



**Ansell
Strategic**

BUDGET 2021/22 AGED CARE RENOVATION OR REBUILD

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1. INTRODUCTION

On 11 May 2021, the Morrison Government released its 2021/22 Budget with aged care in the headlines. We provided [our preliminary analysis](#) on the night of the Budget and this publication sets out a more comprehensive analysis of the Budget.

2. EXECUTIVE SUMMARY

The \$17.7 billion spend on aged care brings long overdue investment in consumers, informal carers, workforce and indigenous programs, but there is nothing transformational about this Budget.

Addressing the home care waitlist and residential aged care under-resourcing was unavoidable for the Coalition after the findings of the Aged Care Royal Commission. Unfortunately, the most critical recommendation of the final report has been ignored – **the entitlement of older people to receive care as they need it.**

Throughout the Budget documents, the government has cleverly borrowed terminology from the Royal Commission, giving the optimistic among us the impression that structural reform was on the way. On closer inspection, the “once in a generation reforms” that claim to “respond to recommendations of the Aged Care Royal Commission” are in fact overdue commitments made by this Coalition Government in the 2017 and 2018 Federal Budgets:

- **Future Home Care Design and Funding (Pillar 1)** – Merging home care programs – originally committed in 2016 to come into effect in 2018 but deferred by the Coalition Government;
- **Reforming Residential Aged Care Funding to Drive Better Care (Pillar 2)** – Replacement of the current ACFI funding instrument with AN-ACC case-mix funding - committed in 2018 Federal Budget; and
- **Single Assessment Workforce for Aged Care (Pillar 4)** – Training and recruitment of government assessors for the Home Care program and AN-ACC programs above – committed in 2018 Federal Budget and planned to be implemented in 2020.

Less than 7% (\$1.2 billion) of the \$17.7 billion has been committed to “new” initiatives. These are minor modifications to the existing system. The remaining \$16.5 billion will be spent catching up on underspending by the Coalition since the [2016 Federal Budget cuts to aged care](#).

By rejecting the Royal Commission’s Aged Care Levy recommendation, and in the absence of compensating means testing provisions, these spending levels cannot be sustained outside the shelter of a generous COVID-19 recovery Budget.

For decades, the Commonwealth has been able to reduce aggregate aged care expenditure by almost 26% (approximately \$10 billion per annum) by rationing services to the elderly.ⁱ The Royal Commission found that these savings were the underlying cause of our systemic aged care system failures and the premature death of older Australians.

They argued for a **needs-based, integrated aged care system** (Recommendation 25) and the retirement of the current system of **rationing services** employed to minimise the fiscal burden of an ageing population. Instead, the Budget response simply adopts the report’s terminology to describe their investment in recycled initiatives, supplemented with token investments in small scale programs that link to the Royal Commission’s recommendations.

The Royal Commission called for professional, independent governance bodies to oversee the delivery of aged care services and **hold the Government accountable for reform**. Again, the

Budget adopts the terminology of the Royal Commission report with its promise of new entities to ensure “rigorous oversight” – the Inspector-General of Aged Care, Council of Elders and a National Aged Care Advisory Council - but the allocation is negligible (\$21.1 million over 4 years, including establishment costs). Their secretariat and treasury function will need to be handled by the Department of Health, creating yet more government funded reference groups.

There is a promise to rewrite the Aged Care Act (1997) as part of Pillar 5, however this takes place *after* the “reforms” have been introduced and well after the Federal Election. **There is no substantive reason for changing legislation in the absence of structural reform.**

It was essential that the Morrison Government take action to prop up the sector to avoid market failure before the coming Federal Election. They hope this will be achieved by an adjustment to the Basic Daily Fee (\$10 per resident per day) as a short-term relief and the promise of more money under the long-awaited case-mix funding program (AN-ACC). Our analysis indicates that residential aged care providers will be marginally better off in 2022, **but this is expected to deteriorate sharply in the years following the Federal Election.**

The Royal Commission recommended an independent pricing authority to set subsidies in aged care and providers hoped that this would lessen the risk of future deficits. However, the role has been assigned to the Independent Hospital Pricing Authority (IHPA) and protections afforded to the acute public hospital sector under the National Health Reform Act 2011 do not apply to aged care services. By limiting IHPA’s role to an advisory function, the government will retain control of price as well as supply.

