEFO).
3. While the cuts compromise the viability of the sector, the threats to the vulnerable aged are even more concerning. The ACFI changes create a disincentive to admit high dependency people and will ultimately result in their displacement to hospitals.

We believe that it is critical that the aged care and broader healthcare sector work collaboratively with Government to ensure that these changes do not proceed.

Sincerely

Cam Ansell
Managing Director

IN A NUTSHELL

THE IMPACT OF BUDGET CUTS TO AGED CARE # 2

Following our last report immediately following the release of the Federal Budget on May 3, Ansell Strategic have been working with Leading Age Services Australia (LASA) and a number of major providers to model the full effect of Budget 2016-17 on the aged care industry.

Our report examines the effects of the funding changes to the industry using real case examples to highlight the effect of change on residents.

Targeting Funding Cuts to the Most Vulnerable Residents

Key to the aged care budget announcement were cuts to Aged Care Funding Instrument (ACFI) funding for the care of residential care clients with Complex Health Care (CHC) needs. The Government expects to claw back close to \$1.2 billion over the next four years in addition to the \$607 million cuts announced in the Mid-Year Economic and Fiscal Outlook.

Funding Cuts (Forward Estimates)

	2016-17 (\$m)	2017-18 (\$m)	2018-19 (\$m)	2019-20 (\$m)	Total (\$m)
ACFI Funding Cuts	(119.0)	(229.6)	(339.5)	(463.8)	(1,151.7)

Source: Department of Health Budget Glance

CHC includes medication assistance, pain treatments and other care interventions for the most frail and unwell residents living in residential care. The changes will be implemented in two stages over the coming six months.

Changes to the CHC Domain (July 1, 2016 and January 1, 2017)

Stage	Effective Date	Changes to the CHC Domain
1	July 1, 2016	Changes to the CHC domain scoring matrix Indexation halved for the CHC domain
2	January 1, 2017	New CHC matrix scoring for Question 11 (Medications) Reduced scoring and eligibility criteria for some CHC treatments

Source: Department of Health Fact Sheet – Changes to Residential Aged Care Funding Arrangements

The changes will only affect new or reclassified residents. Given that residents included in the CHC domain are generally the most frail and complex and have short lengths of stay, it is anticipated that the changes will affect most residents within a short period of time.

July 1, 2016 Changes

The existing scoring matrix comprises both the medication and complex care domains, medication assistance and complex care treatments.

Current CHC Domain

Medications	Complex Care			
	No Complex Care	Low Complex Care	Medium Complex Care	High Complex Care
Nil Medications	Nil (\$0)	Nil (\$0)	Medium (\$46.27)	Medium (\$46.27)
Less than 6-minutes of medication assistance	Nil (\$0)	Low (\$16.25)	Medium (\$46.27)	High (\$66.82)
Between 6 and 11 minutes of medication assistance	Low (\$16.25)	Low (\$16.25)	Medium (\$46.27)	High (\$66.82)
More than 11 minutes of medication assistance	Low (\$16.25)	Medium (\$46.27)	High (\$66.82)	High (\$66.82)

Source: Department of Social Services Subsidies and Supplements March 20, 2016

The proposed tool results in the “downgrade” of two categories in the CHC domain:

- Score for a rating of D in Question 11 (Medication) and a C in Question 12 (CHC) will be reduced from 3 points to 2 points; and
- Score for a rating of A in Q11 and a C in Question 12 will be reduced from 2 points to 1 point.

Proposed CHC Domain Matrix July 1, 2016 to 31 December, 2016

Medications	Complex Care			
	No Complex Care	Low Complex Care	Medium Complex Care	High Complex Care
Nil Medications	Nil (\$0)	Nil (\$0)	Low (\$16.25)	Medium (\$46.27)
Less than 6-minutes of medication assistance	Nil (\$0)	Low (\$16.25)	Medium (\$46.27)	High (\$66.82)
Between 6 and 11 minutes of medication assistance	Low (\$16.25)	Low (\$16.25)	Medium (\$46.27)	High (\$66.82)
More than 11 minutes of medication assistance	Low (\$16.25)	Medium (\$46.27)	Medium (\$46.27)	High (\$66.82)

Source: Department of Health Fact Sheet – Changes to Residential Aged Care Funding Arrangements

The changes will result in an average loss of \$4.62 per day for every new care recipient and will result in funding cuts of \$67,600 to the average 80-bed home in the next six-months. The January 1, 2017 changes will be far more profound.

