

## Nick questions Department on aged care

Nick Xenophon, Independent Senator for SA

### Key points:

- As part of Senate Estimates this year, Nick asked a number of questions to Ministers and Departmental representatives in relation to aged care.
- Nick asked the questions below to representatives of the Department of Health and Ageing in the Community Affairs Legislation Committee.
- Nick believes that the aged care industry in Australia is under-funded and under-prioritised.
- Nick is concerned about many areas of aged care provision, including funding, staff-to-patient ratios, and conditions for staff and patients.
- Nick is also concerned about the proposed changes to retirement age, and the effect this may have on the aged care industry.

## Community Affairs Legislation Committee - Estimates

4 June 2009, 11.34am

**Senator XENOPHON**—Thank you, Chair. My first question relates to the lifting of the pension age. Has the department conducted or commissioned any analysis or research on the physical impacts on tradespeople, those who undertake manual labour, on lifting the retirement age from 65 to 67?

**Ms Halton**—No.

**Senator XENOPHON**—Maybe you could take this on notice. Firstly, is it proposed that there will be any research undertaken on that and also on how many people involved in manual labour would now face retirement at 67 instead of 65?

**Ms Halton**—This is probably more properly a question for Family and Community Services, not us, as we are not responsible for pensions.

**Senator XENOPHON**—But insofar as there could be a link with respect to issues of aged care—but I will not pursue it, Ms Halton. That is fine. Can I just ask you about funding costs, given that Australians are living longer and they are staying healthy and staying in their homes longer but that when they do eventually go into care their physical and mental needs are greater and there is a greater demand for a high level of care. The industry claims that as need has increased the government has not adjusted funding to reflect real costs and that staffing levels have declined against need. Firstly, what information does the department have on staff-to-patient ratios? Secondly, does the department have any historical information about staff-to-patient ratios in terms of any trends in respect of that? Thirdly, what impact does—

**Ms Halton**—Senator, we are going to have to write this down if this is a multibarreled question.

**Senator XENOPHON**—I will just leave it at those two, and some you may wish to take on notice.

**Ms Halton**—Thank you. It is probably because our short-term memory is not what it should be. Did you get the first two barrels of that?

**Mr Stuart**—Yes. There is a system in place in relation to aged-care funding which does broadly reflect the level of need of each individual client. It is called the Aged Care Funding Instrument. The more high-care residents there are in an aged-care service with the more high-care needs, the more the funding flows to that particular aged-care home. So the funding model does follow need very significantly. As to staffing, the first question was about—

**Senator XENOPHON**—Staff-to-patient ratios and, secondly, associated with that, the trends in respect of staff-to-patient ratios.

**Ms Halton**—Senator, while people are turning pieces of paper, you may or may not be aware that in terms of information that is germane to funding, since the change to the system and its antecedents that Mr Stuart just mentioned, which occurred in the legislation that was passed in the late nineties, we have not funded on the basis of individual staffing members. The old funding arrangements, which went down to literally part time clerks and dishwashers, was replaced by the kind of aggregate funding instrument that Mr Stuart just mentioned, the current one, which is the ACFI.

**Senator XENOPHON**—Ms Halton, whilst they are looking at that, I will just move on, given the limited time.

**Ms Halton**—Yes.

**Senator XENOPHON**—The provision of aged care has become more expensive as a result, hasn't it, with higher levels of care or higher levels of need over the years?

**Mr Stuart**—Undoubtedly, yes. Over the last decade the average need level of a resident has become higher. We saw under the previous resident classification scale a gradual upward drift in the classification of residents, and that was reflected in increased funding under that classification scale. By the time that the resident classification scale went out of use, nearly half of all residents were classified as either one or two on an eight point scale, being the most needy clients, and that would have been then reflected in those homes being funded at the higher levels on the resident classification scale.

We have now moved to the Aged Care Funding Instrument, where there has been a very significant increase in the highest level of funding that is available under that instrument and also increased funding for particular kinds of residents, in particular residents with dementia and behavioural issues, which were thought not to be adequately reflected under the previous instrument. The level of funding in aged care rises every year quite significantly from three causes. One of those is ordinary cost indexation. Another is increase in the number of residents, which keeps going up in line with population growth. But the third is upward creep in the average level of frailty of residents. In the current financial year that led to an increase overall of a little over eight per cent on a per-client basis in the level of funding in aged care.

