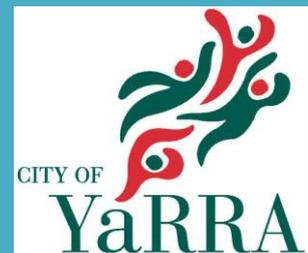
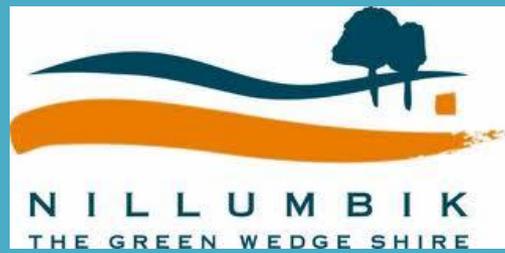
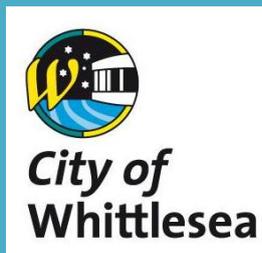


NORTHERN REGION COUNCILS



ISSUES FACING LOCAL GOVERNMENT IN AGED SERVICES DELIVERY

Discussion Paper February 2013

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EXECUTIVE SUMMARY

The purpose of this Issues Paper is to provide senior management in local government in the northern region of metropolitan Melbourne with a clear explanation of recent changes in Commonwealth and Victorian Government aged and disability policy – as those changes are highly likely to have a large impact on local government in the short to medium term.

In the past 12 months, the Commonwealth Government has introduced two major new policy initiatives. The first is *Living Longer Living Stronger*, the Government's policy in relation to aged care both in the community and in nursing homes. The second is the introduction of the National Disability Insurance Scheme (NDIS), to be trialled from next year and likely to be progressively rolled out from 2016.

In addition to these changes, there have been many changes in health policy and in Commonwealth State financial relations. Under these changes, the Commonwealth proposed to take full policy and funding responsibility for aged care including the Home and Community Care (HACC) program. Most states and territories agreed but Victoria and Western Australia did not.

HACC will therefore continue in its current form until mid-2015 but there is no certainty beyond that date, making it very difficult for local government to plan. Should a transfer to the Commonwealth take place, there would be many changes including the possibility that local government would need to compete for funding.

The NDIS will similarly have a significant impact on HACC. Local government and other providers of HACC disability services will likely be defunded and the funds transferred to the NDIS. People with disabilities will have access to these funds (on an assessed basis) and will have the right to choose the services they want and the provider from which they will purchase the services. This is a major shift in public policy from a welfare based service to a rights based program and is supported by all major disability organisations.

This paper describes the main Commonwealth Government policy changes and briefly outlines their key implications for local government. Ideally, it should be read in conjunction with a more detailed and fully referenced *Literature and Policy Review* completed prior to this document - it provides a history and fuller explanation of these changes.

At the conclusion of the paper, the 10 most important issues for local government consideration are summarised.

This paper remains confidential until otherwise agreed by the seven northern metropolitan region local governments that commissioned it.

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1. INTRODUCTION

The purpose of this Issues Paper is to provide senior management in local government in the northern region of metropolitan Melbourne with a clear explanation of recent changes in Commonwealth and Victorian Government aged and disability policy - as those changes are highly likely to have a large impact on local government in the short to medium term.

Over the last few years, there have been a number of major enquiries by the Productivity Commission and other entities that have led to significant shifts in government policy. It is important that local government decision-makers are aware of these shifts so that they can adapt their services, should they so wish, and be well-prepared should changes be imposed by funding bodies.

This Issues Paper is part of a project initiated by the Managers of Aged and Disability Services in the seven northern metropolitan local governments – Banyule, Darebin, Hume, Moreland, Nillumbik, Whittlesea and Yarra. In light of the scale of proposed policy changes and the complexity of the issues arising from the changes, the Managers initiated a joint project to ensure, firstly, that they were fully informed about the changing policy landscape and, secondly, that they were in a position to advise senior management and council about the likely implications for aged and disability services locally.

A more detailed and fully referenced *Literature and Policy Review* has been completed and is available for those wish to explore the issues more fully. The final step in the project involves the development of an explanatory DVD for use as a communication tool – with staff, with service partners and with councillors.