January 1, 2017 Changes to Medication Scoring

Current ACFI funding for medication assistance is based on the timing of medications. Four categories, ranging from no care needs to high care needs classify the care requirements of each resident. Currently residents who require over 11-minutes each day or who receive regular injections are considered to have “high” care needs. Over 40% of residents fall into this classification Australia wide.

Current ACFI11 Average Medication Classifications Australia Wide

	Nil	Low (<6-mins/day)	Medium (6-11mins/day)	High (>11-mins/day)
ACFI Medication (Current)	2.18%	24.70%	31.73%	41.40%

Source: Department of Social Services ACFI Monitoring Report November 2015

Changes announced by the Department of Health following the 2016-17 budget have described a new system for classifying medication assistance. The new classification will be reduced to three rating based on the requirement for assistance, not the time taken to assist the resident. Residents will either be classified as requiring:

- No assistance needed with medications;
- Assistance needed with medications; or
- Injections (subcutaneous, intramuscular, intravenous).

Our analysis indicated that this change will result in a significant shift in funding well in excess of forward estimates. Initial research on typical facilities throughout Australia indicates that approximately 4% of residents receive regular injections. This is predominantly for the treatment of insulin-dependent diabetes. Australia wide, only one in every one-hundred thousand Australians are insulin dependent diabetics. The higher rate in residential aged care is reflective of the age and medical complexity of residential care recipients.

Given that the rate of residents who do not require medications will not change classifications, close to 95% of residents will fall into the “medication assistance” classification. There will be a ten-fold decrease in the number of residents’ falling into the highest classification.

Forecast ACFI11 Average Medication Classifications from January 1, 2017

	No Medication Assistance	Medication Assistance	Injections
ACFI Medication (January 2017)	2%	94%	4%

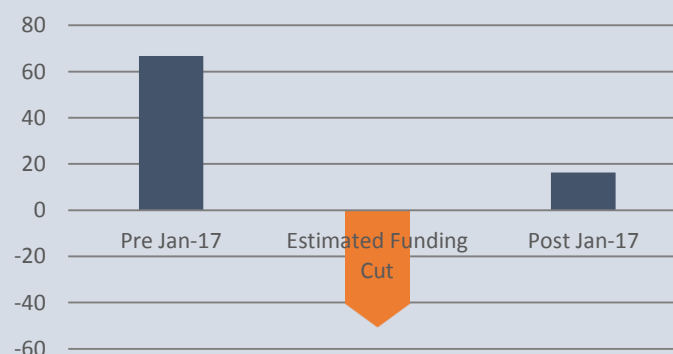
Source: Internal Modelling Based on Client Databases

We predict that the changes to medication administration classification will have a profound impact on the funding of vulnerable residents who have the highest care needs.

Case Study – Mr. B

Mr. B is a 65-year old gentleman who resides in a regional home located in NSW. Mr. B has advancing Parkinson’s Disease and is generally confined to his chair. Mr. B requires 2-hour pressure care to avoid pressure sores and use to receive a 20-minute massage four days a week from the home’s Physiotherapist to alleviate rheumatic pain in his back. Mr. B requires medications every 2-hours during the day to prevent severe shaking and “freezing” episodes. Under the existing funding tool, the home is funded \$66.82 per day to care for Mr. B.’s complex care needs, including the administration of medications by a Registered Nurse. Under the new arrangements, Mr. B. will be considered to only have “low” complex care requirements and the home will be provided \$16.25 per day to provide the same care. This will be less than the cost incurred to administer the medications alone. The home will effectively be underfunded for the effort to assist with medication administration and receive no funding for skin care or the management of Mr. B’s pain.