The 2021/22 Federal Budget was a masterclass in political manoeuvring. It enabled the Prime Minister to get the home care waitlist off his back ahead of the Federal Election, all funded by a generous COVID-19 recovery budget, and without the burden of a genuine aged care reform agenda into the next term. By taking the front foot with the “largest investment in Australian history”, and by adopting the terminology from the Royal Commission report rather than its recommendations, the Government hopes that voters will believe the aged care problem has been solved.

This report looks directly at the Government’s response to the Aged Care Royal Commission and the implications of retaining the current ration-based aged care system. We also propose the notion that the Government may have just set in motion the catalyst for consumer-led reform.

3. LOOKING UNDER THE HOOD

The following section considers the principal recommendations of the Aged Care Royal Commission and the Government's response in the 2021/22 Budget.

3.1 AN ENTITLEMENT SYSTEM (NEEDS-BASED)

While the recommendations provided in the Aged Care Royal Commission's final report are complex, the fundamental principle is simple. It recognises that older Australians should receive care and support when they need it, not when the Federal Government decides it can afford it. This is the "entitlement" principle that applies to almost every other facet of the healthcare system.

Under the current system, those in need of aged care support are added to a waiting list. Each year, thousands of older Australians die waiting for their name to reach the top of the list. The more desperate the need, the more expensive the care package, and the longer you must wait. The Federal Government has **saved almost 26% on aged care expenditure** (approximately \$10 billion per annum) by rationing supply rather than supporting older people as they need care.¹

The Royal Commission report argued that this inhumane practice must stop. By addressing the problem now, Australia would be far better prepared for the greatest demographic shift in our history – the ageing Baby Boomers – reducing longer term dependence on nursing homes and aggregate expenditure on aged care. It would promote choice and quality of life for a generation of older people that have come to expect it.

Both Commissioners strongly argued that the current ration based, supply capped system is a national embarrassment and that access to timely care for the elderly is a **basic human right**. They argued for a complete overhaul of the system to create an entitlement, needs-based system as outlined in Recommendation 25 and summarised by Commissioner Briggs:

"We recommend a universal entitlement to aged care, which guarantees access to the level of care and supports each older person is assessed as needing. The reconfiguring of the system as one of an entitlement to care deliberately mirrors Medicare entitlements. It is a major reform, designed to drive access, adequacy, equity and funding improvements by establishing the level of care that is to be supported."

- Commissioner Briggs, Royal Commission into Aged Care Quality and Safety Final Report 2021 Volume 1, p. 35.

In a press conference immediately following the release of the Royal Commission's Final Report, the Prime Minister acknowledged the need for *"generational change so that needs-based care is developed that respects the dignity of the individual Australian"*.

Despite the massive impetus for change, the central Royal Commission recommendation is confronting for Government on two levels. Firstly, addressing unmet need would come at a substantial cost – one that cannot be easily controlled by fiscal policy in later years. Secondly, the existing healthcare bureaucracy would be expensive to re-engineer and challenging to roll out.

The Government's response has been to retain the existing rationed aged care system. They have used the COVID-19 recovery budget to reduce the accumulated waitlist ahead of the 2022 Federal Election. Essentially, this addresses the backlog caused by the system, without changing the system itself – the Federal Government will continue to save money by restricting supply to future generations of older Australians.

