

# Twilight calls for a room of one's own

By Stephen Lunn, social affairs writer. Reprinted from *The Australian*, November 15, 2008

Former US secretary of Defence Donald Rumsfeld might call them the known knowns.

The complex and often opaque debate over the future of aged care in Australia has some points of clarity uncontested by government, economists, demographers or stakeholders in the multibillion-dollar sector.

Our rapidly ageing population and the consequent increase in future demand for aged care is one. On present demographic projections the number of Australians aged 85 and over will rise from 330,000 in 2006 to 580,000 in 2021, and then to an astonishing 1.6million by 2051.

In 2006 about 167,000 Australians were in residential aged-care accommodation (that is, in purpose-specific facilities) and another 549,000 used home-based aged-care services, ranging from help with cleaning through to bathing and nursing. Recent Treasury modelling shows that by 2050 the need for residential aged care will more than treble to 567,000 and nearly 1.6 million will need some home-based care. Servicing this vast need, particularly the residential component, will be an incredibly costly exercise.

Another known known is the growing inclination of elderly Australians to stay in their own homes for as long as possible before moving into nursing homes. The notion of retirement villages just hasn't caught on in the way it has in countries such as the US. This means that they, particularly the tech-savvy baby-boomer generation moving into the aged-care sector in coming decades, will be looking for aged-care services to be provided in the home for as long as possible.

It also means many of the 567,000 people needing residential aged care in 2047 will be entering only when they are extremely fragile or ill, or suffering from dementia. The vast majority of residential aged-care users, more than two thirds, will require high-care services for which a greater level of nursing or intensive personal care is needed. Over time this means the demand for low-care residential aged facilities will hollow out as people stay home until they are much older and frailer.

A third point of consensus is the change in the type of residential accommodation sought by consumers over recent generations. Fewer people, boomers especially, will accept sharing a room in an aged-care home, so that future facilities will need to provide predominantly single-room-style residences with an ensuite to cater for users' expectations.

As the Productivity Commission says in its September report, *Trends in Aged Services*, "a large number of baby boomers will have higher levels of income and wealth to purchase the aged-care services they want. As a result the aged-care sector will increasingly face the dual challenge of providing improved services for people with high incomes or wealth while continuing to provide quality aged-care services to those reliant, to varying degrees, on government income support."

If the provision of aged care in Australia were simply a question of demand and supply there might be an argument to leave it to the market and



Canberra's Morshead Home for Veterans and Other Aged Persons, on the city's north side, faces the same challenges as those outlined on this page.

facilitate a system in which those who can afford it pay for their own care, the government providing a safety net for the rest. However, the aged-care system has a far richer and more complex history, combining government regulation and market forces in an uneasy cocktail. The potential perils are clear from the present problems in the child-care sector, affected by the collapse of the biggest for-profit provider in the country, ABC Learning.

The Federal Government is responsible for funding residential aged care and, in conjunction with state governments, in-home or community care.

It also determines who can access aged-care services through a needs-assessment process and what type of care they can receive and it controls the residential accommodation facilities through quality-control requirements, bed allocations and the price aged-care providers can charge for their rooms.

"There are concerns about the degree to which the provision of aged-care services is shaped by centralised planning and administrative processes, extensive government regulation and high levels of public subsidy," says the Productivity Commission.

"[As a result] competition and price play little role in signalling to providers the changing patterns of demand.

"In effect, client needs and preferences are only revealed indirectly to providers through government planning and regulatory processes rather than directly."

Economist Henry Ergas agrees, saying the government's control over entry requirements allows it, effectively, to ration places so aged-care facilities remain full and waiting lists are generated. "It creates an artificial scarcity that limits the scope for competition, blunts pressure for efficiency and innovation and deprives consumers of choice," he says.

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"Aged-care suppliers face little threat of displacement and have limited incentives to be efficient."

They must meet the quality-control regulations set by government but have no need to offer more or better infrastructure or services to attract customers.

To fund residential care facilities, the Federal Government has allowed aged-care providers to charge an accommodation bond that can be more than \$250,000. This is an up-front payment by a resident from which an annual charge is drawn by the provider — in effect a loan contribution towards the cost of a residence — but these bonds aren't available for high-care facilities, the sector expected to experience the biggest growth. Thus, investing in the sector is a lot riskier.

"The impact of this discrimination is to make investment in ordinary high-care facilities less attractive than in any type of aged-care facility," warns professor Warren Hogan, author of an influential review of aged care in 2004. Hogan is critical of the growing "extra service high-care" sector, which does allow accommodation bonds to be bought.

"[This] brings a remarkable discrimination. Those with substantial assets may buy their way into high care by offering substantial bonds. Those lacking substantial wealth, not concessional and assisted residents alone but including those of relatively modest wealth, are not able to offer anything to support the provision of services for them. Thus the discrimination is against the less-well-placed in Australian society," he says.

Some buy their way into high-care accommodation through the back door, paying an accommodation bond in a low-care facility and utilising the government policy of "ageing in place" to

stay there until their needs are greater. Providers are utilising these funds to develop high-care places, which is an example of the market being distorted by the regulations.

Another crucial problem is the unattractiveness of the sector for investors when the Government can control the price they charge. Aged-care providers say they are being squeezed because of the cost of providing what consumers want and what government policy is pushing; single-bed ensuite rooms aren't worth the investment if there are no accommodation bonds to cover them.

Multi-bed facilities return almost twice as much in earnings as single beds: a Grant Thornton survey earlier this year showed it to be about \$4200 a bed compared with \$2300. Providers say 40 per cent of residential aged-care facilities are operating at a loss.

"At this point in time the system makes it unattractive for providers to build capacity," Aged Care Association of Australia chief executive Rod Young says. "The industry did what the Government wanted, to increase the number of facilities with single-bed ensuite rooms, superior finishes and nice sitting rooms. These cost about \$200,000 per unit to build but the current scheme just doesn't support anyone investing."

Ergas cautions against a policy change to allow bonds for high-care facilities. "My concern is that, if you did that without liberalising the number of places, there wouldn't be sufficient competition to constrain prices for entry into high care.

"What would make more sense is for the Government to start off by liberalising the planning system [to] make significantly more places available. As that feeds through the system, then you could look at the desirability of removing price controls."

What about the consumer? What say do they get? If you ask National Seniors Australia chief executive Michael O'Neill, not much.

"Consumers have never had a role. It has been overwhelmingly the Government and providers that decided both supply and demand. Clearly that needs to change."

O'Neill says the system must allow those in old age who want to fund their own higher standard of care to be able to do it, provided the Government maintains a safety net of quality for those who rely on the public purse in their retirement.

This call for greater choice of aged-care services is echoed by the Productivity Commission.

It says one option is "a cash entitlement which clients could use to purchase aged-care services directly from competing providers" — effectively a voucher scheme.

A voucher scheme is also supported by Hogan and Ergas as a means of promoting competition.

They say it could operate much like a Medicare card.

"What applies to the population as a whole and to the elderly for access to medical advice is withheld from the provision of aged-care services. This is discriminatory. Why should it be so?" Hogan asks.