

Preparing for a Better Future

Creating a Sustainable
System of Aged Care
Services for Australia

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System of Aged
Care Services for
Australia



**Business Council
of Australia**

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About the Business Council of Australia

The Business Council of Australia (BCA) comprises the CEO's of Australia's top 100 companies. Our vision is to help make Australia the best place in the world to in which live, learn, work and do business. The council works to achieve economic, social and environmental goals that will benefit Australians now and into the future by contributing to public policy debates about the significant issues that affect Australia's economic and social prosperity.

About this publication

The purpose of this paper is to set out the Business Council of Australia response to the Productivity Commission's Final Inquiry Report on aged care services, *Caring for Older Australians*. We strongly endorse the need for change and the Productivity Commission's recommendations, and call upon both government and Opposition parties to commit to a long-term plan for fundamental reform. We also identify what we see as the key implementation risks and make recommendations about how these might be managed.

This paper has been prepared with assistance from Gillian McFee of Gillian McFee & Associates.

EXECUTIVE SUMMARY

Caring for Older Australians presents a coherent and compelling strategy to address longstanding weaknesses in aged care and to prepare the sector to meet future demand in a sustainable and productive way

Preparing for future challenges: a sustainable system of aged care services

Effective and sustainable social and healthcare systems are fundamental to achieving social prosperity and maintaining our quality of life. Yet our research, which extends the analysis of the Intergenerational Reports prepared for the Commonwealth Treasury, shows that all levels of government will face unsustainable fiscal pressures as the population ages and demand for healthcare and support services rises steeply. Without fundamental reform or unacceptably high rates of tax, those systems will increasingly fail to deliver the access and quality of care Australians expect. Major reviews over the past decade have documented the weaknesses and vulnerabilities of these systems but as a community we are not yet committed to the long-term structural changes needed to address them. In this paper, the Business Council of Australia sets out its response to the Productivity Commission's Final Inquiry Report on aged care services, *Caring for Older Australians*. We strongly endorse the need for change and the commission's recommendations, and call upon both government and Opposition parties to commit to a long-term plan for fundamental reform. We also identify what we see as the key implementation risks and make recommendations about how these might be managed.

The aged care challenge

The Australian population is ageing. People aged 70 years and over currently represent about 10 per cent of the population; by 2050 they will represent 17.3 per cent of the population, or 6.3 million people. Five per cent of the population – 1.8 million people – will be aged 85 years or more, an increase from 1.6 per cent of the population. But, our current systems of providing care for older Australians are already at capacity, with severe rationing and heavy regulation limiting both the quantity and type of services people can receive. Problems of access and quality can only persist.

Despite this rationing, the costs to governments are rising and are projected to continue to rise. Together healthcare and age-related expenditures are projected, on current policy, to consume 40 per cent of total government outlays by 2049–50 and to drive substantial deficits at the state and Commonwealth government levels. The imperative to minimise these deficits will either lead to ever more severe rationing of services or very high tax rates for a decreasing number of working age taxpayers. This is unsustainable and unacceptable.

The drive to fundamental reform, however, does not derive from finances alone. The inability of the sector to attract sufficient numbers of appropriately qualified staff is already limiting its capacity to meet demand, and continuing shortages will render the aged care system in its current form unsustainable. The sector is already a large employer but on current models of service delivery will need four times as many staff to meet expected demand. Without major change, the sector will continue to be uncompetitive in pay, working conditions, professional development and management processes and so rather than being able to attract the required numbers and skills, the shortages will severely limit capacity.

The current system is also highly dependent on informal carers, but the number of informal carers is expected to decline. Those currently providing care themselves will age and their children are increasingly being drawn back into the workforce by changes to tax and pension policies and the need for Australia to maintain its rate of workforce participation overall.

Nor can the sector, as it is currently regulated and configured, address its capacity constraints through productivity improvement or greater investment. Detailed regulatory controls and price caps have together limited new investment in the system (skills, systems, facilities) and stifled innovation in new service models or new services and limited new participants in the sector. Although there is significant variation in performance between individual providers, productivity in the sector overall has languished.

At a time when Australia must improve the productivity of its economy overall and better utilise its scarce resources, the performance of the aged care sector must be improved. Like healthcare and disability services reforms, this change is now urgent. Reports documenting the weaknesses of the system go back a decade but their recommendations remain unaddressed.

The Productivity Commission's 'Caring for Older Australians' Final Inquiry Report is a blueprint for change

The Productivity Commission's Final Inquiry Report, *Caring for Older Australians*, released in July 2011, sets out a blueprint for change that will simultaneously address longstanding issues of access and quality and the economic performance of the sector. It is a comprehensive package of reforms that deserves long-term commitment and bipartisan support.

At the core of that package is a recommendation for fundamental change to aged care in Australia: *from* a set of rationed government-funded services *to* an entitlement-based system of subsidies that can be used to purchase services. This means that rather than relying on rationed access to an inadequate and non-responsive set of government-determined services, older Australians will be able to choose the services they need within a quality assurance framework and to gain access to subsidies for those services, according to financial need. By proposing changes to the way in which Australians contribute to care costs, albeit within a strong safety net and lifetime limits to contributions, the commission sets the scene both for a financially sustainable system of government subsidies and encouraging greater private sector investment in the sector. The commission's report envisages the development of markets, under appropriate regulatory oversight, which will provide consumers with more choice and investors with a sound platform for capital formation, greater investment in skills and professional development and enabling technologies. Together these will enable change in the way services are delivered and will improve productivity.

The Productivity Commission's blueprint for aged care services represents a fundamental shift from institutions deciding the extent and nature of services to be provided, to subsidies for packages of care designed by individuals and their families – with support from advisers – and tailored and tested to individual circumstances

The key elements of the Productivity Commission's strategy are:

- **Empowering consumers** by establishing the Australian Seniors Gateway Agency and the Aged Care Advocacy Program as a source of ready, timely and useful information, advice and assessment for consumers and carers.
- **Assuring the quality** of providers through regulation of the sector by the Australian Aged Care Commission.
- **Increasing choice** by deregulating the number and nature of supplied services, promoting competition between providers.
- **Improving access** by moving from a rationed and regulated service supply system to a needs- and entitlement-based system. The proposed unbundling of accommodation and care services also will increase the range of care settings available.
- **Promoting additional supply of services** by dropping the restrictions on capital contributions from consumers and recognising that subsidy and co-payment levels will need to rise to encourage investment and freeing up where care services may be provided and by whom.

The Business Council of Australia strongly believes that fundamental changes are needed to three interdependent sectors – the healthcare, aged and disability sectors – as well as to the planning schemes that govern the real property facilities of those sectors (that is, their accommodation). *Caring for Older Australians* presents a coherent and compelling strategy to address longstanding weaknesses in aged care and to prepare the sector to meet future demand in a sustainable and productive way. It represents a once-in-a-lifetime opportunity for important public policy reform. Accordingly, the Business Council of Australia endorses the Productivity Commission's recommendations for change and calls upon both government and Opposition parties to adopt them as a package of reforms to which there will be long-term and bipartisan commitment. The new regulatory framework needs to encourage additional and different capacity in the sector and among the workforce and foster the development of new services. It needs to stand the test of time so that consumers and investors can plan with greater certainty than is provided by the current arrangements.

Five factors will be critical to successful implementation

The Productivity Commission's proposed package of reforms will need careful and staged implementation. The implementation plan must not only set out a clear timetable for the introduction of changes, but also ensure that the risks in the package are articulated and addressed and must be guided at all times by the overall vision of enabling older Australians to live satisfying and full lives. Achieving the commission's vision for the sector depends on effectively managing five key factors:

- Ensuring that consumers are empowered to create pressure for change and improved outcomes through the creation of new information and resources to guide and inform choice and through access to new forms and providers of service and service settings.
- Ensuring that the health and aged care systems are integrated so that health services are designed to support all Australians in the most appropriate clinical setting.
- Ensuring that the regulations and financial incentives are sufficient to attract new investment and foster innovation and competition based on outcomes and value.
- Ensuring that the regulatory settings, supplemented by workforce development plans, are such that they attract sufficient numbers of skilled staff and empowered carers.
- Guided by an overall vision of the desired outcomes, ensuring that an implementation plan is articulated clearly, has measurable and visible implementation milestones and clear accountabilities against which progress can be monitored.

This is a time for innovation and for pushing the boundaries to achieve a system of regulation that allows the market to operate without unnecessary regulation while supporting and protecting people who are vulnerable and disadvantaged with safeguards in place for quality of care. We need a 10-year implementation plan that systemically and systematically addresses the key elements of the reform and the risks associated with each of these five factors.

This paper sets out the Business Council of Australia's views on the nature of these risks and strategies for addressing them. Our approach is summarised through the following core propositions.

The Business Council of Australia's eight key propositions for successful implementation

1. Prepare now for long-term changes in demand for services, build a system of regulations and funding/financing and incentives that will meet the challenges, and allow Australians and investors alike to plan with certainty.
2. Take a systems approach to designing both health and ageing services, ensuring that there are not fragmented services or gaps in services or care, and ensuring that other government policies that affect our constructed environment and health – transport, planning, community development, housing – provide adequately for a changing demographic profile and the needs of older people.

3. Encourage the use of intelligent technologies by service providers, including electronic health, business information systems and integrated information services across care sectors to maximise choice, quality, access and the supply of high-quality care, utilising the appropriate privacy and security settings. Use non-personalised data to create intelligence and insights about how care can be improved, where services are needed and how to get there, so government, the community and business can react quickly to change.
4. Focus early effort on the design and establishment of institutional and governance arrangements for the sector to empower consumers to choose their service and care provider and the setting in which they receive that care, with competition between service providers focused on value for money and outcomes. Because this is a major microeconomic reform involving government-wide regulatory change, we believe it should be overseen by the Minister for Finance and Deregulation. However, getting the governance right will include clarifying roles and responsibilities between levels of government and between the Department of Health and Ageing (DOHA) and service providers, reducing the control over the nature of services, and reducing regulatory controls while still ensuring adequate quality assurance and support for consumers. Make sure the Australian Senior's Gateway Agency is designed to enable consumers to make smart choices.
5. Don't tinker with an old Act. Build a new regulatory framework around the notion of 'healthy ageing' using the architecture and design principles the Productivity Commission has recommended.
6. Change the incentive structures for providers of services and consumers to achieve the stated outcomes, and to encourage greater uptake of technology to improve business systems and support new service models where more people will be cared for at home. This includes ensuring that funding arrangements in both health and aged care are consistent and promote independence, good health and wellbeing.
7. Enable an industry culture and structure that makes aged care an attractive place to work with the required capability and supply of workers in an environment where fewer people are working and there are fewer informal carers.
8. Incorporate the principles of best practice governance and sound program and change management to execution and promote opportunity for people to innovate through the transition.