The commentary in the 2021/22 Budget leverages the Royal Commission’s “needs-based” phrase throughout the commentary, but not its intended meaning. The Royal Commission’s concept referred to the provision of appropriate support to older people when needed, while the Budget’s “need-based” term describes the alignment of funding to the resource demands of the individual. **Under the retained ration system, the waitlists will build up again, but the subsidy should be better tailored to recipient need, should they survive the wait.**

Residential aged care will be allocated more funding in the short term by virtue of the minimum staffing levels and adjustments to the Basic Daily Fee, but will operate under exactly the same system. These measures are necessary to catch up with aged care funding cuts that took place in the Coalition’s 2016 Budget. In combination with measures to address the under-supply of home care packages, this represents about 80% of the \$17.7 billion Budget spend.

The Budget also described the amalgamation of the Home Care program and the Commonwealth Home Support Program as a major Budget initiative responding Recommendation 25. However, this initiative was committed in 2016 and provided for in forward estimates in the 2018 Budget, ***before the Aged Care Royal Commission commenced***. The major pillars of “reform” in the Budget include:

- **Future Home Care Design and Funding (Pillar 1)** – Merging home care programs – originally committed in 2016 to come into effect in 2018 but deferred by the Coalition Governmentⁱⁱⁱ;
- **Reforming Residential Aged Care Funding to Drive Better Care (Pillar 2)** – Replacement of the current ACFI funding instrument with AN-ACC case-mix funding - committed in 2018 Federal Budgetⁱⁱⁱ; and
- **Single Assessment Workforce for Aged Care (Pillar 4)** – Training and recruitment of government assessors for the HCP and AN-ACC programs above – committed in 2018 Federal Budget and planned to be implemented in 2020ⁱⁱⁱ.

Even the establishment of minimum staff time in residential aged care is simply a component of AN-ACC, an initiative from 2017, which cements in place the model of care employed by nursing homes for 25 years.

Less than \$1.2 billion (7%) of the budget is committed to new initiatives – minor incremental changes to the existing system.

3.2 GOVERNANCE

The Aged Care Royal Commission recommended the establishment of a robust governance framework to ensure that future governments do not repeat the failures of the past – placing fiscal priorities ahead of the wellbeing of older people. The Commissioners argued that robust oversight powers were essential to guarantee the rights of older people and the timely provision of care services.

The Federal Government will be particularly sensitive to the resourcing of “independent” authorities following recent contributions made by the Aged Care Funding Authority (ACFA). After a change in leadership, ACFA began publishing opinions regarding the funding and governance of the aged care sector that were particularly embarrassing for government. This information, and direct ACFA testimony, was leveraged heavily in the Royal Commission process.

The government has adopted the names of the entities recommended in the Royal Commission, including the Inspector-General of Aged Care, Council of Elders and a National Aged Care Advisory Council. However, the total budget allocation of \$21.1 million gives each entity a budget of under \$1.8 million per annum (on average). Once establishment and secretariat expenses are covered, these

bodies will have very little resources available, save for meeting costs and an annual report as proof of life. The government has again opted for form over substance, creating yet more Commonwealth funded reference groups.

Some stakeholders are hanging their hopes for reform on the new Aged Care Act (Pillar 5) and a promise of an independent pricing authority that would ensure the cost of care is reflected in future funding appropriations.

The Royal Commission supported the notion of an independent pricing authority to *“restore confidence and trust between the sector and government, and to instil confidence in the sustainability of the system in the wider community”*. Commissioner Pagone strongly argued that the complexity of the aged care funding system demanded a new independent authority:

“It has been suggested that the Independent Hospital Pricing Authority could undertake this role. I do not agree because there are very significant differences between hospital admissions and aged care... The Independent Hospital Pricing Authority has no expertise or experience in this role.”

- Commissioner Pagone, Royal Commission into Aged Care Quality and Safety Final Report 2021 Volume 1, p. 17.

The government’s Budget response was to direct funding to the Independent Hospital Pricing Authority (IHPA). The entity will have a name change and will be required to provide advice to the Commonwealth on *“...contemporary cost structures, changes in costs and care delivery models.”*

The IHPA has a well-developed and refined costing model for the delivery of care in hospitals. This comes from a long history of the acute sector delivering satisfactory outcomes and repetitive, short-term, episodic services that can be reasonably predicted and costed.