Impact of budget changes to ACFI



January 1, 2017 Changes to CHC Scoring and Eligibility

From July 1, 2017 changes will also be made to the scores and eligibility requirements for some complex care treatments:

Changes to CHC Procedures from January 1, 2017

Affected CHC Treatment	Change to Scoring and Eligibility
12.1 Blood Pressure Measurement	Score reduced from 3 points to 1
12.4A Complex Pain (at least weekly and for 20-minutes)	Score reduced from 3 points to 2
12.4B Complex Pain (by Allied Health Professional at least 4-times per week)	Score reduced from 6 point to 4 Must be at least 120-minute duration per week 4 "days" per week changed to 4 "times" per week
12.2 Management of oedema, DVT, Arthritis or chronic skin conditions	Score reduced from 3 point to 1 where the treatment is for the management of arthritic joints and arthritic oedema involving the application of tubular elasticised support bandages

Source: Department of Health Fact Sheet – Changes to Residential Aged Care Funding Arrangements

Data from the Department of Social Services shows that 44.59% of residents are currently receiving an overall high CHC score. The majority of these residents receive treatments to alleviate pain.

Current Average CHC Classifications

Medications	Complex Care			
	No Complex Care	Low Complex Care	Medium Complex Care	High Complex Care
Nil medications	Nil 0.90%	Nil 0.34%	Medium 0.81%	Medium 0.13%
Less than 6-minutes of medication assistance	Nil 4.25%	Low 7.17%	Medium 7.11%	High 6.17%
Between 6 and 11 minutes of medication assistance	Low 7.12%	Low 6.23%	Medium 8.74%	High 9.64%
More than 11 minutes of medication assistance	Low 3.00%	Medium 9.75%	High 21.15%	High 7.50%

Source: Department of Social Services ACFI Monitoring Report November 2015

Our initial research across multiple sites indicates that the effect of these changes will be profound on the funding of residents with high care needs. Estimates indicate that less than 13% of residents will be classified as having high complex health needs following the January 1, 2017 changes. This represents a three times reduction.

Forecast CHC Classifications from January 1, 2017

Medications	Complex Care			
	No Complex Care	Low Complex Care	Medium Complex Care	High Complex Care
No medication assistance	Nil 0.90%	Nil 0.34%	Low 0.86%	Medium 0.05%
Assistance with medications	Low 13.90%	Low 35.49%	Medium 32.2%	High 12.26%
Injections	Low 0.22%	Medium 0.50%	Medium 2.60%	High 0.68%

Source: Internal Modelling Based on Client Databases

Our calculations, based on the information provided in the ACFI Monitoring Report and the Department of Health's 2014/15 Report on the Operation of the Aged Care Act 1997, indicates that residents are currently funded an average of \$45.84 per day for the care of CHC needs. Our analysis indicates that this will reduce to an average of \$30.80 per day for residents who enter care following the implementation of the proposed changes in 2017. The changes will be more profound for homes that have an increased focus on 12.4B pain treatments.

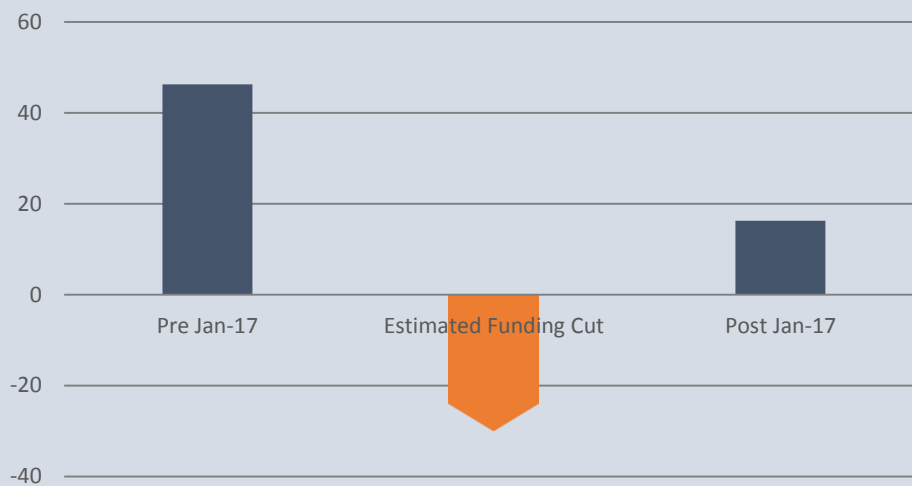
An average 80-bed home will lose \$439,000 in funding each year following the change.