**Senator XENOPHON**—Way above the rate of inflation and the CPI?

**Mr Stuart**—Yes.

**Senator XENOPHON**—In the department's supplementary submission to the Senate inquiry, at pages 26 and 28, the department argued that revenues flowing to aged-care providers have

increased faster than costs over the years from 1999 to 2008. And, as I understand it, it was attributed to greater productivity. But is it the case that the number of full-time equivalent direct care workers grew by 3.7 per cent during that period while the number of residents in care grew by close to 10 per cent? How does the department measure changes in productivity in residential or community aged care? How do you measure the quality of care, given that there has been a faster increase in the number of residents compared to the number of direct care staff?

**Dr Cullen**—That is a very complex question. It is certainly true that the department's analysis is that revenues grow faster than costs when you take into account the productivity improvements that providers are making. We control for quality in that analysis, because we have the accreditation system which ensures that the care delivered is of a high quality. Therefore, essentially, you know that you are producing high-quality care, so you have controlled for quality. It is also true, what you said, that there has been a faster rate of growth in the number of residents than there has been in the number of direct care staff. However, it is also important to understand that there has been a significant shift in the skill mix of those staff and that the skill mix has increased over that time. It is not just a matter of numbers there. You also have to control for the fact that there is a much greater preponderance of staff with certificate levels III and IV in the industry now and, therefore, at a higher skill level. We try to control for all of those variables when we measure the growth.

**Senator XENOPHON**—You are satisfied with the accreditation mechanisms? You are satisfied that care is not being compromised despite there being, on the face of it, many more residents than direct care workers in terms of the growth of the two?

**Dr Cullen**—I will let Ms Smith answer that. But I can provide one more piece of information there. The latest survey we did showed that there were, in full-time equivalent terms, 79,000 direct care workers in the industry, caring for around about 160,000 residents. So there is about one care worker for each two residents.

You then have to take into account the fact that you are staffing over an entire cycle et cetera. But I just wanted to put those numbers in.

**Ms Smith**—I think we have a very mature accreditation system for aged care in this country. Homes are subject to both a normal process to assess their compliance with accreditation and then an ongoing process of unannounced visits to ensure that that quality is being maintained over time. Ninety-two per cent of homes receive three-year accreditation, and then there is a framework to take action on any homes that have non-compliance. That is our system for ensuring that quality care is being delivered and that where problems are found, they are acted upon.

**Senator XENOPHON**—Is the number of unannounced visits static? Has it increased over the years?

**Ms Smith**—It has increased over the years. My colleagues from the accreditation agency can comment on that, but each home must receive at least one unannounced visit per year, more if necessary. That is done according to a risk profile of the likelihood of needing extra monitoring.

**Senator XENOPHON**—Thank you. Ms Halton, can I just go to the question of the real costs of care. Obviously, the issue of an indexation arrangement that matches the actual need is important. In this year's budget, did the government commit to an indexation for health funding that was aligned to the real cost of care in the health and hospital system?

**Ms Halton**—For the health and hospital system, under the COAG negotiation?

**Senator XENOPHON**—Yes.

**Ms Halton**—There is a composite index, which is quite complicated—I can get you the details of that on notice—in terms of the index that applies.

**Senator XENOPHON**—Thank you. The measure of indexation is a composite index?

**Ms Halton**—Yes.

**Senator XENOPHON**—But with aged care, is the indexation, the composite index, the same as for the health and hospital sector?

**Ms Halton**—I will have to check that. I think the elements are not strictly comparable, because what applies in the health and hospitals agreement context is an index for population growth—in other words, it is all rolled together—whereas, in fact, what occurs with aged care is that you disaggregate several of those factors. So you keep growth separate from the funding that is provided to providers. In one case we are providing aggregate funding to a state, which then passes it on to facilities; in this case we are funding direct in respect of residents.

**Senator XENOPHON**—Another way of putting it is that in terms of having an apples-for-apples comparison with respect to the level of indexation for the health and hospital sector as compared to the aged care sector, are they comparable or is there a disparity between the two? And, if so, what is the disparity?