2. AGEING: A CHALLENGE BUT NOT A CRISIS FOR AUSTRALIA

Until a century ago, older people comprised 3-4% of the world's population. Today, in Australia, the proportion of people over 65 is 14% and this will grow to 25% by 2051, still a far lower proportion than other countries such as Japan where the older population will reach 40%. Of more significance, however, is the proportion of people over 85 as this cohort is a far bigger consumer of support services. Currently, those over 85 represent 1.4% of the population in Australia and will grow to 6% by 2051.

Despite this growth in numbers, research shows that ageing is not a crisis for Australia. The Centre for Strategic and International Studies (CSIS)¹ has established the Global Aging Initiative (GAI) which explores the long-term economic, social, and geopolitical implications of demographic change around the world. One of the GAI projects is the Global Aging Preparedness Index (or GAP Index). It provides the first comprehensive quantitative assessment of the progress that countries worldwide are making in preparing for global aging, and particularly the old-age dependency dimension of the challenge.

¹ The CSIS a bipartisan, non-profit, highly respected think-tank headquartered in Washington, D.C. It conducts research and analysis and develops policy initiatives that look to the future and anticipate change. www.csis.org

The Gap Index measures the preparedness of 20 countries to face their demographic challenges. Two measures have been established. The first measures the fiscal sustainability of national budgets up to 2040, that is, can governments afford to pay for the costs of an ageing community. The second measures the income adequacy of people in their older age relative to the non-older population. In other words, will older people be forced to live in poverty? Many countries score well on one index but not the other. China, for example, scores highly on the fiscal index but very low on the income index. That means China has ample capacity to meet the costs of ageing but does not provide adequate pensions or healthcare to enable people to age well.

Australia rates a special mention as the standout country that tracks well on both measures. Australia has the financial capacity to meet the challenges of an ageing society and, while concerns remain about the adequacy of retirement incomes for low income earners, generally, older people will not live in poverty.

3. THE CURRENT ROLE OF LOCAL GOVERNMENT

In Victoria, local government provides a wide range of services for older people and people with disabilities. Direct services are primarily provided through the Home and Community Care (HACC) program. These services include home help, delivered meals, home maintenance, personal care and others, all designed to assist older people remain in their own homes. Some local governments also deliver services known as 'packages' which provide a higher level of services for people who are more frail or have greater needs.

In addition to direct services, local government supports older people through rate concessions, community transport and senior centres; older people are also significant users of mainstream services such as libraries and recreation centres.

Local government in Victoria is a major provider of HACC. When HACC was first introduced in the 1980s, local government contributed 20% of the cost of the services but, in 2010/11², local government's contribution share averaged 34% and some councils contribute up to 40%. Local government's contribution to the HACC program has grown at 8.4% per annum over the last five years. Across Victoria, local government contributed \$110m to HACC in 2011-12³.

In other states, local government has far less involvement in the HACC program – it is provided primarily through health services and not-for-profit agencies.

4. CHANGES IN AGEING POLICY

Governments have been cognizant of changing demographics in Australia since the first national census in 1911 and the ageing of the population has been on the national agenda for many years now. It was, however, elevated as an issue in public policy following the first

² MAV Annual HACC Survey Report 2012, Municipal Association of Victoria

³ Local Government's Role in HACC Services, 2012. Municipal Association of Victoria

Intergenerational Report (IGR) produced as part of (then) Treasurer Peter Costello's 2002-03 budget. The IGR looked at the long-term consequences of population ageing and the extent to which government policy decisions taken at the time would impact financially on subsequent generations of Australians.

The Productivity Commission was subsequently asked to look in more detail at the costs of ageing in Australia. It found that spending on health, age-related pensions and aged care would rise from one quarter of total expenditure to around half by 2050. If steps were not taken to close the fiscal gap over time, the Budget would be in deficit by 3.75% of GDP and net debt would grow to around 20% of GDP.

Following a change of Government at the Commonwealth level in 2007, further impetus was added through the significant attention given to health policy and funding of health care. The National Health and Hospitals Reform Commission was established in 2010 and recommended major restructuring of funding, governance and delivery of health care including primary health care and aged care. The Commonwealth adopted many of the recommendations of the Reform Commission and proceeded to negotiate major changes in Commonwealth-State health agreements.

