

October 2020

2020 BUDGET ANALYSIS

Impacts on the Aged Care Sector



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Introduction

Aged care has recently been in the spotlight as a result of the *Royal Commission into Aged Care Quality and Safety*. The COVID-19 pandemic has increased the intensity of that spotlight.

The Royal Commission has recently highlighted that the aged care system, particularly in residential aged care, is significantly underfunded and has been for some time.

This conclusion was reinforced by the closing remarks by Counsel Assisting, Peter Gray QC on the last day of Sydney Hearing 5 “Funding, Financing and Prudential Regulation” when he stated that the Commissioners had heard persuasive evidence that “*aged care providers are being stretched beyond their limits by a funding system designed to, in effect, give priority to the Australian Government controlling its expenditures on fiscal grounds.*”

While there have been a number of temporary measures put in place by the Government to assist providers navigate their way through the COVID-19 pandemic and the additional cost pressures associated with that, residential aged care remains systemically underfunded.

Whilst there have been some indications from government that there may be measures contained in this budget to begin to address issues of underfunding, a stronger commitment to significant funding reform will be addressed in the May 2021 Budget. This will occur in response to the Royal Commission’s final report due to the Government in February 2021. Treasurer Frydenberg commented: “The Government will provide a comprehensive response to the final recommendations (of the Royal Commission report) following receipt of that report. This will involve significant additional investment.”

The reality of this budget is that outside of another large release of home care packages, there is little in this package for residential aged care providers, and certainly nothing to address the chronic underfunding of residential aged care homes thereby threatening the ongoing financial sustainability of this sector.

Economic Outlook

The budget is premised upon addressing the economic and health challenges caused by COVID-19. The budget papers acknowledge that the spread of the virus and the restrictions implemented to contain it led to historic falls in economic activity and employment globally over the first half of 2020.

In line with international experience, the Australian economy is currently in recession as a result of the COVID-19 pandemic. This is the first time that the country has slipped into recession in almost 30 years. Real GDP contracted by 7% in the June quarter 2020, the largest quarterly fall on record, after a modest fall of 0.3% in the March quarter 2020.

The effects on the labour market were severe, with around 10% of the labour force losing their job or being stood down on zero hours during the peak of the restrictions in April. As a result, the effective unemployment rate peaked at around 15% in that initial phase of the crisis.

There are some significant assumptions contained in the budget underpinning the economic outlook in relation to growth and unemployment. These include:

- That over the forecast period material localised outbreaks of COVID 19 occur but are largely contained
- A population wide Australian COVID 19 vaccination program is assumed to be fully in place by late 2021
- General social distancing restrictions are assumed to continue until a vaccine is fully available

- That state border restrictions currently in place are lifted by the end of 2020, except for Western Australia which is assumed to open from 1 April 2021
- A gradual return of international students and permanent migrants is assumed through the latter part of 2021 (with small, phased pilot programs beginning to return international students from late 2020)
- Inbound and outbound international travel is expected to remain low through the latter part of 2021, after which a gradual recovery in international tourism is also assumed to occur
- Net overseas migration (NOM) to fall from around 154,000 persons in 2019-20 to be around 72,000 persons by the end of 2020-21, before gradually increasing to around 201,000 persons in 2023-24

With those assumptions underpinning the budget, the following outcomes have been forecast:

- Real GDP to fall by 1.5% in 2020-21 before increasing by 1.75% in 2021-22
- CPI to increase by 1.75% in 2020-21 and 1.5% in 2021-22
- Wage price index to increase by 1.25% in 2020-21 and 1.5% in 2021-22
- The unemployment rate is forecast to peak at 8 per cent in the December quarter 2020, before falling to 6½ per cent by the June quarter 2022 as economic activity recovers

Ageing and Aged Care

The increased funding included in this budget will provide \$2.0 billion over four years on a variety of programs and initiatives to support older Australians accessing aged care by providing additional home care packages as well as continuing to improve transparency and regulatory standards. Total aged care spending for aged care is \$23.9 billion, an increase of \$8.0 billion over four years.