We supplement and elaborate these in the following sections as we outline the major implementation risks.

INTRODUCTION

THE NATURE OF THE PROBLEM AND WHY IT IS IMPORTANT

Demand for aged care services is already outstripping the supply of services and is projected to grow strongly until 2050. There is also a major mismatch between the services provided and those sought. Without radical change in the way the sector operates, these gaps will grow

The significance of the aged care sector and the nature of the demographic challenge

Aged care services include accommodation, personal care and living support services. As the population ages and as people live longer, the demand for these services is large and growing:

- Currently over one million older Australians receive formal aged care services. By 2050, 3.5 million people will be seeking care services.
- The highest users of aged care services are those aged 85+ years; currently, there are 0.4 million people aged 85 years and over but by 2050 there will be 1.8 million or 5 per cent of the population.
- Combined government expenditure on aged care in 2009–10 was \$11 billion (*Intergenerational Report 2010*).
 - » The *Intergenerational Report 2010* estimates Australian Government spending on aged care will increase from 0.8 per cent of GDP in 2010 to 1.8 per cent by 2050.
 - » As a proportion of government outlays, however, this represents 21.4 per cent of total expenditures (including interest payments) and rising to 27.4 per cent by 2049–50, the bulk of which is accounted for by age pensions.

Two thirds of this expenditure (66 per cent) was on residential care but three quarters of current users (75 per cent) receive mostly low levels of community care at home.

The sector is a large employer but is finding it difficult to attract enough staff to meet demand:

- Employees now number 260,000, but these are supplemented by large numbers of informal carers (83 per cent of those receiving care in the community are assisted by informal carers).
- The social care sector, including health care and aged care, relies very heavily on casual employment. Wages and conditions for nurses are lower than in the acute healthcare sector.

Extra capacity in the sector is growing slowly and in some segments has stalled with those allocated new bed licences not taking them up.

Returns in the sector are neither sufficient to attract additional investment in facilities nor to pay more competitive wages to attract additional skilled staff.

The failure to provide adequate health services for older Australians means that they are being treated in more expensive acute facilities or being forced to use emergency departments:

- 30 per cent of admissions from emergency departments are of residents of aged care facilities that lack basic equipment and skills
- 70 per cent of planned new beds in acute facilities are for people over 75+ years.

The weaknesses of the aged care system are well documented

A decade of reports has documented the strengths and weaknesses of the current aged care system:

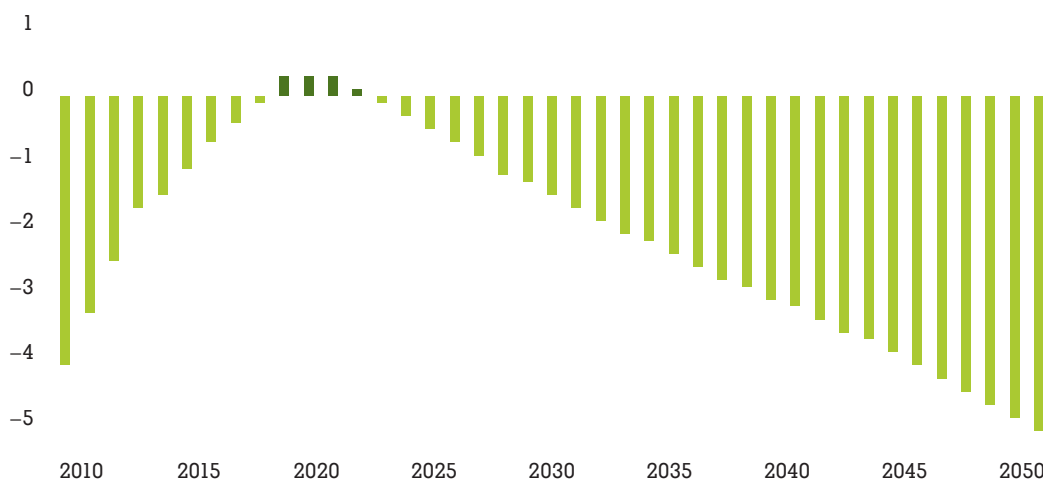
- Services are difficult to access and navigate – there is inadequate information and guidance to help people navigate a highly fragmented aged care system.
- Quality is variable and consumers have no choice.
- Usually people enter aged care in crisis because there has been no emphasis on healthy ageing and in promoting a restorative approach to care.
- Rigid program boundaries between aged care, health, disability services and housing make it virtually impossible for older people to seamlessly receive the right care in the most appropriate housing. Increases in the prevalence of chronic diseases like diabetes and dementia, more pronounced among people aged 85 years and over, means services have to be seamless across health and aged care to avoid inappropriate referrals to acute hospitals where the care is not always appropriate and is more costly for taxpayers.
- Aged care is burdened with excessive regulation. The Aged Care Act 1997 regulates demand (through assessments), price (through scheduled prices), quality (through accreditation) and supply (through planning ratios). This stifles innovation and removes consumer choice.
- Because pricing is not consistent across care settings and bonds are excluded from the pension asset test, there are financial incentives to charge high accommodation bonds in low care. This further distorts choice and increases prudential risk.
- The workforce is ageing, mostly female, largely unskilled, works part time and generally with limited capacity to embrace technology.
- Aged care has many of the characteristics of a cottage industry with a majority of services operated by the church and charitable sector. Most providers operate fewer than 100 places with simple business models that rely on inadequate levels of government funding. Their governance and leadership capability is generally under-developed with highly variable financial performance and a lack of transparency about the opportunity cost associated with social justice outcomes.
- As baby boomers enter older age their expectations will be very different. They will be more involved in directing their own care and demand the option of receiving full care services at home.

Preparing for future challenges: why is the Business Council of Australia interested?

The Business Council of Australia's commissioned research shows clearly that all levels of government will face what we believe are unsustainable fiscal pressures as the population ages.

The Combined Budget Deficits of Federal and State Governments, 2010–2050

Per cent of GDP



Source: *Preparing for a Better Future: Progressing Comprehensive Tax Reform in Australia*, Business Council of Australia Submission to the 2011 Tax Forum.

These deficits are driven largely by the projected health and age-related expenditures associated with the ageing of the population and the increasing demand for healthcare services as the nature of our illness changes, technology opens new treatment possibilities and our expectations rise. The following chart shows the impact.

Health and ageing expenditure projections by jurisdiction

Per cent of total government expenditure excluding interest payments



Source: Deloitte Access Economics, 'An IGR for the States: Health and Aged Care Expenditure', internal report to the Business Council of Australia, November 2011.

These projected deficits pose significant challenges for the Australian economy. Not only will the ratio of working-age people to older dependants nearly halve to 2.7:1, putting significant strain on the tax system, but it is also doubtful whether they can in fact be financed from debt.

If Australia does not reform and significantly restructure health care and aged care to optimise service delivery so it is focused on patient and customer-driven outcomes, there will be a number of unfortunate outcomes for our citizens and the economy:

- The health and aged care systems will become unaffordable with ever more difficult choices about how to ration services and potentially who misses out.
- The workforce will face significant challenges meeting rapidly growing demand to provide caring services across the health and ageing sectors, including carers.
- The wider economy will not be able to access the healthy workforce it needs to grow.
- Other parts of the economy will be increasingly forced to compete heavily for the healthy working population with the health and ageing sectors.
- By increasingly trying to fund the growing health and aged care system, the rest of the economy will be squeezed, crowding out necessary investment for a growing economy.

Despite the Intergenerational Reports highlighting the growing demand and costs of health care, aged care services and pensions, we do not believe that there is a widely accepted understanding either of the nature of the problem or a plan to address it

There needs to be fundamental change to the way we structure and govern the care sectors so that the cost to government and taxpayers is contained and access to quality services and care is assured. This can only occur if new regulatory and pricing structures encourage greater innovation and service and care models. The additional capacity can only be achieved through new investment in different kinds of facilities, both within the aged care and healthcare systems, new technologies that permit care in different kinds of settings and the evolution of new care roles as skills and team-based approaches to care emerge. The sectors need to become more efficient as they call upon scarce human and financial resources.

The sectors must also respond more quickly to the changing preferences and expectations of consumers and the dramatic changes in the demographic composition of Australia. Its age, patterns of illness and diversity need to be fully recognised in the design of government-funded services, rather than marginal adjustments to service systems designed in another era. Australia has changed; our government services need to reflect this.

Critically, this must be seen in improved connections between the healthcare, aged care and disability systems. The current 'silo-ised' planning for each system means that the weaknesses of one flow into the others. The quality and efficiency of the aged care system cannot be corrected without parallel redesign and development of the healthcare system. A core principle needs to be that the healthcare system provides healthcare services for all Australians whatever their age and wherever they reside.

Such a change in mindset needs to extend to thinking about how we can finance these important systems of social care and support. Relying only on crude budgetary constraint to force efficiency or to ration further access to services will neither improve the economic performance of the sectors nor provide adequate safety nets to assure quality of life. The current systems promise universality but are increasingly not delivering. They encourage individuals to spend or bequeath now in the expectation that they will have access to care but increasingly people are denied access or receive inappropriate or poor-quality care.

... care services should not be tied to allocated places. This has unnecessarily constrained the provision of services to meet funding constraints and has stifled innovation. However, regulating for minimum standards in care services should remain.

– Blake Dawson

We need a plan and we need it now if we are to have a smooth transition.

The Productivity Commission's Final Inquiry Report is a blueprint for change

The recommendations from the Productivity Commission's Final Inquiry Report, *Caring for Older Australians*, are summarised in Appendix 1.