**Ms Halton**—It is actually hard to compare them, to be quite honest, because what you get in the health and hospitals sector all link together. It is a macrofinancing instrument to the states, an acknowledgement of population growth, ageing, issues around technology et cetera. That then is disaggregated by the state, and then provided on. In this particular case, we have an arrangement which grows places. We have an arrangement which is related to need, and then we grow that. I am happy to lay that out for you in quite some detail on notice.

**Senator XENOPHON**—Thank you. The Senate report into residential and community aged care has recommended that research is needed to determine the cost of care. Has the department responded to those recommendations in the Senate report? And has the department ever undertaken such a piece of research or commissioned an external organisation to undertake this work?

**Mr Stuart**—We are, of course, very well aware of the recommendations. They are a matter for the government to respond to in due course. The department has actually never been asked to undertake a direct cost of care costing, in my living memory, I would say.

**Ms Halton**—It has in my living memory, and we are the same age. But I have been doing this longer than him.

**Mr Stuart**—That is right. So, not over the last decade in aged care—

**Ms Murnane**—SAM.

**Ms Halton**—That's right: SAM. And before that: hostels. We are not going to go reaching back through our memories to burden you with this, Senator. In the recent past, no.

**Ms Murnane**—It was a long time ago. And it was heavily disputed, Senator.

**Ms Halton**—And it was extremely heavily disputed.

**Senator XENOPHON**—Perhaps I had better ask the minister. Senator McLucas, will there be a response to that recommendation in the Senate report about the research to determine the cost of care?

**Senator McLucas**—We will respond, of course, to all the recommendations in the report at the appropriate time. I cannot tell you what the specific response to that specific recommendation is going to be now. That is a matter for the minister.

**Senator XENOPHON**—Can you give me a timeline?

**Senator McLucas**—Faster than the previous government used to.

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**Senator XENOPHON**—Can I just go to the issue of auditing and financial planning. The Senate inquiry noted that all aged-care providers are required to submit Auditor-General financial reports to the department and that these reports apply Australian accounting standards. The sector believes that the release of these reports is vital to benchmarking and future planning for the industry. Has the department released these reports since 2005-06? The information I have is that it had not, but I am just trying to confirm that.

**Dr Cullen**—We have never released the reports provided by aged-care providers. The reports provided by aged-care providers are often commercial-in-confidence documents. We did release summary information from those reports.

**Senator XENOPHON**—If I can clarify that—the summary information?

**Dr Cullen**—Yes. We did release that for the first two years of the conditional adjustment payment.

**Senator XENOPHON**—What were those years?

**Dr Cullen**—2004-05 and 2005-06, I believe.

**Senator XENOPHON**—Bu, since then, you have not released them?

**Dr Cullen**—That is correct, Senator. The data—

**Senator XENOPHON**—Can you say why?

**Dr Cullen**—The initial adjustment payment was introduced with a move towards ramping up the conditions that providers could meet. In particular, in the early years, providers were not required to meet all of the Australian accounting standards. Many providers struggled to meet the right standards. Many providers could not, in particular, disaggregate their data to the residential care segment so as to show what occurred in that segment as opposed to the rest of their activities. The data that was therefore produced in the early years was inconclusive at best and, therefore, the department made a judgment that it was better to work with the industry to help it increase its skill base in order to produce better reports rather than put the effort into analysing those reports. So, as I say, the conditions that providers had to meet increased over time.

It was particularly important to take that approach as providers' funding was heavily dependent upon them meeting those conditions. Therefore we put our effort into helping providers meet the conditions that were being imposed on them. We are now at a stage where the data that can be produced from those reports is of a very high quality, because all of the reports do meet all of the Australian accounting standards, including having segmented residential care data.

**Senator XENOPHON**—Dr Cullen, can you just clarify that: up until 2005-06, for a two-year period, summaries of those reports were being released?

**Dr Cullen**—Correct.

**Senator XENOPHON**—One of the complaints I have had is that, by not releasing that summary, it actually does not give the full picture in terms of the challenges that the sector faces.

**Dr Cullen**—Senator, as I tried to explain, the data being produced from those reports in the early years was so flawed, because the providers were not required to meet all of the accounting standards, that the release of the data would in no way have helped inform the debate.