However, the IHPA has no experience in developing costing models for long term care for older people where service models are far more complex and constantly changing. The IHPA could develop expertise leveraging international models and AN-ACC trials, but this will take considerable time and it will be critical that the modelling is tested during a shadow year as was done with the hospitals. This is critical to test economic impacts, service viability and to obtain market feedback.

It took years to develop a robust National Efficient Price for acute public hospitals based on an already robust national costing system. It is unreasonable to expect that IHPA will be ready for shadow modelling next year in 2022, much less implementation by 2023.

It is important to distinguish advice from the IHPA for aged care from its role with hospitals. Under the National Health Reform Act 2011, the Federal Government may not direct the IHPA on the National Efficient Price which determines public funding for hospitals. **This does not apply to aged care** – the government will be given advice on aged care services costs – but it need not accept IHPA’s efficient costing as a basis for pricing. Within its Budget announcement papers, The Department of Health described the expanded role of IHPA *“...to inform Government decisions on annual funding increases in residential aged care, including residential respite, from 1 July 2023”*.

This retains the government’s control over both supply and price.

In the meantime, providers will remain under the current funding arrangements and their financial performance is set to decline sharply after the Federal Election (Refer Section 5).

The commitment to a new Aged Care Act has been deferred to 2023, well after the Federal Election. As explained above, the 2021/22 initiatives commit to the continuation of the existing rationing system – the Coalition Government has not proposed structural reform and there is no substantive reason to change the current Act.

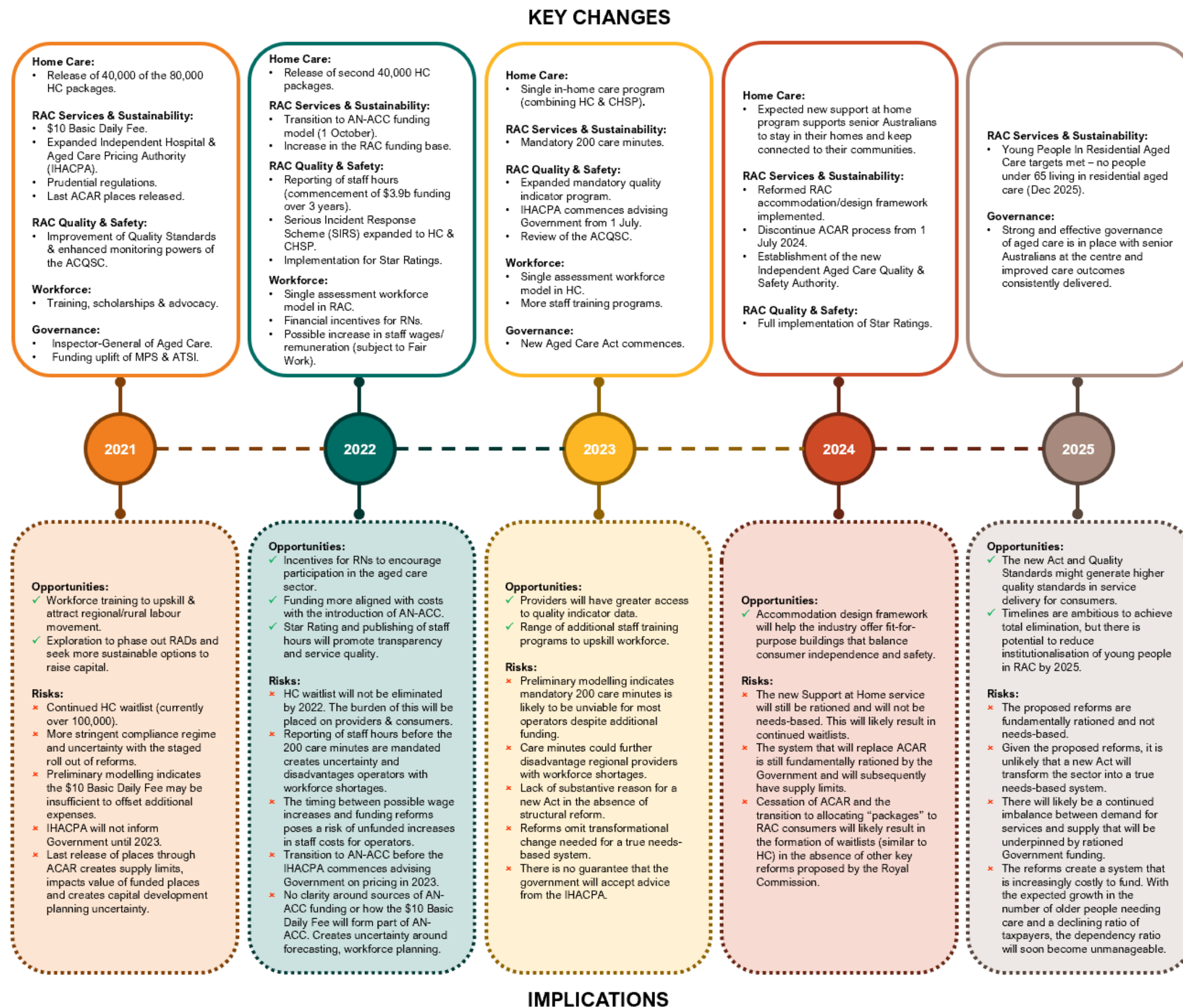
As the Coalition Government is unwilling to commit to an entitlement system for aged care immediately after a Royal Commission, and immediately before a Federal Election, we consider it highly unlikely that they will do so in 2023. It is clearly not appropriate to spend \$27 million of taxpayers' funds on symbolic, political legislative redrafting. This would only make it harder for a reformist government to justify redrafting later.