The commission has recommended a fundamental shift in the way in which aged care services should be provided – from provider-centric, rationed service provision to consumer-directed, entitlement-based access to services. It has proposed ways that will empower and facilitate consumer choice, increase competition and lift capacity and investment constraints.

These recommendations build upon the lessons from past microeconomic reform. As it has in other sectors, the strategy of giving consumers more control over their care decisions is expected to deliver better value for consumers and taxpayers by increasing competition and responsiveness to their preferences and fostering innovation to improve efficiency and productivity.

The Productivity Commission's strategies to improve access to the sector and improve the responsiveness and performance of the sector include:

- Empowering consumers by establishing the Australian Seniors Gateway Agency and the Aged Care Advocacy Program as a source of ready, timely and useful information, advice and assessment for consumers and carers.
- Assuring the quality of providers through regulation of the sector by the Australian Aged Care Commission.
- Increasing choice by deregulating the number and nature of supplied services, promoting competition among providers.
- Improving access by moving from a rationed and regulated service supply system to an entitlement and needs-based system. The proposed unbundling of accommodation and care services also will increase the range of care settings available.
- Promoting additional supply of services by dropping the restrictions on capital contributions from consumers and recognising that subsidy and co-payment levels will need to rise to encourage investment and freeing up where care services may be provided and by whom.

The Business Council of Australia supports the commission's conclusions and recommendations and believes they represent a blueprint for change. Accordingly, we strongly urge both the government and the Opposition to adopt the report and start the reform process now.

Five factors will be critical to successful implementation

In our view, there are five clear implementation risks that must be managed if the commission's vision for the sector is to be realised. They are:

- Ensuring that consumers are empowered to create pressure for change and improved outcomes through the creation of new information and resources to guide and inform choice and through access to new forms and providers of service and service settings.
- Ensuring that the health and aged care systems are integrated so that health services are designed to support all Australians in the most appropriate clinical setting, delivering better outcomes for individuals and more cost-effective care and treatment.

- Ensuring that the regulations and financial incentives are sufficient to attract new investment and foster innovation and competition based on outcomes and value.
- Ensuring that the regulatory settings, supplemented by workforce development plans, are such that they attract sufficient numbers of skilled staff and empowered carers.
- Guided by an overall vision of the desired outcomes, ensuring that an implementation plan is articulated clearly, has measurable and visible implementation milestones and clear accountabilities against which progress can be monitored.

The underlying risk is that people do not recognise or accept the fundamental nature of change needed to address the problems. We have had a decade of reports that have repeatedly catalogued the sector's structural weaknesses but reform has not been tackled. This suggests there is either an inability of those charged with change to effect it, or resistance from vested interests. Incremental change will not suffice. We need deliberate but carefully sequenced and paced change to deliver the outcomes we want.

The early establishment of a new regulatory framework and new institutions to govern and shape the market will send clear signals to existing providers of the business changes to come and the need for them to redesign their business strategies.

Building community trust in the new system and its institutions will be essential to successfully reorient the culture of regulation of the sector. Building this trust must start with the reform implementation process itself. Thus, the reform process must be adequately resourced, undertaken within a structured and accountable approach to governance, program and change management and guided by the overarching vision and objectives: access to affordable, high-quality care services that meet the needs and preferences of Australians and enable them to live healthy and satisfying lives.

In the pages that follow we address each of these implementation risks and make recommendations about how to manage them, based on our members' experience in dealing with complex systems change, redesign of supply chains, and reengineering of business processes to meet changing consumer expectations and preferences.

CRITICAL SUCCESS FACTOR ONE

INCREASING CHOICE AND EMPOWERING CONSUMERS

Engaging and empowering citizens and consumers is the key to better outcomes and improved value for consumers and taxpayers

The key to driving better outcomes and improved value for money is to allow and enable those whose needs must be met to choose from competing providers. The key ingredients then are putting the purchasing power in the hands of those who have the needs, ensuring that the market provides alternatives, ensuring that consumers are aware of those alternatives and then ensuring they have the resources and assistance to choose between them.

Consumers, providers and governments all agree that the current aged care system provides few of these elements. Consumers and carers have little or no control with few choices about what care they receive, who provides it and in which care setting. The system is difficult to navigate and has limited information to help consumers make good choices about their care or make comparisons between providers. Delays in need assessments, especially for low care, make it difficult to find the best care when needed and often leads to inappropriate admission to higher-cost residential care and hospitals. The overwhelming preference is for care at home but understanding how to access services that will support this is difficult.

We need to change the way we provide services, from one of 'giving' services to one of 'empowering' individuals to unlock productivity potentials. It is what our ageing Australians demand, and it is also good for the country as a whole.

... Empowered service users will be healthier, happier and more capable and willing to be independent, therefore having less need for services.

– From 'Just Better Care' Submission, quoted in Productivity Commission Final Inquiry Report

Structural and regulatory barriers

Consumers lack resources and support for decision making, because:

- there is little accessible, transparent and usable information to inform consumer choice
- there is inadequate investment in the front end of care with a shortage of assessors, access to care coordination and case management
- there are complex and inconsistent financial and eligibility rules, which make transitioning to different kinds of accommodation difficult.

Funding and regulatory models limit choice by prescribing set models and settings of care and undertaking the 'purchasing' on behalf of consumers/taxpayers. Providers receive from government a planned supply of funded aged care places that bundles accommodation, living expenses, healthcare and personal care services together in a limited number of alternative care models. This:

- limits the choice of care setting and model of care
- focuses competition between providers on access to government funding rather than outcomes – providers see government as the client and consumers as secondary, reinforcing a provider-focused rather than consumer-led culture
- has led to an incentive that promotes residential care over community care, notwithstanding the overwhelming consumer preference for community-based care
- means that because of delays and rationing there is inadequate assistance until consumers are in crisis with choice narrowed by necessity.

The resultant structure of industry creates silos and fragmentation of care. There are many providers but few able to arrange care across a continuum of care needs, or encouraged/interested in doing so.

Most relevant recommendations from the Productivity Commission

The commission has recommended that each of these dimensions be addressed. First, it puts the purchasing decisions in the hands of consumers rather than the department; aids them in making those decisions by creating a Gateway Agency through which they gain ready access to relevant and timely information about available services and alternative providers and their performance; and provides more holistic and timely care assessments and subsidy eligibility and assistance in accessing the selected services. A second agency, the Australian Aged Care Commission, will be charged with establishing and implementing a robust quality assurance framework within which service providers must operate. This will allow a retreat from detailed prescription and scrutiny of inputs and service models, the removal of barriers to innovation and a focus on outcomes and value.

The proposed unbundling of accommodation, living expenses, healthcare and personal care services sets the scene for new market participants, new models of service and care and far greater variety and choice in care settings. It also permits the development of new thinking about which services the state should subsidise or pay for and those which individuals could reasonably be expected to contribute to.

Implementation issues: the importance of institutions and governance

Exercising choice fosters competition but the existence of competition is a necessary precondition for choice. Competition based on price, quality and matched to needs and preferences delivers outcomes that are more valued and over time, more efficient. Competition therefore is a means to improving consumer choice and efficiency.

To ensure that consumers really are empowered to exercise choice requires:

- new resources to be made available to consumers to support them making choices (information; navigation help; assessment of needs; assessment of providers against clear, transparent standards and benchmarks; subsidies and new financial instruments)
- regulatory change to remove barriers to choice of setting
- opening up the range of services that can be provided and encouraging competition between providers to create greater responsiveness and ways to create valued caring services for patients and consumers
- a set of market governance and institutions to give effect to new regulatory framework, so it is clear who has responsibility for what – and what the rules are – helping to make the system easier to regulate and for consumers to navigate.

Together these should engender a new consumer-focused and value-based culture within the sector. However, who writes the new Act and its regulations (their vision, skills and attributes), determines prices, and staffs the new governance institutions charged with giving effect to the plan, will determine its success. In our view these individuals need to be carefully selected to ensure that their vision for the sector, skills and experience are consistent with the plan's objectives. Entrusting the job to those steeped in existing systems that have different objectives is to jeopardise the plan and risk only incremental change. Building this new system needs a fresh approach.

The Gateway must not be bureaucratic and for this reason we urge government to consider tendering its operation to the not-for-profit or other sector with clear targets for outcomes and timeframes. The information it makes available needs to be accessible, accurate and assembled to enable fair comparison between care providers. Navigation and assessment services must be readily available and specialised to meet diverse consumer requirements and not just a means for controlling subsidies and fiscal impact. The Gateway should not be part of the Department of Health and Ageing (DOHA) to ensure that the department's accountabilities for policy, system design and funding (purchasing) remain clearly separated from service provision.

In our view the signals sent by institutional changes set the scene for the operational and business changes to come. These signals need to be made early and become the foundation on which reform benefits are defined and realised. They will be watched closely by existing providers and potential new entrants.

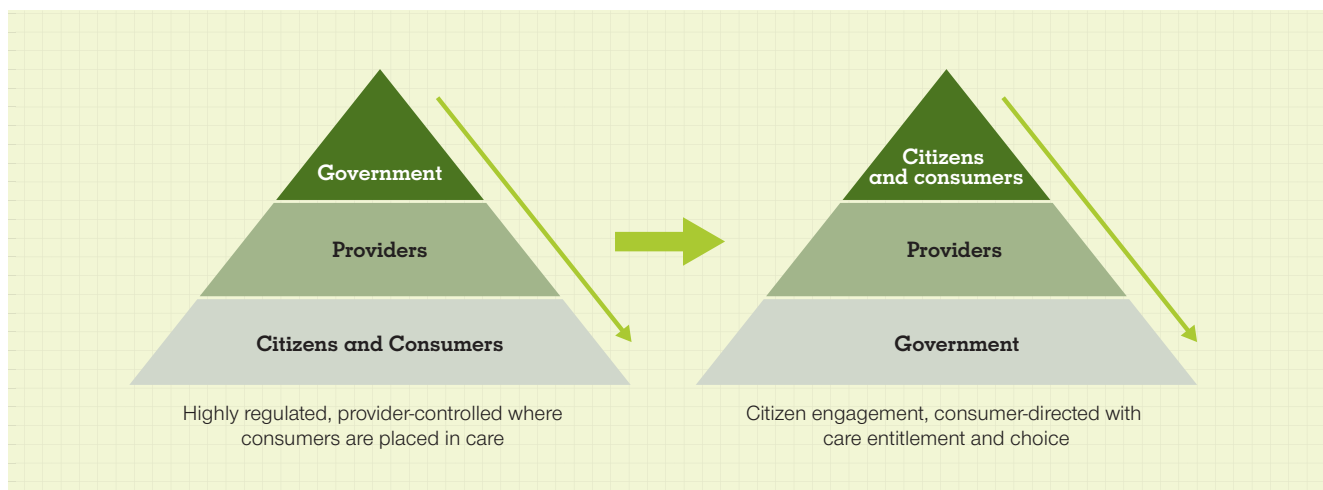
However, there is also a need to start building the community's trust in the new institutions and framework; it is an equally big mindset change for the community as for those who currently work in the system. How the process of implementation is approached will signal early how trustworthy and transparent the new framework is likely to be. Building community trust will then be assisted by ensuring that the processes and timetables for implementation of changes to regulations, and the establishment of new institutions, are transparent.