**Senator XENOPHON**—Can I just go back—

**Ms Halton**—Senator, can I be clear about this. I think, as Dr Cullen has indicated, the data is certainly of a better quality now, and, in fact, we are actually having a conversation with the government about the use of that data and its potential release. So we are aware of that issue.

**Senator XENOPHON**—As I understand it, the Senate report pointed out that the methodological concerns of these reports have actually been addressed.

**Ms Halton**—Indeed.

**Senator XENOPHON**—Does that mean that we will now end up seeing—

**Ms Halton**—We are in dialogue about that issue.

**Senator XENOPHON**—And what is the approximate time frame?

**Ms Halton**—I never want to commit someone when it is not me, Senator, but, I would hope, shortly.

**Senator XENOPHON**—In terms of the review process, the department is reviewing, amongst other things, aged-care funding, the complaints system—I think Senator Cormann referred to that previously—and the nursing ratio. The inquiry recommended a forum led taskforce to undertake a wide-ranging review. What has happened in relation to that recommendation about the wide-ranging review, and what advice has been given about a target date for all those review processes to be completed?

**Mr Stuart**—You are referring to the recommendation of the recent Senate inquiry?

**Senator XENOPHON**—Yes.

**Mr Stuart**—There was a recommendation for a wide-ranging review, and that recommendation is under consideration by the government and the government will respond in due course.

**Senator XENOPHON**—Chair, I have got one final question. I will put some questions on notice; I think it might be more appropriate. I will go to the question of infrastructure. As I understand it, the government has introduced zero-interest loans to encourage the building of aged-care facilities in high-demand but low-profit areas, which, obviously, is welcome. But, given that interest rates have fallen significantly in recent months, that may impact on the attractiveness of the measure. Can you indicate whether any of these zero-interest loans have been handed back at all in the last six months, as a result of the lower interest rates? That is the first question. Secondly, what level of interest has been expressed in the next round of zero-interest loans, compared to the last round? And, given that interest rates have, fortunately, dropped, what other strategies are being investigated by the department to encourage the building of much needed aged-care facilities?

**Mr Stuart**—Senator, the question about whether there have been any handing back of loans because of falling interest rates I do not think I am in a position to answer directly at this hearing. But I would like to put some context—

**Senator XENOPHON**—Are you aware of any loans that have been returned?

**Mr Stuart**—There have been a couple returned—or, rather, we have not concluded interest agreements with some of the providers and they have indicated their wish to either wait or seek alternatives. In relation to the falling interest rates in the marketplace, that is something that has very recently been brought to my attention through some of the providers. It was perfectly defensible to have an annual rate of interest attached to these zero real interest rate loans a little while ago, when interest rates were relatively stable. Now that they have been falling quite quickly, it has been suggested to the department that we might like to update those interest rates rather more regularly to reflect actual rates in the market, and we are very actively looking at that at the moment, Senator. That is under active consideration right now.

**Senator XENOPHON**—In terms of this whole issue, this crisis in aged-care accommodation, the Thornton review demonstrated that there was a lower level of return for providers who had built single-bedroom accommodation, especially when these also had an en suite. But, as baby boomers are ageing, there is even a growing demand for single-room accommodation. Is it the case that the government continues to fund rooms at 1.5 persons? Is there a disparity, then—that is, is there enough encouragement for the single-room accommodation compared to other forms of accommodation that are funded, over the reduced rates of return?

**Mr Stuart**—I would be happy to wrestle with that. There are a few things wrapped up in that. I just want to come back to the zero real interest loans for a moment, because I did not answer the third part of your question, which is whether the second round was as well subscribed. We are going to advertise the second round late this year. That second round has not yet been advertised. While the first round was advertised as a stand alone round for zero real interest loans for specific areas with shortage, the second round will be advertised as part of the 2009-10 aged-care approvals round process, which also offers capital funding as well as zero real interest loans and community care places, and there will be both a targeting of loans and a targeting of capital funds at the same time. Where there are particularly outlying rural or remote areas that express an interest that require a combination of loan and capital funding, then we can look at that for the first time.

**Senator XENOPHON**—So you are looking at some additional level of funding in those high-need areas?

**Mr Stuart**—We are looking at being able to draw together zero real interest loans, capital funding, allocation of places, possibly community care places, in order to create viable services in rural areas. You asked about 1.5 residents per room.