The final component of the Budget that remains uncertain is Quality Compliance. The Budget commentary promises the establishment of New Independent Aged Care Quality & Safety Authority and then allocates \$2.8 million to the initiative. This is part of the \$262.5 million allocated towards strengthening the existing Aged Care and Safety Commission (ACQSC) and includes a review of the regulator.

Given the allocation of less than \$3 million, we expect that the changes are unlikely to extend beyond entity naming and stationery.

Below we summarise the government's key "reforms" and timelines and highlighted some additional risks and opportunities.

4. AGED CARE “REFORMS” RISKS & OPPORTUNITIES



5. BUDGET IMPACT ANALYSIS

5.1 FINANCIAL IMPACT ON RESIDENTIAL AGED CARE PROVIDERS

We have assessed the impact the Budget 2021-22 may have on residential aged care provider earnings before interest, tax, depreciation and amortisation (EBITDA) on a per resident per day (PRPD) basis until FY25. The key assumptions underpinning our modelling have been appended.

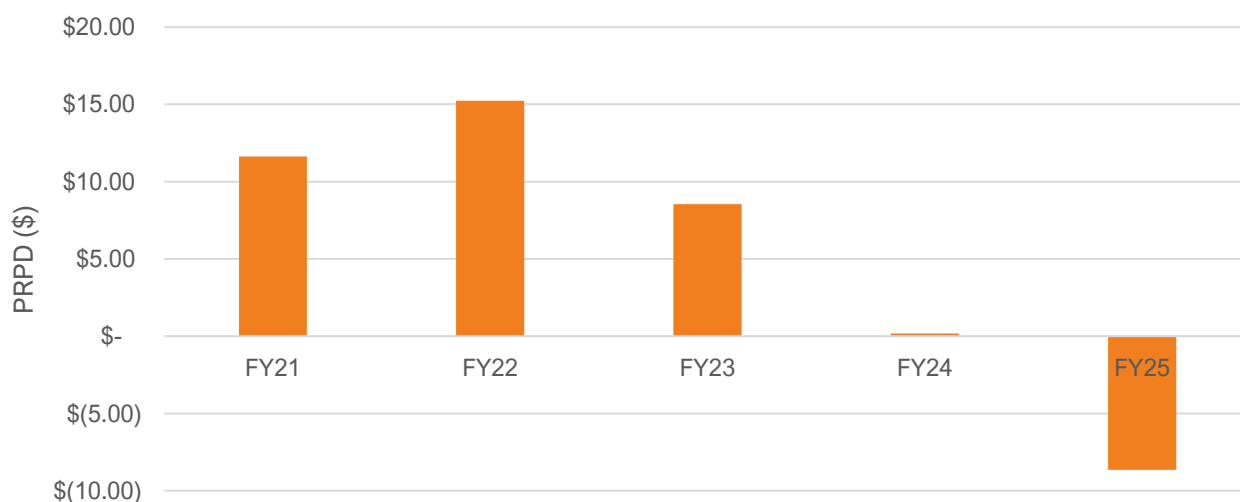
The graph below highlights that budget injections into residential aged care are unlikely to offset the growth in expenses over time. The \$10 basic daily fee (BDF) PRPD injection is welcomed but does not cover the growing costs of care which have risen by an average of \$10 PRPD in the past 5 years and by nearly \$13 PRPD in the last year alone.

A key issue is the basis on which subsidies, supplements and the BDF are indexed. These items make up more than 80% of provider revenue. The government calculates a weighted average index using wage and non-wage cost components. As revealed by the Royal Commission, the Australian Government has imposed an efficiency dividend on providers as this index has been consistently below provider input costs since 1996-97.^{iv}

While some are placing hope on IHPA to increase the price for care, Section 3.2 highlights that there is no certainty that the government will accept the advice of the pricing authority.

Providers will continue to have rising wage costs, higher costs of care and greater regulation coupled with minute increases in the main sources of revenue. We forecast that the sector will be in a breakeven/loss position by FY24 without any major intervention or change to committed funding arrangements.