A vision of how the sector and the market will operate is required early and the framework put in place in a transparent manner. Bipartisan support will be essential to reassure individuals, investors and providers that it is safe to commit. Winning trust on the one hand and signalling the change to consumer-led provision on the other will be key to successful implementation.

In summary, our implementation proposals to ensure that consumers are empowered to choose are to:

- Establish a clear, structured and accountable reform process and governance structure that incorporates key stakeholders. A suggested structure is included in Appendix 2. We believe that the lead minister should be the Minister for Finance and Deregulation, with the reform program implemented through an independent reform governance board so that the focus is clearly on deregulation and adopting proven market oversight models to create public and consumer value in the most efficient way.
- Establish a new Aged Care Act rather than tinkering with the old one. The current legislation promotes an outdated view that care to older Australians has to be delivered in institutionalised, age-segregated settings by doctors and nurses. These models of care have their place. However, aged care needs a radical overhaul to satisfy the overwhelming preference of older people and their carers to receive care at home. Framing a new Act around healthy ageing and empowering consumers to make informed choices about their care will require innovation, different capabilities, investment in new technologies and a willingness to challenge existing beliefs and practices. The starting point should be the development of a discussion paper about how to give legislative effect to the Productivity Commission's recommendations.
- Have the new Act establish the architecture of market and sector oversight in the form of the proposed Gateway and Aged Care Commission to signal to investors, providers and consumers how the market will operate.
- Design and operate the Australian Seniors Gateway Agency in such a way that it can be truly responsive to the diversity of consumer needs and to enable and encourage people to take greater responsibility for their care. Key principles should:
 - » Embed the principles of consumer direction for the Gateway within the new Act through ensuring its objectives, functions and key performance indicators are clear and consumer oriented.
 - » Establish the Gateway as an independent agency separate from the Department of Health and Ageing, and in such a way that its functions may be outsourced and services purchased through transparent performance arrangements. The department's responsibilities should remain as policy development and evaluation, purchasing of services and ensuring that the disability, aged care services and health systems operate in an integrated manner.
 - » Clearly articulate that its objective is to facilitate consumers to choose service mix, delivery model and provider, and provide for it to:
 - › Set and publish performance against standards for assessment and entry to services
 - › Release timely and transparent information to inform consumer choice.
 - › Include access to third-party accredited assessors to reduce delays in accessing the right services.
 - › Include independent brokers in the schedule of approved services to help consumers direct their own care.
- Establish the pricing authority with a charter that recognises the need for business viability and market-based returns to attract new providers, new investments in skills, technologies and facilities while ensuring that adequate consumer protections are in place. Consider co-locating with the independent pricing body for health care as a means of developing a shared understanding of the efficiencies that come from changed models of care across health and aged care settings.
- Establish a Seniors Living Scheme to help consumers move to smaller or care settings.

Turning aged care on its head



CRITICAL SUCCESS FACTOR TWO

HEALTHY AGEING FRAMEWORK AND INTEGRATION OF THE HEALTHCARE AND AGED CARE SYSTEMS

Our health and wellbeing, or lack of it, undermine self-confidence, increase social isolation and have adverse impacts on our economic prospects, both individually and for society as a whole

People are living longer but with more illness and often multiple disabilities, including dementia. Over the next 40 years the number of people aged 85+ will more than quadruple. The likelihood of people experiencing disability increases with age. This means the care needs of people entering aged care are more complex and chronic with increased demand for high-care services. However, as a result of poor coordination between the health and aged care systems, people are delayed in receiving treatment, are admitted unnecessarily to acute facilities and attract more expensive treatments. These add costs to the health system and cause unnecessary angst to patients and their families.

The prevalence of dementia is estimated to increase from around 257,000 people in 2010 to just over 981,000 people in 2050 ... This will see a greater proportion of the total population with dementia, increasing from around 1.2% to 2.8% in 2050.

– Access Economics

Recognising that both Australia's pattern of disease and best practice treatment models of care had changed dramatically, the National Health and Hospitals Review Commission recommended a major reconfiguration of healthcare services that would more effectively and efficiently meet healthcare needs. This included greater diversity in care settings with greater investment in sub-acute and step-down facilities and technology that would enable treatment in the community or home and improved connection between the primary healthcare, acute and aged care sectors. Governments are responding through earmarking a proportion of new bed investments for these purposes and investing in e-health initiatives to enable improved record and information sharing between the healthcare sectors. The National Primary Health Care Strategy has identified the need for improved management of chronic disease (including self-management) within the primary healthcare sector and Medicare Locals to work with aged care services and to ensure access for older people.

The reconfiguration of the healthcare system needs to recognise and provide for an older population. In its current form the system neither provides for new patterns of disease nor the changed demographic profile that bears it. Addressing this fundamental change in the characteristics and needs of Australians is a key ingredient in achieving a more cost-effective and efficient healthcare system and a more adequate system of care for older Australians

Hundreds of thousands of patients could be treated at home, \$108 million could be saved and the equivalent of a 500-bed hospital could be freed up in each state if Medicare rebates better funded home visits by doctors ... A Deloitte study of the Hospital in the Home service has found that when patients are discharged from hospital early and get treated by nurses and doctors at home it is 32 per cent more cost-effective for governments.

– *The Australian*

Structural and regulatory causes or barriers

The systems of service and care necessary to support independent living or aged care have not been designed in an integrated way. In particular, the healthcare system has not adjusted adequately to greater demographic diversity and several groups fall outside the 'norm' of patients. The largest of these groups are older people. Factors causing the gaps include fee regimes that embed differentials between sectors, price caps based on outdated models of care, lack of electronic information storage and sharing between care settings, training of health professionals, inadequate investment in appropriate sub-acute facilities, and cost-shifting on care settings between health and aged care.

- Aged care has not been designed or planned as an interconnected system within a wider 'healthy ageing' framework where there is a place for social and health models of care.
- GPs are reluctant to work in aged care because they are not adequately remunerated and the clinical capabilities of aged care workers need to improve.
- The ability of providers to attract the best people and invest in new technology, including patient and business information systems in an environment of competition with the health sector, is limited by the level of prices set.
- There are neither the resources to invest in ICT nor the skills to use it effectively. As a result, the culture around information management and systems is under-developed with a reluctance to use electronic systems to collect, store and share consumer information.

- There are few incentives for providers to invest in restorative care to help people gain independence and wellbeing. The move to activity-based funding in acute hospitals may exacerbate this, as payment is made on the basis of specific (curative) procedures rather than holistic health.
- Attitudes about risk in older age are conservative, with older people often inappropriately admitted to hospital from aged care without first using less intrusive yet safe interventions that enhance quality of life and wellbeing. Information about best practice and use of evidence for good decision making is limited.

Most relevant recommendations from the Productivity Commission

The Productivity Commission has clearly recognised the need for greater integration of the healthcare and aged care systems. It has recommended this be achieved first through unbundling aged care services to allow healthcare services to be separated from other care, living expenses and accommodation services; and second, funding health care delivered in aged care as healthcare services. It has also proposed an expansion of in-reach health services to aged care settings, including the provision of services from multidisciplinary health teams, sub-acute care and palliative and end-of-life care. It also recognises that the fees or wages that health professionals earn in the aged care sector need to be competitive with those in other healthcare settings if the sector is to attract and retain the level of skills it requires. However, the commission also expects overall fee levels to reflect the lower cost of delivery.

Implementation issues: Integration of the healthcare and aged care systems within a framework for healthy ageing

A major implementation risk is that the redesign of both the healthcare and aged care systems will be done in isolation from each other and in isolation from the redesign of other public services that are integral to achieving the healthy ageing vision. With an increasing proportion of older Australians, the health and ageing systems need to be considered as part of the one system and the total economies of care require consideration independent of whether it is a state or federal budget. Otherwise cost shifting will continue, which creates sub-optimal care and higher costs. The opportunity to optimise the respective resources and specialisations of the healthcare and aged care systems is upon us.

The redesign of services in aged care needs to be guided by a whole-of-government framework that provides for healthy ageing. This effectively means that, just as for other parts of the population, we reorient the design of services to older Australians around maintaining health and independence rather than treating the illness of ageing. This will require seamless and effective interaction between the aged care and health systems so that health services are accessible to all Australians regardless of their setting.