One of the key changes proposed was that the Commonwealth Government take full policy and funding responsibility for most health services including the HACC program. Victoria and Western Australia did not support all aspects of the National Health Policy and did not agree to the Commonwealth taking full responsibility for HACC.

Victoria now has a Triennial HACC Funding Agreement with the Commonwealth which maintains the status quo until mid 2015.

Other important changes in Commonwealth ageing policy include:

- A review of all home support services by the Commonwealth – the first such review since the 1980s
- A 60% increase in the number of 'packages' to be provided in the community
- Standardisation of user charges across Australia
- Introduction of a new national assessment framework and possible separation of assessment and service delivery as proposed for Disability Insurance (see later)
- Personal electronic care records (separate from electronic health records for all Australians)
- Development of a common 'Gateway' – a national call centre to facilitate access to information and to services
- Establishment of 'My Aged Care' website as part of the Gateway. The website will also show quality ratings of aged care services
- A 'Workforce Compact' to improve wages and conditions in the aged care sector
- Major changes in funding arrangements for nursing homes

Implementation of these reforms has begun through the establishment of an Aged Care Reform Implementation Council.

In Victoria, the HACC program continues to be delivered in accordance with the Triennial Agreement between the State and Commonwealth - essentially, it is business as usual in the HACC program and there is no publically available information about the State Government's intentions beyond the expiry of the current Plan in 2015.

5. NATIONAL DISABILITY INSURANCE SCHEME

In 2010, the Commonwealth Government commissioned a Productivity Commission Inquiry into a long-term care and support scheme for people with disability in Australia.

The Commission found that around 300,000 people with disabilities are currently receiving services but another 125,000 people are missing out on support services and many other people are receiving less than they need. The current disability support system is underfunded, unfair, and gives people with a disability little choice and no certainty of access to appropriate supports. The stresses on the system are growing, with rising costs for all governments.

The Commission's final report recommending the National Disability Insurance Scheme (NDIS) was released in August 2011. The proposed scheme represents a totally new approach to supporting people with significant disability. Instead of funding welfare agencies to provide services, the NDIS will provide funds which individuals or their families can use on the services they want. The Commonwealth, State and Territory governments have agreed in principle to the introduction of the scheme and there will be a trial in five states and territories including one in the Barwon region in Victoria. At time of writing (December 2012), only New South Wales has agreed to fund its on-going share. Its residents will start to enter the scheme from 2016 and all areas of the State will be fully covered by 2018.

Currently, the Commonwealth Government spends about \$2.3 billion annually and the states and territories spend about \$4.7 billion on disability services. An additional \$6.6 billion annually is the estimated cost of the proposed NDIS.

A separate scheme, the National Injury Insurance Scheme (NIIS) is also proposed as an accident insurance scheme for catastrophic injury. Catastrophic injury includes quadriplegia, acquired brain injuries and multiple amputations. Currently, there is a wide range of accident and other insurance schemes across Australia. Examples include Workcover and transport accident schemes as well as medical indemnity insurance schemes. These are disjointed, inequitable, administratively expensive and wasteful in that many of them involve significant litigation. A no-fault scheme would be fairer and more economically efficient. It will also reduce the overall costs of the NDIS as people with catastrophic injury will be covered through the insurance scheme, not through the NDIS.

There are three important underlying principles in the proposed NDIS and NIIS schemes:

- **Shared risk** – everyone faces the risk of disability and a scheme that pools the cost of response is fairer to all
- **Entitlement** – people should have a right to services that enable them to lead a productive life

- **Choice** – people have the right to choose the services they believe are best for themselves and choose the provider from which they receive the service

The proposal represents a major shift away from a welfare model to a rights based model and has major implications for both local government and not-for-profit disability providers.