Many of the funding initiatives announced in this budget were previously announced in the July 2020 *Economic and Fiscal Update*. For residential aged care, it appears that any major funding initiatives will be included in the May 2021 Budget following the final report of the Royal Commission due in February 2021. However, further funding support may be provided as an interim measure in response to the final submission by the Counsel Assisting the Commission due at the end of October 2020.

COVID-19 Response

The Government notes that it has already announced significant funding initiatives to support the aged care sector through the COVID-19 pandemic. Since the early stages of the COVID-19 pandemic, the Government expanded the COVID-19 Aged Care Response Plan, investing more than \$1.6 billion to protect senior Australians and workers in aged care, and support aged care providers across the four pillars of the response plan:- surge workforce support; public hospital partnerships; private hospital partnerships; and testing.

Building on COVID-19 specific support already provided, this budget will provide an additional \$746.3 million to support the aged care sector's response to the COVID-19 pandemic and provide an initial response to the recommendations of the Royal Commission report into COVID-19. Of this:

- \$245 million for COVID supplies to assist all Commonwealth funded providers with costs of operation during COVID-19, and an increase to the viability and homeless supplements for eligible providers
- \$103.4 million to continue aged care preparedness to support providers to manage and prevent outbreaks, including infection control
- \$92.4 million to expand support for aged care workers to be employed at a single site in designated 'hotspots'
- \$10.8 million to enhance skills and competencies to enrolled and registered nurses working in aged care

New Home Care Packages

Increasing Home Care Packages is the Government’s headline reform for the aged care sector in the 2020 Budget. An additional 23,000 home care packages across all package levels to be released in 2020-21 at an additional cost of \$1.6 billion over four years. This is a response to the clear preference of many senior Australians to receive care in their own home, particularly during the pandemic. This will further reduce wait times for home care and connect people to essential care more quickly.

On 8 July 2020 the Government announced that \$347.4 million over five years would be spent on an additional 6,105 home care packages (2,035 at level 1, 2 and 3) in 2020-21. These packages commenced being rolled out in July 2020.

The table below shows the increase in packages over the forward estimates:

Package Level	2019-20	2020-21	2021-22	2022-23	2023-24
1	11,240	13,950	15,155	15,488	15,488
2	64,974	69,571	69,571	69,571	69,999
3	33,689	37,724	37,724	37,724	37,724
4	40,853	41,353	41,352	41,352	41,983
Total	150,756	162,597	163,802	164,135	165,194

The 23,000 packages announced in this budget are in addition to the 6,105 packages already announced in July. These will be allocated as follows:

Package Level	Number
1	5,000
2	8,000
3	8,000
4	2,000
Total	23,000

These packages will commence roll out in November 2020. With the addition of the July 2020 announcement, total Government outlay in the 2020-21 Budget is \$1.9 billion.

Whilst the addition of new Home Care Packages is welcomed, in isolation it does not address issues surrounding the utilisation of packages whereby the amount of unspent package funds for each care recipient is, on average, over \$8,000 and equates to over \$1.1 billion in total.

Unlike residential care, which is underfunded on a care recipient basis, home care funding currently has excess funding for each care recipient on average, and this should be reallocated to provide significant more packages being available.

Another factor to be considered is that the increased Home Care Packages will likely further impact the residential occupancy rates, continuing the downward trend over the past 18 months and particularly during the COVID-19 pandemic. Lower occupancy adversely affects the financial viability of the residential aged care sector.

Other Aged Care Specific Measures

Disability Support for Older Australians

\$125.3 million over three years from 2020-21 to replace the *Commonwealth Continuity of Support Program* with a new *Disability Support for Older Australians* program to ensure that older Australians with disability who were not eligible for the National Disability Insurance Scheme continue to receive the supports they need.