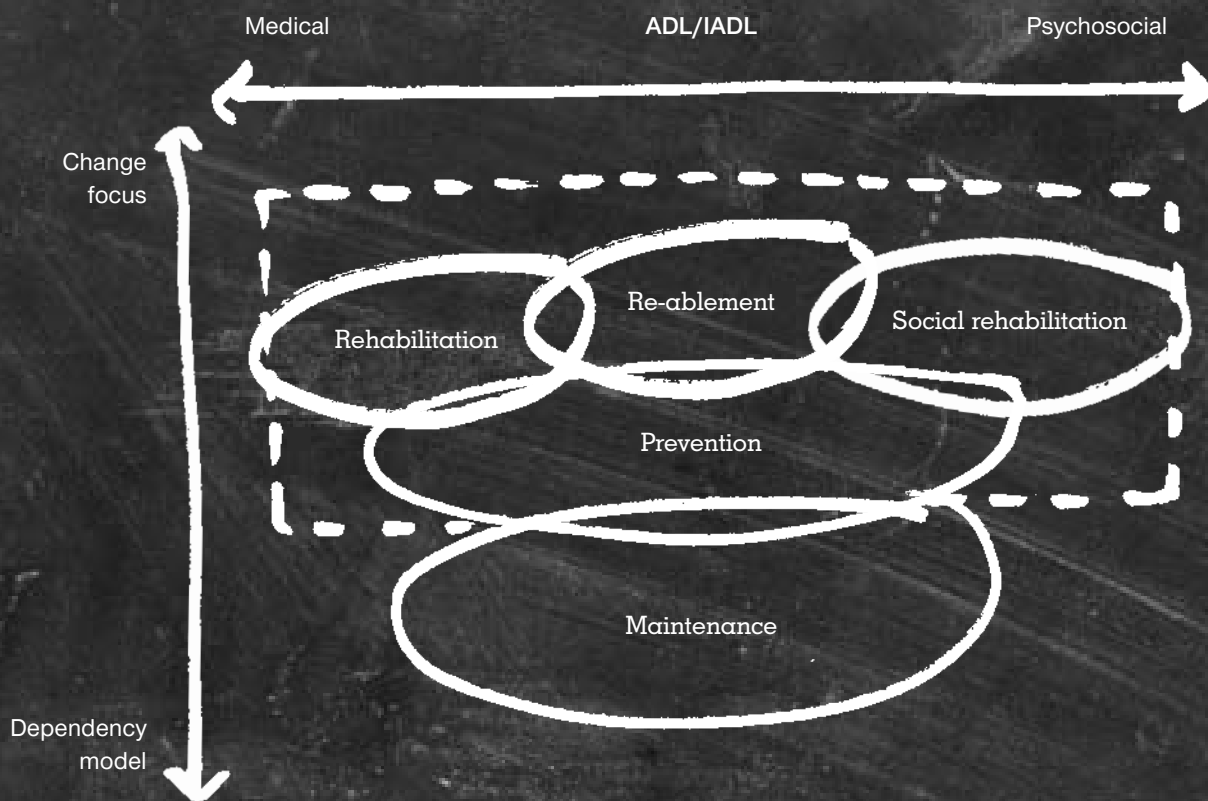
However, it will also require that the needs of older Australians are recognised within the design of other social systems and services affecting their ability to remain healthy and live independently; for example, services like housing, disability services, transport, information and communication services. Having adequate income is also important for continued health and wellbeing (as outlined in the World Health Organization's Social Determinants of Health Framework).

Medibank has a vision for how aged care and supports which assist people to live independently will be delivered in the future. This vision encompasses a future where a seamless continuum of supports incorporating preventative activity, healthcare, community-based services, aged care and other supports are delivered in the right setting at the right time.

– From Medibank Private Submission, quoted in Productivity Commission Final Inquiry Report

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A restorative re-enablement model of care



Note:

IADL = Instrumental activities of daily living

ADL = activities of daily living

Source: Uniting Care Ageing NSW and ACT, included in Productivity Commission Final Inquiry Report, Volume 2.

In 2008, an Australian Institute of Health and Welfare report showed that of the 39,466 people admitted to hospital from aged care facilities, 30 per cent were admitted as a result of adverse medication events, of which up to 75 per cent were preventable.

– Australian Institute of Health and Welfare

The Business Council of Australia agrees that improving the interface between health care and aged care is critical to improving outcomes and efficiency in both sectors, and recommends:

- An overarching framework for healthy ageing: adoption of a whole-of-government healthy ageing framework, overseen by a senior Cabinet minister and the COAG council but also including local government, within which the new regulatory structures for aged care are established.
- Alignment of boundaries and co-location: strong emphasis in the implementation of the National Primary Healthcare Strategy and National Preventative Health Strategy on the development of accountabilities and performance monitoring of access and services for older people as a growing cohort of the population and users of healthcare services, with specific attention to:
 - » recognising the importance of primary care as the first interface with the health system, co-location of the Gateway with Medicare Locals
 - » timely care assessments and case management that recognise whole-of-person needs: greater use of teams of multidisciplinary health professionals
 - » aligning the boundaries of aged care with the boundaries of Medicare Locals and National Health Networks
 - » changed incentives to reward earlier access to health services and avoidance of hospital admissions
 - » significantly more emphasis on implementation planning within the National E-Health Transition Authority (NEHTA) for sharing of patient information between healthcare and aged care systems
- Funding of healthcare services regardless of setting by the health system; removal of financial incentives that skew where care will be provided (for example, GP rebates and fees); efficient prices that embed current differentials around nurse rates and models of care.
- Increase in numbers of health professionals specialising or with knowledge and expertise in older persons' health/living needs.
- greater effort and commitment to advancing the conduct, evaluation and application of best practice to healthy ageing programs and service design. This includes ensuring that public research dollars are directed to the areas of greatest projected growth (such as Alzheimers Disease); the application of findings on the most cost-effective settings for care, such as prevention of hospital admission programs and the use of assistive technologies; and ongoing evaluation and dissemination of best practice in achieving high wellbeing indicators and effective service design for older people.
- Formal consultation with the proposed National Disability Insurance Scheme and how this will interface with aged care and health.

CRITICAL SUCCESS FACTOR THREE

BUILDING CAPACITY – ENCOURAGING GREATER INVESTMENT AND INNOVATION

Australian government spending on aged care is projected to increase as a proportion of GDP from 0.8 per cent in 2009–10 to around 1.8 per cent in 2049–50 ... This is caused mainly by projected increases in spending on residential aged care reflecting very high rates of growth in the number of people aged 85 and over.

– Intergenerational Report 2010

Aged care expenditures by government are growing fast. This is because the need for aged care increases with age. Indeed, at June 2010, of the 163,000 people who received care in residential places approved by government for subsidy, 70 per cent of them received high care. This has risen from 58 per cent in 2008. Yet despite this growth, there is considerable unmet demand and the number of aged care services remains heavily rationed and new capital investment limited. In 2009 fewer bed licences were taken up than were made available and some bed licences have been handed back. The 2003 ABS Survey of Disability and Aged Care estimated 18.1 per cent of people requiring assistance had unmet needs. This has not changed significantly since then.

The current policy settings will provide neither the level of care required nor the type of care that is sought to enable healthy ageing. How then should policy settings be changed to build the amount and type of service capacity to meet the projected demand from an ageing population?

Aged care expenditure by the Australian Government – forward estimates and Productivity Commission proposals

Millions of dollars (nominal)

	2012–13	2013–14	2014–15
Forward estimates	12,390	13,180	14,090
Commission's proposals	11,077	12,084	13,310

Structural and regulatory barriers to increasing capacity

- Government regulates and rations the number, type and price of aged care services. This does not lead to an adequate return on investment and accordingly investment in the sector has stalled. Investor confidence has been particularly low over the past two years as a result of uncertainty about future directions and a general reduction in capital availability.
- Inconsistent and inadequate pricing between high and low residential care and community care leads to a mismatch between the type of services provided and those sought by consumers. The inability to charge accommodation bonds for high-care beds leads to a lack of investment in these facilities.
- There are significant barriers to entry where allocation of aged care places only to approved providers prevents new players entering the market and offering new ways of clustering people, specialised services and different settings for service provision.
- The bundling of accommodation and care in large congregate residential care settings constrains innovation around new service models and housing options.
- There is no stimulus or incentive on how to provide a wider range of appropriate and affordable housing in good locations.
- A conservative industry culture overly reliant on government funding leads to inefficiency and a lack of maturity in how to operate in a demand-led managed market.

.....
Hogan ... found that aged care providers could be around 17 per cent more efficient if they were able to operate at the most efficient level ... and also estimated that costs could be reduced by a further 7 per cent ... by making structural adjustments that improved the scale efficiency of the sector.

[Commenting on Hogan] ... it appears that the level of inefficiency in the industry has not diminished since then.

... by 2030 older Australians will own around 47 per cent of total household wealth, although they will only make up around 19 per cent of the population.

– From Productivity Commission Final Inquiry Report
.....

Most relevant recommendations from the Productivity Commission

The Productivity Commission has sought to stimulate additional investment in the sector by unbundling the accommodation, living expenses, personal care and healthcare services and proposing different funding/financing arrangements for each. It has also sought to remove the caps on supply and price that limit new investment in the sector and to increase the range of services provided, to those who may provide them and the settings in which they can provide them.

By recommending that pricing be subject to independent review, it has also sought on the one hand to ensure that consumers are protected from unreasonable practice and at the same time to exert pressures for greater efficiency in the sector, recognising that the current lack of investment in processes, skills, technology and scale is leading to poor value for dollars spent.

The Productivity Commission has also sought to increase the funding available to support services by adopting a key principle: that is, individuals continue in their older age to be responsible for paying for their own accommodation costs, with safety-net subsidies to support those unable to do so, and access to new financing products to ensure that individuals can safely unlock the value of their family home. By suggesting changes to the assets test, greater equity is achieved in determining those most in need of public support. Protection against exploitation for older consumers is proposed through access to government-provided financial instruments, lifetime caps on contributions and independent pricing reviews.

The commission has also sought to enshrine the capacity to develop different housing options for seniors within a COAG national housing policy and to ensure that planning restrictions on housing types are lifted to allow different types of housing and developments to emerge.

The commission has also sought to ensure that the appropriate workforce is available to support the expected demand for aged care services, recognising that additional skills will be required to take advantage of the emergent medical monitoring and assistive technologies that will enable a dispersed pattern of care.

The Commission is conscious that the removal of limits on aged care supply represents the removal of a significant constraint on the Australian Government's potential expenditure over time. However, current supply limits restrict the ready availability of services and the exercise of choice by older people and the degree of competition between providers. Their repeal is essential to the success of the reforms.

– From Productivity Commission Final Inquiry Report

Implementation issues: the need for systematic regulatory reform and long-term planning

The Business Council of Australia strongly supports the funding principles underpinning the commission's recommendations on paying for aged care. The combined effect of these reforms will increase certainty in the market, providing greater incentives for private investment and increased competition between providers in response to changing patterns of consumer demand.

A deregulated market will encourage new entrants and increase competition. Over time the structure and composition of the industry will change, with consolidation likely as providers pursue the benefits from having economies of scale.