**Senator XENOPHON**—Yes.

**Mr Stuart**—There is a little bit of explanation required underlying that. The government has a certification instrument which requires new buildings to have no more than, on average, 1.5 residents per room. That allows an aged-care home to be built which has as many double rooms as single rooms. We do not have any specific requirement in relation to en suites. We have a kind of ratio of

people to ablutions, which makes it convenient often for providers to use en suites. But providers are also taking their own view of what the current market is for aged-care accommodation and also looking forward to what baby boomers are likely to prefer. So there is a level of building in the aged-care sector which is, I would say, above and beyond government requirement.

**Senator XENOPHON**—Just finally, in terms of the funding of nursing staff, since 1997 there has been no minimum nurse ratio for aged-care providers; is that correct?

**Ms Halton**—Correct.

**Senator XENOPHON**—I know the AMA and the ANF have warned that this can put the quality of care at risk. Is there any plan to reintroduce minimum nursing ratios? And there is also the issue of what plans are there, in terms of better nursing, better funding for nurses, both in terms of the levels of staffing and the disparity in wages between the aged-care sector and nurses working in other sectors. And to that I note the

Productivity Commission said it would cost about \$400 million in the first year and \$100 million each year after that for a catch up.

**Mr Stuart**—Senator, the minister has indicated her interest in looking at the issue of staffing, not just nursing, but staffing, adequacy and ratios in aged care as a part of the review of the Aged Care Funding Instrument, which is the instrument that essentially directs funding to aged care on the basis of the needs of the resident, including their medical needs and their nursing needs. The aged-care sector is probably now typified by nursing staff who are consultants, clinical consultants very often, who direct the work of other staff and those staff are increasingly well skilled. When I was in this sector a decade ago as a branch head the idea of certificate III and certificate IV in aged care were barely known. Currently, about 72 per cent of direct care workers have a certificate III or higher and that has been a very significant sea change in aged care. So I think the discussion does need to be broader than nursing, specifically. But the minister has indicated her interest in looking at that in conjunction with the ACFI review.

**Senator XENOPHON**—And that will cost more money if you reintroduce ratios and there is better pay for nurses? It is axiomatic.

**Mr Stuart**—That is a matter for review as a part of that review. But I would say that aged-care providers are at liberty to pay their staff as they want to. The government does not determine rates. Rates are set in discussion between staff and aged-care homes.

**Senator XENOPHON**—Are rates not determined by the level of funding, realistically?

**Mr Stuart**—There are a number of components of funding, including staffing numbers, staffing mix, staffing pay, capital requirements and other expendables. It is a matter for the aged-care providers to work through. Some providers, in fact, do pay rates equivalent to or even higher than the acute care rates. In fact, some of the leading providers do so and are able to provide very good care and to innovate within the funding that the Australian government provides.

**Ms Halton**—And just as a matter of historical record, Senator, in fact, in the mid-nineties, when there was an arrangement in relation to the pay, there was still a disparity between acute care and aged care. So it is not a question that this has occurred since the 1997 act.

**Senator XENOPHON**—It has been longstanding.

**Ms Halton**—Yes. There was actually disparity even before this time. I just make the observation in relation to ratios. And this is clearly a matter of contest and the minister has indicated she is happy to look at some of those matters. But the reality is that the way the instruments work at the moment, the provider should have the staff of the qualification necessary to deliver the care to the individual, recognising that the needs of individuals vary quite significantly. A lot of people make a comparison with child care. I actually think that is a very poor comparison, myself, because you know that three babies, five toddlers, will have a fairly constant need for care; it is a significant need, obviously. But in this particular case, where people's circumstances can be quite different, someone who is dementing may need a lot of actual supervision, not a lot of instrumental assistance. Someone who is bedbound will often need quite a lot of technical nursing. So this is actually quite a complex space.

**Mr Stuart**—Senator, it is also not universally true that the awards for aged-care nursing are lower than awards for acute-care nursing, and Victoria would be a case in point.

**A note from Nick...**

*Thanks for taking the time to read this extract. If you have the time, I'd appreciate it if you were willing to share your thoughts on ways to address the issues facing aged care.*

*You can do this either by calling me: 08 82321144 or by email:*

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