Residential Aged Care Funding Reform

\$91.6 million over two years from 2020-21 to continue the reform to residential aged care funding including undertaking 'shadow assessments' using the *Australian National Aged Care Classification*. In July 2020 the government announced \$166.9 million over two years from 2020-21 to continue work on options to reform residential aged care funding and to replace the ageing ICT payment system for residential care. We expect that the 2020 Budget announcement is included in the previously announced funding.

Business Improvement Fund

\$35.6 million over two years from 2020-21 to provide funding for the Business Improvement Fund to continue assisting eligible residential aged care providers to improve their financial operations. This is an extension of the exiting program which provided \$48.7 million for the 2020-21 year.

Serious Incident Response Scheme

The Australian Government will establish new obligations on approved providers in relation to incident management, focusing on consumer safety and wellbeing, and quality improvement of services ahead of the implementation of a Serious Incident Response Scheme in the first half of 2021.

\$29.8 million over three years from 2021-22 to administer the new serious incident response scheme. This expands on July 2020 announcement of \$23.0 million over five years from 2019-20 for the introduction of a serious incident response scheme to reduce the risk of abuse and better respond to serious incidents in Government subsidised residential aged care.

My Aged Care System

\$26.9 million in 2020-21 to support the operation of the My Aged Care system.

Aged Care Quality and Safety Commission

\$26.0 million in 2020-21 to maintain the capacity of the Aged Care Quality and Safety Commission in its ongoing regulation and compliance of the aged care sector.

\$4.1 million in 2020-21 to support the Department of Health and the Aged Care Quality & Safety Commission to respond to requests from the Royal Commission into Aged Care Quality and Safety.

Home Care Funding Arrangements

\$21.0 million over four years from 2020-21 to delay the implementation of payment in arrears and on invoice for home care services as well as provide transition support to providers to adjust to these arrangements.

Cost Recovery Levy for On-site Visits

\$11.4 million in 2020-21 to defer the introduction of a cost recovery levy for unannounced site visits.

Training

\$11.3 million in 2020-21 to provide additional dementia services and training programs.

Younger People in Aged Care

\$10.6 million over three years from 2020-21 to establish a network of care coordinators to assist younger people in residential aged care or who are at risk of entering residential aged care to look for more age appropriate accommodation and supports.

Aged Care Workforce Strategy

\$10.3 million over three years from 2020-21 to support the Aged Care Workforce Industry Council to implement the Aged Care Workforce Strategy.

Research

\$4.6 million over two years from 2020-21 to review the support care needs of senior Australians who live in their own home and determine how best to deliver this care in the home.

Summary

This Federal Budget was always going to be a difficult juggling act given the extraordinary economic and social upheaval as a direct result of the COVID-19 pandemic. Our analysis is specifically directed at the budget consequences in relation to the aged care sector.

The increased number of Home Care Packages is clearly required and welcomed. This will partly address the findings as included in the Interim Report of the Royal Commission being the requirement to urgently reduce waiting times for older Australians seeking in-home care support.

However, the release of new home care packages must be done in tandem with constructive dialogue with all stakeholders to ensure an equitable distribution that ensures that the care recipients who require these in-home services receive them in a timely and regulated manner.

We are pleased that the government has confirmed that the home care funding arrangements reform (funding in arrears) is being implemented from 1 February 2021 (Phase 1) and 1 September 2021 (Phase 2). This should have a direct consequence on the growing level of unspent funds (currently in excess of \$1.1 billion) which, in effect, is unutilised funding that could be allocated for further additional packages.

Additional reform should also include increasing the number of package levels (currently four) to at least six to have a much lower incremental gap in funding between each level, which will allow the funding to equate to assessed need.

Each of the additional budget aged care specific measures are well considered and relevant.

Unfortunately, this budget has not provided any funding measures in relation to residential aged care. This is a serious concern, and whilst there is some merit in delaying funding reform until after the Royal Commission report recommendations are fully considered, specifically targeted interim funding measures quite simply cannot wait. The upcoming release of the results of the *Aged Care Financial Performance Survey* for the 2020 financial year will further demonstrate that such interim funding measures must be actioned without delay.

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