There will also be new opportunities for greater specialisation in response to increased diversity and different preferences of consumers. But regulatory constraints on new types of services and assistive technologies need to be removed and incentives sufficiently strong to drive cultural and behavioural change that will appropriately encourage new, more dynamic business models.

However, successful implementation will require:

- Long-term political support from all levels of government and government and Opposition parties to enable long-term planning by both individuals and investors.
- Careful drafting of the new legislation to create regulatory settings that foster a demand-driven approach with increased competition and adequate protection for people who are vulnerable and financially disadvantaged. The strength and independence of the Aged Care Commission that monitors the performance of providers will be critical.
- Important foundation work in the early stages of implementation to set prices for the cost of care independently.
- Further modelling by Centrelink to establish the most sustainable approach to the comprehensive income and assets test.
- Close scrutiny to remove all unnecessary regulation and achieve national consistency.

We recommend as follows.

A systematic and comprehensive review and removal of regulatory barriers

A concerted effort will be required to remove unnecessary regulation and regulation that hampers the vision across government – tax, housing, health care, food handling, OHS, industrial relations/awards:

- The Department of Finance and Deregulation commissions an independent study to map out the regulations that are unnecessary and hampering the achievement of the vision across the various levels of government and key sectors. Implementing the removal of these regulations is agreed through a formal implementation plan at COAG. As a key building block for achieving the vision, this will need to be completed early.
- Early attention from COAG on a National Housing Policy for Older Australians is needed to encourage investment and innovation in a wider range of housing options in accessible locations. The Commonwealth Government should require that cities planning incorporates mixed density and seniors housing. Currently only Adelaide's plan does so.
- Early removal is required of separate building certification for residential care and any other housing or planning-related regulations that restrict care settings; developing national best practice regulation for seniors housing with national regulation for retirement villages is a priority.

Development of a Seniors Living Scheme

As the commission has recognised, consumers will need advice and new financial products to help them make the transition to new accommodation and finance their contributions to care costs. The Business Council of Australia recommends that the advice and options are packaged within a seniors living scheme, rather than existing as a standalone series of initiatives.

This package should aim to facilitate downsizing from the family home to more appropriate seniors living. This could include:

- The proposed Home Credit Scheme and Age Pensioners Saving Account Scheme.
- An option for eligible consumers to use the capital subsidy for supported residents in new or redeveloped service-integrated housing like retirement villages, which will increase the attractiveness of these housing options and encourage investment in new and redeveloped affordable housing stock.
- Removing the barriers to receiving care in retirement villages (including confirming that no GST is payable on resident loans on the sale of co-located retirement villages and aged care facilities).
- Clarifying that the Pensioner Account Savings Scheme can be used for care settings such as retirement villages or in other service-integrated housing.
- Clarifying how the Aged Care Home Credit Scheme applies to other forms of service-integrated housing like retirement villages that involve a lease and in areas where house prices are in the \$250–350,000 range and the draw-down allowed is insufficient for a bond.
- Further investigate voluntary insurance products to cover costs of care, including options to cover the purchase of additional services above those regulated for subsidy.

Included in the transition should be planning opportunities for increasing more public–private partnerships in aged care.

Pricing needs to be transparent and balance the needs of all stakeholders

- Require that pricing is transparent, simple and consistent across care settings and done by an independent pricing authority and subject to regular reviews that these objectives are being achieved.
- Give early attention in the transition to establishing prices to reflect the cost of care using independent experts including the Hospital Pricing Authority.
- Consult further with a wide range of providers and financial institutions to understand the cash flow implications if more periodic payments are paid than bonds and the extent to which the proposed measures are likely to attract the capital needed for development and increased demand for aged care and ensure business confidence.

Reporting and accountability to follow standard business practice and focus on performance and quality assurance information for consumers

- Coordinate business reporting with the Australian Charities and Not-for-Profits Commission but preferably adopt standard business accounting standards and processes to allow use of standard packages.
- Where possible, adopt one set of care standards focused on outcomes for consumers and apply these consistently across all care settings.
- Establish and publish performance indicators for providers that focus on outcomes and ensure competition based on value to consumers. Suggested indicators are to include key indicators of financial performance, care outcomes, consumer satisfaction and workforce engagement.

Incentives for building smart business and consumer information systems that improve business performance, support consumer decision making and fully optimise the whole care delivery system

- Encourage aged care providers to transform their operations, through specific co-investment incentives to build more sophisticated business information systems that can improve business performance and at the same time, meet the needs of the pricing authority and consumers as determined through the Gateway and commission to ensure reasonable pricing structures and monitor performance.
- Adopt the Australian Government's standard business reporting for business (including to the pricing and performance authority) for the aged care sector to minimise government reporting requirements.
- Encourage the development of clinical information systems for the management of patient care, including care plans, medication management and access to electronic health records through co-investment incentives to upgrade patient management systems.
- Encourage these patient care systems to be integrated with the electronic health systems of other care and health providers to deliver fully integrated, system-based care driven by consumer needs.

CRITICAL SUCCESS FACTOR FOUR

DEVELOPING WORKFORCE CAPACITY AND FLEXIBILITY

Aged care is about relationships. When people are engaged as part of a positive enabled workplace culture, are adequately remunerated and have the tools they need to do their jobs, consumers receive better care and productivity improves

The patterns of demand and community expectations for aged care services are already changing and this can be expected to accelerate as the reforms are implemented. Developing the skills of the workforce and rethinking roles and work design will be critical to building the necessary capacity and flexibility to meet the rising service expectations and to take advantage of the new technologies.

Currently, Australia's aged care system depends on a large formal and informal workforce. Over 260,000 people make up the formal aged care workforce. Based on current models of service and projected demand, the workforce will need to quadruple by 2050 to meet growing demand for services. This will happen when there will be fewer people available to participate in the workforce. There will also be fewer informal carers and volunteers available yet they are currently the backbone of aged care in Australia.

The sector is already experiencing great difficulty in attracting and retaining skilled staff. Pay rates are lower than in the acute sector and a lack of investment in both skills and technology has not led to the sector taking advantage of new technologies to change the ways in which work is performed or services delivered. Without change, the lack of staff and carers alone will act to constrain the sector's capacity to meet projected demand.

In comparison with how many parts of the Australian economy have developed over recent years, aged care is largely a cottage industry. Decades of under-investment have limited the attractiveness of aged care as a place to work. Leadership and management capability have largely come from within the existing supply of providers, some with a reluctance to embrace more contemporary operating models. Because of this, the industry is highly fragmented and generally poorly equipped to respond to a deregulated market where increased competition requires changes to work practices, greater use of information and technology and much higher levels of responsiveness to consumer preferences. Workforce capability needs to become a source of competitive advantage between providers.

The economic value of informal caring is estimated to far exceed that of formal care. Access Economics ... estimated that informal carers provide around 1.32 billion hours of care each year and if informal care were to be replaced with services purchased from formal care providers and provided in the home, the replacement value would have been in excess of \$40 billion per annum in 2010.

– From Productivity Commission Final Inquiry Report

New approaches to building workforce capability and supply are needed to ensure sufficient people are available in the right locations with the right capabilities to meet changing community expectations and demand. This needs to be both in initial training and also recognised through ongoing professional development. Service design needs to take into account fewer informal carers and ensure the pool of available carers is better supported, resourced and skilled to complement the formal paid workforce. A flexible approach to industrial relations is needed to facilitate innovation and new models of care.

The aged care sector has lagged behind the rest of the economy and the healthcare system in its use of information and communications technology. The current prescriptive regulatory structure has not incentivised aged care providers to build business information and patient care systems necessary for their workforce ultimately to deliver aged care services more effectively.

The aged care workforce, like other healthcare professionals, needs access to the right information at the right place at the right time. Without this information, aged care patients are, for example, more likely to be delivered incorrect medication. The workforce will also not have clear visibility into their patient care plans, the most suitable models of care, including what is working, what needs modifying, and sharing information with other care professionals within the aged care facility and the care and health delivery system for the patient.

If we don't have the right staff with the right skills to meet requirements, a substantial group of the most vulnerable people in our society will be poorly serviced for their most basic human needs.

– PwC

Lifting the capability, productivity and supply of Australia's 'visible' and 'invisible' aged care workforce is the foundation on which the success of aged care reform depends.

Structural and regulatory barriers

The Visible Workforce

There were an estimated 262,000 people working in the aged care sector in late 2007.

– From Martin and King, quoted in Productivity Commission Final Inquiry Report

Formal workforce

- a predominantly female, ageing, unskilled, part-time and low-paid workforce making it hard to attract and retain sufficient appropriately skilled workers
- leadership and management capability not aligned to changing community expectations and demand
- excessive regulation distracting nurses and personal carers from face-to-face care with reduced work satisfaction
- inadequate funding to encourage investment in workforce development and innovation
- a culture of dependency and benevolence rather than enablement and inclusion constraining more innovative models of care
- poor clinical and assessment capabilities caused by inadequate targeted investment and low self-esteem about working in aged care
- competition from health providers and other industries able to pay higher wages and invest in the skill and capability development of their workers
- a paucity of information about the aged care workforce across all care settings making it difficult to plan, measure and assess performance
- cultural, financial and operational impediments restraining investment in technology and change management to enable better care and more interesting jobs
- confused policy and multiple layers of bureaucracy making targeted overseas migration programs unnecessarily difficult and costly.

We observe a daunting array of financial and operational barriers [to technology adoption in health and aged care], including the misalignment of incentives between payers and providers, the need to demonstrate a strong clinical value proposition, and the problem of designing attractive, easy-to-use products that facilitate adoption by patients.

– McKinsey & Company

Informal workforce

- declining supply of families and carers and those available are not enabled by the current regulations to be partners in care, leading to frustration and reducing their effectiveness
- difficulties experienced by informal carers maintaining employment with their caring roles causing them to be excluded from the paid workforce.

The Invisible Workforce

In 2009 around 350,000 primary carers provided assistance to an older person aged 65+ and around 242,000 of these lived in the same household.

– From Productivity Commission Final Inquiry Report

There is some evidence to suggest that the direct care workforce is being underutilised with a significant proportion of this workforce reporting that they would like to work more hours.