Graph 1: Budget Impacts to RAC EBITDA PRPD, FY21 to FY25



As depicted in Graph 1, this will result in a deteriorating financial position of the sector. It highlights that the government's response does not address the key finding from the Royal Commission that the aged care sector is, and will remain, underfunded.

6. THE FUTURE

In Commissioner Pagone's Chair Preface to the report, he stated:

“A profound shift is required in which the people receiving care are placed at the centre of a new aged care system. In the words of one commentator, aged care does not ‘need renovations, it needs a rebuild’.

- Commissioner Pagone, Royal Commission into Aged Care Quality and Safety Final Report 2021 Volume 1, p. 3.

The government has opted for minor renovations to the existing system and the central recommendation of that Royal Commission – the creation of an entitlement system – has been rejected.

Although the Aged Care Royal Commission has forced the Coalition to address the backlog of unmet demand accumulated since the Coalition's 2016 Federal Budget cuts, they have been able to retain the rationing system with very little resistance. The Morrison Government has marketed its way out of the reform challenge and successfully kicked the can down the road.

But this victory might be short lived.

This has now become a bigger can. The funding of additional staff hours in residential aged care means that the impost on the public purse has grown. At the same time, the Coalition has shied away from the Royal Commission's Aged Care Levy or compensating means testing adjustments. Outside the cover of a COVID-19 recovery budget, the government cannot afford to continue to douse the problem with more debt.

Coupled with a huge increase in the number of older people needing care, the taxpayer dependency ratio will soon become unmanageable.

The Royal Commission has also created a much greater public understanding of aged care and the challenges for older people and the providers that care for them. The government is more likely to be held accountable as the waitlists grow in the future.

There remains the opportunity for a reformist government to respond to the rights of older people to receive care on an entitlement basis. They may be able to do so without the burden of a long home care waitlist as a starting point.