Key elements of the proposed NDIS are as follows:

- **Governance:** A single agency – the National Disability Insurance Agency – will be established under the joint auspices of Commonwealth and State governments. It will be established as a company with a skilled, commercial board rather than being provided through a government department.
- **Assessment:** The Agency will be responsible for assessment of recipients and funding but will not deliver any services. This overcomes the inherent conflict of interest in an agency both assessing and delivering services. It will also have research, but not advocacy functions.
- **Eligibility:** The disability must be permanent. Recipients must have significantly reduced functioning in self-care, communication, mobility or self-management and require significant ongoing support. Chronic illnesses such as asthma will not be covered and nor will major illnesses such as cancer. These will continue to be treated through the health system. Some significant and enduring psychiatric illnesses, however, will be covered. Those who have an ageing related disability or acquire a disability after pension age will not be eligible. However, people with a disability will be able to maintain their entitlement after they reach retirement age.
- **Packages:** A person assessed as eligible will be entitled to a 'package' of supports such as a certain number of hours of care, specified equipment etc. Subject to certain conditions, some recipients may cash out their entitlement and assemble their own supports - so-called 'self-directed funding'. Overseas experience suggests that about 10% of people will take this second option. As it is an entitlement system, there will be no means testing of recipients and, mostly, no co-payments are required.
- **Disability support organisations:** A new form of organisation is proposed to offer people brokering services, support in exercising choice, management services (such as dealing with the administrative aspects of funding), personal planning, and orientation supports for people who are suddenly faced with the unfamiliar world of severe disability. These organisations could be government, not-for-profit or commercial entities.

The packages are not intended to replace other forms of goods and services available to all citizens. Hence, the packages cannot be used for housing, employment services, education, healthcare etc. It is also not an income supplement and existing entitlements to income support, e.g. the Disability Support Pension, will remain.

6. IMPLICATIONS FOR LOCAL GOVERNMENT

These policy changes in aged and disability services have significant implications for local government in the short to medium term. For most local governments, the HACC program represents a significant component of service delivery in the community and is a major

budgetary commitment. The section below explores the major issues that local governments in the northern metropolitan region will need to consider in light of these changes.

6.1 PLANNING BEYOND 2015

The current HACC triennial agreement between the Commonwealth and the State runs to June 2015. It is possible that, beyond that time frame, Victoria will seek to retain responsibility for the program rather than transfer it to the Commonwealth. Assuming the Commonwealth would agree to Victoria operating differently, HACC would continue (for older people) in its current form and funding of local government may not change. Victoria may modify some aspects of HACC to better align with the Commonwealth program (e.g. adopt common fee arrangements and the national assessment framework) but otherwise HACC would remain as it is now.

Alternatively, Victoria may choose to transfer full responsibility for HACC to the Commonwealth. Two main scenarios for local government are possible here. First, the Commonwealth could continue to fund local government directly in the same way that State funding has operated. The only significant change would be that funding agreements would be signed with the Commonwealth rather than the State. The second scenario would see HACC in Victoria start to operate much as it does in other states with a greater role for not-for-profits, possible separation of assessment and service delivery and the introduction of competitive funding rounds (see further below). Some councils may choose to exit HACC, some may choose to remain as providers.

Currently, local government is receiving limited information about any on-going discussions between the Commonwealth and the State about the future of HACC post 2015 and hence it is very difficult for local government to plan its future role.

6.2 THE IMPACT OF NDIS ON HACC

HACC funding for local government will very likely be affected by the introduction of the NDIS, assuming the scheme goes ahead in Victoria. The NDIS is premised on the assumption that most, if not all, current expenditure on disability transfers from providers to the fund for recipients. This will likely mean that HACC funding for people with disabilities will cease. Local Government could remain a provider of services but individuals will have the right to choose and may go elsewhere. It will be more difficult for local government to predict likely demand and services will need to compete on both price and quality with other services on offer.

It is also possible that some current recipients of HACC will not be deemed eligible for the NDIS. Local government will have no role in assessing eligibility for the NDIS and eligibility criteria will not be the same as those for HACC. The Productivity Commission estimated that NDIS would result in more people with disabilities receiving services but, where Councils have made access to HACC relatively easy, they may still find they have residents expecting services to continue even though local government is no longer funded to provide these services.

6.3 COMPETITION FOR FUNDING

HACC funding for local government in Victoria is based on a formula that takes account of the number of older people in the municipality adjusted to take account of socio-economic indicators. While the Commonwealth will still seek to ensure equity in the distribution of HACC places, it is more likely to call for tenders for service provision. This will mean local governments will need to decide if they wish to continue as a HACC provider and, if so, ensure they can prepare a competitive bid. Tenders may require regional, not local, provision of service forcing local government to expand beyond their borders or enter consortium arrangements. Competition is likely to come from the not-for-profit sector (e.g. RDNS, Benetas) and, possibly, private sector firms. Some of these organisations will have the ability to offer a greater range and more integrated suite of services. Some will be very competitive on price.