– From Martin and King, quoted in Productivity Commission Final Inquiry Report

Most relevant recommendations from the Productivity Commission

The Productivity Commission has recommended that fee and price setting processes take account of the need for wages and remuneration in the aged care sector to be competitive with the acute healthcare sector.

It has also called for an increased investment in the training of accredited aged care professionals and for changes in the content of educational and training programs to recognise the changing nature of the sector and the different competencies that will be required for successful professionals.

Implementation issues: building workforce capacity and improving skill utilisation

Building workforce capacity and improving the utilisation of their skills will be essential to successful implementation.

Currently, the sector is hampered in its capacity to respond to innovation and new models of service and care by a lack of investment in skills, people, processes and enabling technology. The culture is risk averse and unlikely to support the radical changes that are envisaged. However, this will only be transformed by changing the business imperatives and dynamics of the sector, increasing business viability and scale that will engender greater professionalisation, improved efficiency and delivery of higher-quality services.

However, as a supplement to the natural processes of capacity building that will accompany the proposed deregulation, the Business Council of Australia recommends:

- Early development of a National Aged Care Workforce Development Plan to ensure an adequate, capable and skilled workforce. The lack of focus on health care within the aged care sector by Health Workforce Australia is exacerbating the gaps between the two sectors and their work should be specifically expanded to focus on its needs. The plan needs to address the building of capability for both formal and informal carers and foster the development of new roles that better utilise existing skills and enable new models of care. It should also be recognised that new competencies in business management will be required for many existing providers if they are to make the transition effectively.

- Further, as aged care is part of the largest employing sector, the new Workforce Development Agency should place high priority on understanding the needs and support services of businesses within this sector as it prepares for transition. As will be noted in the next section, the transition will need to be handled carefully to ensure that existing providers have the opportunity to transform and do not suddenly leave the industry, causing disruption and angst for current consumers.
- The financial projections of the commission's proposals for aged care reform need to include sensitivity to achieving 'fair and competitive wages' and this needs to be factored in to the pricing of approved services.
- More flexible industrial instruments are needed to facilitate team-based whole-of-person care and new service models while ensuring quality of care. Currently, multiple awards apply leading to differentiation in job design around functions and tasks (e.g. medication management), restricting the ability of the workforce to adapt to deliver person-centred care.
- Public awareness campaigns must be put in place that highlight the role of volunteers and informal carers in aged care to encourage their participation and make employers more responsive to the work/family pressures of employed carers.
- Transition planning is needed to include the development of a national Aged Care IT Strategy to provide a roadmap for how technology and associated change management can be more widely deployed as an enabler to providing better care, increased staff satisfaction and improved productivity.
- Data and information on workforce performance for all care settings must be made available through the Australian Aged Care Commission to further inform consumer choice between providers.

CONCLUDING COMMENTS

APPLYING PRINCIPLES OF EFFECTIVE CHANGE MANAGEMENT TO IMPLEMENTATION

Effective change management and adoption of these reforms depend on understanding and managing the implementation risks and in effective stakeholder engagement

There appears to be general agreement from consumer, government and provider stakeholders that the Productivity Commission recommendations form a sound platform on which to achieve generational change to Australia's aged care system. There is clearly an appetite for change. Some improvements have occurred since the Aged Care Act 1997, particularly around quality in residential care. However, decades of reports and reactive policy changes have led to a system that is complex, hard to navigate, with inadequate levels of service and inconsistent price signals that distort and limit consumer choice.

Australia has a unique opportunity to reshape its aged care industry at a time when national health reform is also high on the agenda of all Australian governments.

The challenges in effectively implementing these reforms are not to be underestimated. There are significant implementation risks to successful execution of the commission's reforms. Two in particular have the potential to derail the reforms.

The first challenge will be how to stage implementation so that the vision is not compromised but existing consumers are protected and providers are not exposed to unnecessary business risk. Moving from an environment in which the government has regulated price, quantity, demand and quality to one in which consumers' preferences determine the shape of the market and the nature of its offerings requires changed strategies and significant investment in new capability. Many existing providers will not have the scale or capability to compete successfully. Some industry consolidation can be expected but new entrants will also offer new models of service provision, which will be good for consumers. It will be important that barriers to entry are not too high, but at the same time providing opportunities for innovation and adaptation to change during the transition to existing aged care providers will bring out the best in capable providers.

The role of the Department of Health and Ageing needs to change significantly under the new regulatory model and its support is essential. From designing and controlling a ration-based service the department will need to move to design integrated systems and assist in developing market-shaping institutions, structures and incentives to encourage new forms of service.

The second risk to successful implementation is failing to achieve bipartisan political support for the reform proposals to ensure that individuals and providers/investors can plan with predictability. Both point to the need for a long-term plan within a framework and vision for healthy ageing and wellbeing for older Australians.

It will also be important to apply the principles of sound program management to the execution of regulatory change in aged care. New governance models for engaging stakeholders and managing change will be a prerequisite for effective implementation.

And although the consumer voice for aged care reform has been vocal, it does not adequately reflect the views of future generations who will also be affected by these reforms. The informal and formal aged care workforce, too, needs to be seen as stakeholders in the reforms and included in implementation consultations and/or governance. Ultimately, the engagement of frontline care workers will help deliver the benefits of these reforms.

Finally, we believe that these reforms should start with rewriting the overarching legislation to ensure that the framework for healthy ageing is clearly established. New visions for aged care services require a new Act. The starting point should be the development of an issues paper on how to translate these reforms into good legislation, and the paper should be completed early with time for community feedback.

Creative growth is more likely to come when we cross boundaries and forget hierarchies, when we encourage and reward people based on challenging traditional and existing views rather than conforming to them ...

– Australian School of Business

The Business Council of Australia supports the proposed Implementation Framework but believes more emphasis is needed to embed implementation in the principles of good governance and a contemporary approach to program management and innovation. Our propositions:

- Drafting of new regulation requires deep cultural change to avoid biases that can preserve the status quo and stifle innovation. The Business Council of Australia has members with the expertise to advise government on this drafting process.
- The government needs to appoint a 'managing agent' to translate the Productivity Commission's recommendations into a strategic blueprint for change. This should include capability in large-scale program and change management.
- Governance of the reform execution must effectively engage all stakeholders; however, some independence is necessary to challenge existing beliefs and ensure the benefits of the reforms are achieved. Consideration should be given to forming a board of governance with an independent chair and membership drawn from across all stakeholders.
- It must be recognised the aged care industry does not have a uniform capability to perform the required change and adoption needed for these reforms to be effective. A national approach to change and adoption is needed. However, this is best done in aged care by building on natural collaborations that already exist. Larger, more capable providers are well placed to assist those who are smaller and may experience greater challenges through the transition. This change and adoption strategy requires adequate funding – it will not happen by magic.
- Reporting on quality outcomes will require significant cultural change in aged care especially around work practices and IT systems associated with new business models. This needs to be part of the transition with a national Information Technology and Communications Strategy to establish a roadmap for the reforms.

- Establish a small number of Centres for Aged Care Reform Excellence and Innovation in partnership with universities to stimulate new ideas and evidence-based practice to inform the development of new service models and in building workforce capability.
- Prepare simple accessible tools to communicate the changes and benefits of reform.
- Implement and manage detailed risk management plans for all stakeholders.
- Consider a series of annual National Congresses on Aged Care Reform as milestones are reached in implementation and involve all stakeholders.
- Develop a national Evaluation and Benefits realisation framework against which to assess the efficacy of the reforms during and post implementation.

Sequencing reform

An important issue is the timing of initiatives to free up quantity and price restrictions. In the Commission's view, there are strong reasons to liberalise quantity restrictions before moving away from regulated prices.

... the immediate removal of quantity restrictions could adversely affect providers that have planned and invested on the basis of the current regulations. This suggests the need for gradual easing of these restrictions followed by price liberalisation, while retaining provisions for price monitoring and regulation.

... there is scope for a more rapid opening up of community care, where the barriers to entry are lower.

– From Productivity Commission Final Inquiry Report

So the growth challenge for executive leaders today is not just to get more efficient at doing the same things as everyone else, nor simply extracting more productive output from assets but to find new things to do and better ways to satisfy customers and deliver value for stakeholders.

– Australian School of Business

Change management and adoption cycle



APPENDIX 1

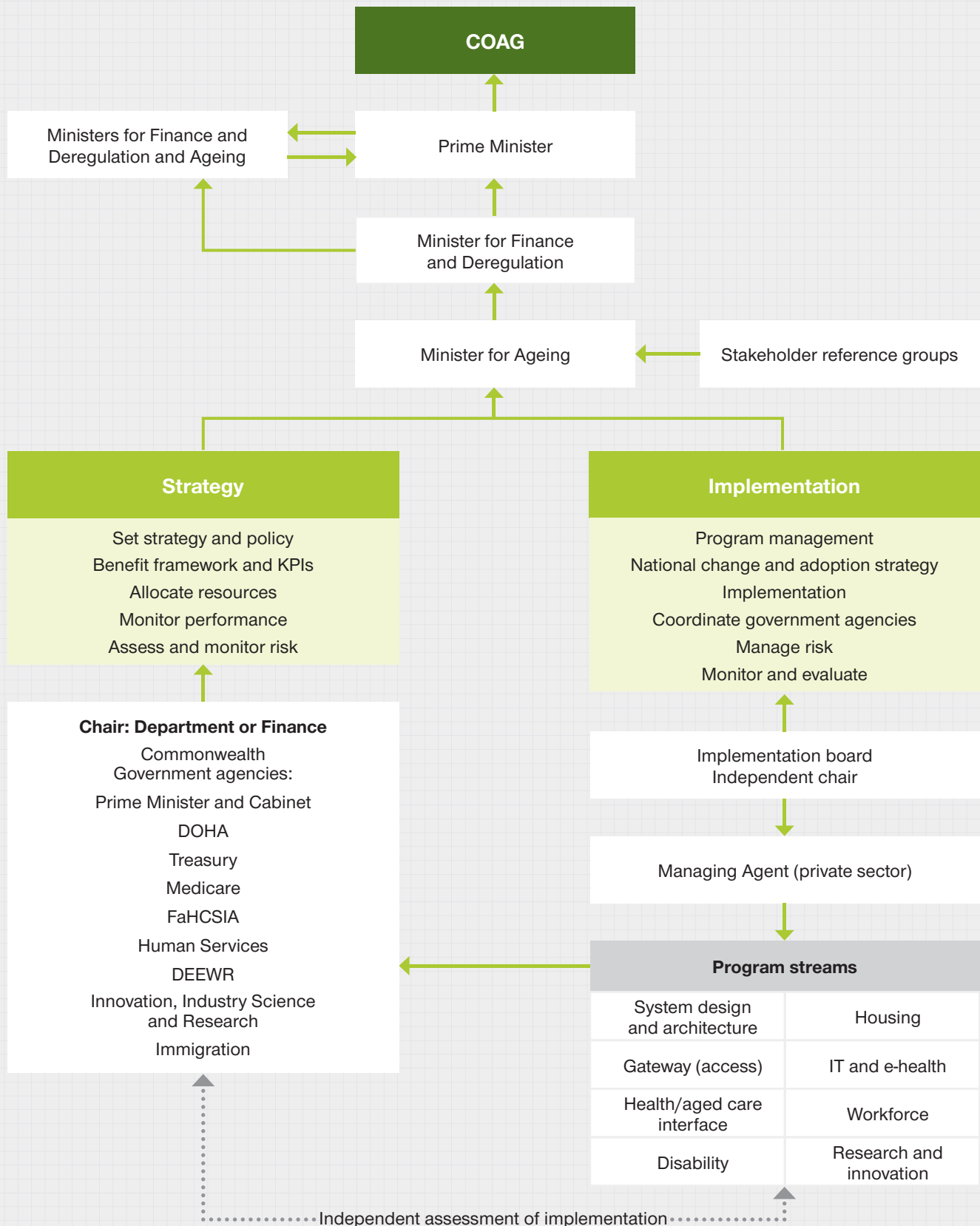
PRODUCTIVITY COMMISSION 'CARING FOR OLDER AUSTRALIANS' FINAL INQUIRY REPORT – RECOMMENDATIONS AT A GLANCE