Case Study – Mrs. G

Mrs. G is an 89-year old lady who has resided in a West Australian not-for-profit home for the past 9 months. Mrs. G is frail but ambulant with the assistance of staff. She has a number of medications that are administered by nurses. Mrs. G also has daily hot packs that are applied by care staff and hot wax and massage treatments that are provided by a contract Physiotherapist four days a week to alleviate chronic arthritic pain in her hands and back. The Physiotherapist treated her when she lived in the community and is paid \$65 per hour by the home to undertake four 15-minute treatments each week. The Physiotherapist visits 3 residents per visit and spends 15 minutes undertaking assessments and completing clinical documentation.

Under the existing arrangements the home is funded \$46.27 per day to provide complex care treatments. Under the new rules, Mrs. G is only funded \$16.25 for the same care. If the home elects to cease the pain treatments due to the unsustainability of the pain program, Mrs. G is still funded \$16.25 per day.

Impact of budget changes to ACFI



Projected Funding Cuts

The budget claw back, announced in Budget 2016-17 of \$1.1 billion, is exclusive of funding cuts announced in February 2016 through the Mid-Year Economic and Fiscal Outlook (MYEFO) of \$607 million, creating an aggregate reduction of \$1.71 billion over the next four years.

Based on the announced changes to the CHC Domain, Ansell Strategic have projected funding cuts across four years. Although the length of stay of the most complex residents is shorter than less frail residents, we have conservatively projected changes against the average length of stay of 34.5 months published by the Australian Institute of Health and Welfare.

Funding Cuts (Forward Estimations vs. Ansell Strategic Projections)

	2016-17 (\$m)	2017-18 (\$m)	2018-19 (\$m)	2019-20 (\$m)	Total (\$m)
MYEFO 2015-16 Funding Cuts (Forward Estimates) ¹	(92.3)	(138.3)	(188.2)	(188.2)	(607.0)
Budget 2016-17 Funding Cuts (Forward Estimates) ²	(114.3)	(220.4)	(322.9)	(441.6)	(1,099.2)
Total Funding Cuts (Forward Estimates)	(206.6)	(358.7)	(511.1)	(629.8)	(1,706.2)
Funding Cuts (Ansell Strategic)³	(114.3)	(330.2)	(660.4)	(949.9)	(2,053.7)

1. Source: MYEFO 2015-16 Appendix A. 2. Source: Department of Health Budget Glance.

3. Source: Internal Modelling Based on Client Databases.

Funding Cuts (Forward Estimations vs. Ansell Strategic Projections)



We estimate that the proposed changes to the ACFI Instrument will deliver funding cuts of almost \$350 million more than projected by the Government. Our analysis indicates that funding claw backs to providers will be in excess of \$2 billion over the next four years alone. As the proposed changes are permanent, there will be long term ramifications for the most vulnerable residents and the providers that care for them.

Small Additional Funding Allocations Swallowed by Funding Cuts

Treasurer Scott Morrison states that "savings arising from better targeting of the funding that aged care providers receive will provide the ability to introduce new aged care initiatives and help meet the continued growth in aged care funding overall."

It appears, however, that only \$102 million has been allocated to the providers of care to improve aged care services. This appears somewhat tokenistic given the scale of the cuts and the magnitude of the funding shortfall in regional and remote areas.

Additional Funding for Remote Providers (Forward Estimates)

	2016-17 (\$m)	2017-18 (\$m)	2018-19 (\$m)	2019-20 (\$m)	Total (\$m)
Remote Viability Supplement	15.0	27.6	28.9	30.7	102.2

Source: Department of Health Budget Glance

The \$102 million will be allocated over four years to target the aged care viability supplement more effectively to areas of greatest need by replacing the current outdated remoteness classification system with the more up to date Modified Monash Model. The model is currently used in other health environments and will bring the viability supplement assessment process into line with other health programs. The effect of the supplement, however, will be diluted across residential care, home care and multi-purpose services throughout Australia resulting in a minimal spend on residents.