Over the coming months, peak bodies will lobby for improved outcomes for aged care providers and unions will do the same for the workforce. Those older Australians most affected by the rationing system will remain silent. The Builder Generation has had little choice but to accept the standard of service that has been rationed to them. Commissioner Briggs noted that “...the voices of older people, families and consumer advocates are relatively weak.”

The next generation of consumers are the Baby Boomers – the architects of consumer choice – and they will not be content to receive rationed services to balance the national budget. This generation has the political influence and wealth to demand much more.

In the absence of structural reform by government, one will be forced by the consumer.

We may soon enter a period of customer facing services where people will have the right to access aged care services when and where they need it. This will likely be done with greater user contributions from a generation of consumers that will demand quality.

APPENDIX ONE: ASSUMPTIONS TO BUDGET IMPACTS ANALYSIS

Key assumptions:

- We have utilised benchmarking information per StewartBrown's Aged Care Financial Performance Survey Report, December 2020.
- Per the Budget, the increase in the BDF will be funded across four years. From 1 July 2021, providers will receive an additional \$10 PRPD for the basic daily fee. This will be funded until October 2022, at which it will then be rolled into AN-ACC. For simplicity, we have assumed that providers will continue to receive a similar amount of additional funding PRPD in FY24 and FY25. We also note that AN-ACC was not intended to determine funding for everyday living costs which the BDF is meant to cover.
- The Budget will fund for minimum staffing levels of 200 minutes PRPD (of which 40 minutes must be for RNs) from October 2023 through AN-ACC. Using the minutes gap analysis data provided by StewartBrown and factoring in a 2% safeguard (i.e. an additional 4 minutes PRPD), we have estimated the additional costs for providers will be \$20.80 PRPD in FY24.^v We have assumed that the \$3.9 billion funding committed for this initiative will be proportionately allocated based on the government's targeted places. We have also assumed that 15% of this funding commitment will not be allocated as it will be appropriated to Department and Administrative expenses.
- Revenue is assumed to grow at 1.9% per annum (weighted average). For Care and the BDF, this is based on an assumed COPE of 1.2% p.a., noting that over the past five years, ACFI has grown between 0% and 6.2% p.a. due to a combination of increasing resident acuity and COPE. For other income items we have used historical revenue growth information provided by ACFA since FY14.^{vi}
- Expenses continue to rise and based on the latest industry benchmarks, expenses grew by 4% between December 2019 and December 2020.^{vii} ACFA's latest report stated that expenses on a per resident per day basis have generally increased each year by 4% to 6%. We have assumed expenses will grow at 4.4% per annum (weighted average) which is based on historical expense growth information provided by ACFA since FY14.ⁱⁱ
- As raised by StewartBrown, the legislated increases in Superannuation will have a material impact on performance if the government does increase funding to reflect this additional cost.ⁱ We have factored this increase into our analysis. It has a material impact in FY24 and FY25 when the minimum staffing levels are introduced.
- We have not factored in additional compliance and regulatory costs introduced by the Budget (i.e. star ratings, monthly care reports, staff hours reporting, additional SIRS measures, etc.). These are likely to be material.

APPENDIX TWO: REFERENCES

- ⁱ Royal Commission into Aged Care Quality & Safety Final Report, Volume 2 pp. 193-194.
- ⁱⁱ Changes to Home Care Packages, COTA, February 2016 & Aged Care Roadmap, March 2016
- ⁱⁱⁱ Federal Budget 2018-19: Portfolio Additional Estimates Statements 2018-19, Health Portfolio pg. 13 & Portfolio Budget Statements 2018-19, Budget Related Paper No. 1.9, Health Portfolio. pg. 26.
- ^{iv} Expenditure Constraints and Major Budget Measures, Royal Commission into Aged Care Quality and Safety
- ^v Federal Budget 2021 Aged Care Sector Impact Analysis, StewartBrown, May 2021
- ^{vi} Aged Care Financing Authority Annual Report on the Funding and Financing of the Aged Care Industry – 2020
- ^{vii} StewartBrown's Aged Care Financial Performance Survey Report, December 2020