Identified weaknesses	Summary of recommendations
Assessing the current system	<p>Eight aims for future aged care policy:</p> <ul style="list-style-type: none"> • promote independence and wellness • needs-based entitlement to person-centered care • consumer directed with choice and control including to die well • treat with dignity and respect • easy to navigate with good information • assist informal carers • be affordable for care recipients and society • provide incentives for efficient use of resources and intergenerational equity
Principles of funding	Adopt separate policy settings and funding principles for care (personal and health care), accommodation and everyday living expenses
Paying for aged care	<p>Removal of regulatory restrictions on supply of aged care places</p> <p>No distinction between low and high residential care</p> <p>Remove regulatory restrictions on accommodation payments</p> <p>Flexible options in residential care including accommodation bonds or periodic payments</p> <p>Publish information on accommodation charges and bonds</p> <p>Subsidy for accommodation payment set at average cost of accommodation (1.5 beds per room)</p> <p>Regional targets for financially disadvantaged persons with increase to supported accommodation payment</p> <p>Remove extra service places and restrictions on supplying additional services</p> <p>Government prescribes co-contributions from care recipients for approved services based on income and assets test that includes share of principal residence</p> <p>Establish Aged Pensioners Savings Account Scheme</p> <p>Government sets lifetime stop-loss limiting care recipients co-contributions for approved services</p>
Broadening the funding base	Establish government-backed Australian Aged Care Home Credit Scheme to assist making co-contributions
Access to aged care	<p>Establish Australian Seniors Gateway Agency for information, assessment and care coordination</p> <p>Assessment for entitlement to care from schedule of services with prices set by government</p> <p>Means testing to protect financially disadvantaged people</p> <p>Trial more flexible consumer direction of respite care</p> <p>Establish single integrated system of care packages across community and residential care</p> <p>Approved schedule of services provided on an entitlement basis</p> <p>Government sets prices for approved services on recommendation of Australian Aged Care Commission</p> <p>A new National Aged Care Advocacy Program</p> <p>Some block funding of community support services</p> <p>Expansion of in-reach health services including multi-disciplinary health teams and sub-acute care to aged care services</p>

Access to aged care (continued)	<p>Government sets scheduled fees for delivery of sub-acute care into aged care reflecting cost of delivery and lower than cost to deliver in hospital</p> <p>Australian Government responsible for specialist disability services through new national insurance scheme</p> <p>People with disabilities able to elect which system funds their care at age 65</p>
Quality of Care	<p>Expand quality assurance framework to include published indicators that inform consumer choice</p> <p>Medicare rebate increased to attract GPs to aged care facilities</p> <p>Payments to aged care providers for appropriate palliative and end-of-life care and arrangements for advanced care directives</p>
Catering to Diversity	<p>Accreditation standards to reflect diversity and scheduled prices for care to include costs of diversity</p> <p>Adequate support and funding models to sustain rural and remote and Indigenous aged care services</p> <p>Block funding for special needs e.g. homeless and Indigenous-specific</p>
Accommodation	<p>National policy on home maintenance and modification</p> <p>National building design guidelines for accessible and adaptable design</p> <p>COAG to develop a national housing supply and affordability agenda for seniors housing</p> <p>Nationally consistent regulation of retirement villages outside aged care regulation</p>
Carers and volunteers	<p>Australian Seniors Gateway Agency to assess carer needs</p> <p>Carer Support Centres and assessment to include enabling informal care and support</p> <p>Funding for services to include costs associated with volunteers</p>
Workforce	<p>Scheduled care prices to take account of need to pay 'fair and competitive' wages</p> <p>Expansion of accredited courses to increase skills and capability of workforce</p> <p>Partnerships with universities for 'teaching aged care services'</p> <p>Independent review of aged care vocational courses delivered through Registered Training Organisations</p>
Regulation	<p>Establish independent Australian Aged Care Commission to regulate quality of community and residential aged care including compliance and enforcement</p> <p>Separate statutory offices in commission for complaints and accreditation with three full-time statutory commissioners</p> <p>Streamlined reporting across residential and community care</p> <p>Australian Government single funder for aged care including Home and Community Care Program</p> <p>Standard business reporting for all aged care providers</p> <p>Full disclosure to consumers on prudential compliance</p> <p>Establish independent statutory Community Visitors Program</p> <p>Remove unnecessary and duplicated regulation</p>
Policy research and evaluation	<p>Establish research clearing house and timely release of government research and evaluations</p> <p>Common definitions in all aged care data sets</p> <p>Develop outcomes-based data standards where possible as better measure of service effectiveness</p>
Transition	<p>Establish Aged Care Implementation Task Force and Advisory Group</p> <p>Phased implementation of recommendations over five years</p> <p>Smaller providers receive capped grants during transition for financial advice and business planning</p>

APPENDIX 2

AGED CARE REFORM: IMPLEMENTATION GOVERNANCE



Preparing for a Better Future: Creating a Sustainable System of Aged Care Services for Australia is the Business Council of Australia response to the Productivity Commission Caring for Older Australians Final Inquiry Report.

The quotes displayed in this report were derived from the sources listed below.

Quote on p. 7	was from the Blake Dawson Submission, Submission No. 465, October 2010, p. 7.
Quote on p. 9	was from the Just Better Care Brisbane South Submission (Submission No. 281, July 2010), quoted in the Productivity Commission Final Inquiry Report, Volume 1, p. 85.
Quote on p. 12	was from Access Economics, <i>Caring Places: Planning for Aged Care and Dementia 2010–2050</i> , Volume 1, p. i, 2010.
Quote on p. 14	was from 'Healthy Savings in Care at Home' by S. Dunlevy, <i>The Australian</i> , 15 September 2011. The article is referring to the Deloitte Access Economics report, <i>Economic Analysis of Hospital in the Home (HiTH)</i> , Hospital in the Home Society of Australasia, 2011.
Quote on p. 15	was from the Medibank Private Submission, Submission No. 250, July 2010, quoted in the Productivity Commission Final Inquiry Report, Volume 1, p. 73.
Quote on p. 17	was from Australian Institute of Health and Welfare, <i>Movement from Hospital to Residential Care: Preliminary Results</i> , AIHW Data Linkage Series Catalogue No. CSI 4, 2008.
Quote on p. 18	was from the Commonwealth of Australia <i>Intergenerational Report 2010</i> , p. 57.
Material for the quote on p. 19	was taken respectively from pp. 7, 8 and 79 of the Productivity Commission Final Inquiry Report, Volume 2. Note: the Hogan reference on p. 7 was listed as the <i>Review of Pricing Arrangements in Residential Aged Care</i> , Report by the Aged Care Review Taskforce, 2004. The source for the comment on Hogan (p. 8) was listed as the Department of Health and Ageing Submission, Submission No. 482, December 2010.
Quote on p. 20	was from the Productivity Commission Final Inquiry Report, Volume 1, p. XLIII.
Quote on p. 23	was from Access Economics, <i>The Economic Value of Informal Care in 2010</i> , Report for Carers Australia, October 2010, quoted in the Productivity Commission Final Inquiry Report, Volume 2, p. 328.
PwC quote on p. 23	was from <i>Delivering Care to the Aged: A Focus on Workforce</i> , PwC response to the Interim Aged Care Productivity Commission Draft Report and Recommendations, Submission No. DR639, March 2011, p. 2.
Quote on p. 24	regarding the 'visible workforce', and quote on p. 25, are from Martin and King, quoted in the Productivity Commission Final Inquiry Report, Volume 2, p. 350. The original source publication is listed as B. Martin and D. King, <i>Who Cares for Older Australians? A Picture of the Residential and Community Based Aged Care Workforce 2007</i> , National Institute of Labour Studies, Flinders University, 2008.
Quote on p. 24	regarding the 'invisible workforce' is from the Productivity Commission Final Inquiry Report, Volume 2, p. 326.
Quote on p. 24	is from McKinsey & Company, 'Spurring the Market for High-tech Home Health Care', <i>McKinsey Quarterly</i> , September 2011.
Quotes on pp. 27 and 28	are from 'Creative Growth: Challenging Traditional Views', <i>The Leader</i> , Sept/Oct/Nov 2011, Australian School of Business, University of New South Wales.
Quote on p. 28	is from the Productivity Commission Final Inquiry Report, Volume 2, p. 495.



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