Estimated Viability Supplement Uplift (Ansell Strategic Projections)

	2016-17 (\$m)	2017-18 (\$m)	2018-19 (\$m)	2019-20 (\$m)
Estimated Uplift (per Resident per Day)	\$1.73	\$3.18	\$3.33	\$3.54

Source: Internal Modelling Based on Client Databases

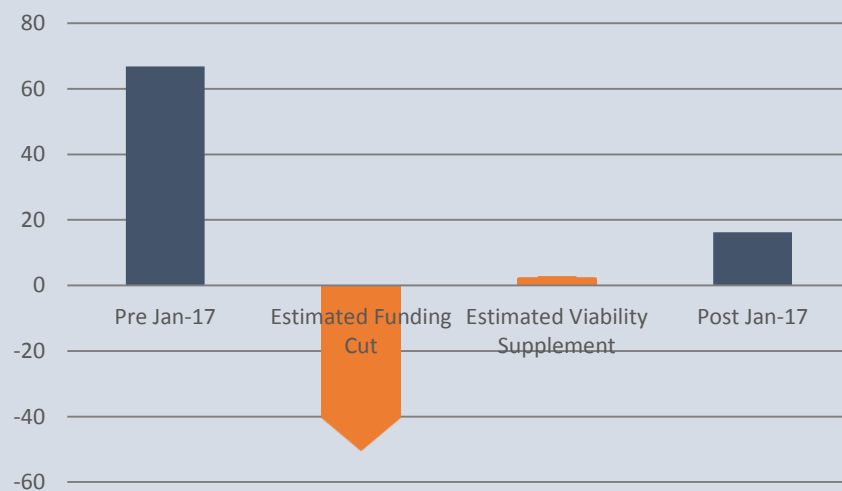
Case Study – Mrs. N

Mrs. N is a 92-year old lady who resides in a regional home located in South Australia. Mrs. N was admitted to her new home following a deep vein thrombosis and subsequent stroke. She currently requires full care as she has a deficit on her left side, reducing both movement and sensation. She has moderate heart failure and suffers chronic oedema in her legs. She undergoes hot pack treatments on a regular basis for pain. Mrs N has a number of medications. She requires variable doses of warfarin to ensure that she does not develop further clots.

Under the existing funding regime, Mrs. N is classified as having high CHC needs. The home is provided \$66.82 to care for Mrs. N's CHC needs. Under the new arrangements Mrs. N will be classified as having low care needs and will only be funded \$16.25.

Mrs. N's home receives a viability supplement. Following the increased viability supplement Mrs. N will still be funded \$47.39 less in the 2017-18 financial year.

Impact of budget changes to ACFI



CRITICAL IMPLICATION OF THE PROPOSED CHANGES

The analysis above demonstrated three critical impacts that will follow if the proposed changes to Complex Care funding:

- 1. Sector Investment and Viability** - The financial impact of the funding cuts on providers will undermine the viability of the sector. The providers who care for those with the most profound care needs will be affected more than those providers who elect to admit residents with lower complex care needs. The cuts come at a time when investment in aged care services is paramount to address the demands of a rapidly ageing population. It also comes at a time when the prevalence of disability amongst the elderly rise. Homes are increasingly caring for residents who have increased complex care needs relating to longer longevity and multiple comorbidities such as heart disease, diabetes, obesity, chronic pain and dementia.
- 2. Displacement of Residents with Chronic Disease and High Care Needs** - By reducing funding for the care of complex residents with the most costly care needs, providers will be less inclined to admit those who are those most in need of residential aged care services. Our experiences of international markets, including New Zealand, has demonstrated the marginalisation or exclusion of residents by providers who are not appropriately compensated for their care. This may result in the displacement of residents into acute care settings.
- 3. Treatment of Suffering** - Providers will be less able to address the symptoms of disease within their resident population. The Aged Care Act precludes providers from charging residents for Specified Care and Services. Without appropriate compensation via the ACFI tool, providers will not be able to afford to deliver comprehensive complex care services. Providers will no longer be able to afford allied health led pain treatments, for example, and will increasingly rely on medications to assist with the treatment of chronic pain.

It is critical that the aged care and broader healthcare sector work collaboratively with Government to ensure that these changes do not proceed.

FOR FURTHER INFORMATION,
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