While local government currently has a major role in HACC, there are another 300+ HACC providers in Victoria. While many are small and/or focused on specific population groups, they are, nevertheless, significant potential competitors.

6.4 RISING HACC EXPENDITURE

It is likely that local government will face an increasing financial burden from the HACC program over the foreseeable future. The two main reasons for this are growth in the number of older people and growth in the cost of the service.

First, HACC will potentially double in size over the next 40 years as the older population doubles but there will also be a much larger proportion of the very old, a group that will require a higher level of service. Secondly, according to the MAV, costs are growing at 8.4% per annum, faster than many rate increases and hence HACC is consuming an increasingly greater proportion of many local government budgets.

Some Councils have extrapolated their HACC expenditure over the next 25 years taking account of changing demographics and program costs and have used the information to consider their longer term role.

6.5 STAFFING ISSUES

Local government is already well aware of a number of staffing issues that will impact on the delivery of HACC in future. These include:

- **Recruitment:** Some, but not all, local governments are finding it increasingly difficult to recruit and retain staff, a task that will become more challenging with the growth in the HACC eligible population
- **Quality and accreditation standards:** These have been increasing over the last 10 years, requiring higher levels of training and on-going development for staff
- **Pay rates:** The Commonwealth government has expressed concern about low-paid workers and has initiated a 'Workforce Compact' to improve wages and conditions in

the aged care sector. The intention is that pay increases come from productivity improvements but the capacity to find sufficient productivity gains in the HACC program has not been tested

- **Possible workforce reductions:** Following the introduction of the NDIS, HACC delivery hours for people with disability may reduce or disappear entirely with possible consequences for the size of the local government workforce

Management of these staffing issues and their associated cost implications will be a significant challenge for local government over the next few years, particularly given the uncertainty in the planning environment.

6.6 OPPORTUNITY COST

There is a significant opportunity cost in local government's participation in HACC.

In addition to the HACC program, local government provides many other services, some generalist and some targeted specifically at older people. These include libraries, recreational facilities, senior citizens centres and many other cultural and community-building programs. Many local governments now have positive or healthy ageing strategies designed to help citizens age well and stay connected.

Local government could choose to strengthen its role in these activities and reduce or eliminate its role in the HACC program. The changing landscape in both aged and disability services provides local government with an excellent opportunity to re-think its role in supporting older people and people with disabilities and ensure it is maximising the benefit of its expenditure in these areas.

It would be important, of course, to plan for any changes in a way that ensured service continuity for the community. Initiating a formal planning process, ideally with funder involvement, would be critical as would stronger partnerships with other potential providers.

The potential opportunity for local government across Victoria if it exited from HACC is the re-allocation of \$110 million that it currently contributes to the program.

6.7 OTHER ISSUES

There are two other aspects of new Commonwealth policy that may also have implications for local government.

The first is the impact of NDIS on disability organisations. Most of these are charities, many with a long history in supporting people with disabilities. They are funded largely by block grants from the State and by fundraising activities. The NDIS is likely to mean that their block funding will cease and they will need to compete for customers within the disability community. This is an enormous challenge for these organisations and, possibly, for their current service users. At

a local level, agencies and their clients may seek support from other potential sources of income such as local government.

The other issue of note is the proposal to establish the 'My Aged Care' website. As well as being a portal to information and services, it will provide quality ratings of service providers (like the My School website). This may mean that local government's HACC service provision will be publically rated alongside other providers in the municipality and other local governments across the State.

7. NEXT STEPS & KEY ISSUES FOR LOCAL GOVERNMENT

It is clear that the changes in Commonwealth ageing and disability policy have significant implications for local government. However, local government is faced with real uncertainty in the planning environment and, seemingly, no current opportunity to influence State policy directions.

Recently (October 2012), the MAV has prepared a *Background Paper – Local Government's Role in HACC Services*. It sets out the history of local government's role in HACC, describes the demand pressures and cost pressures faced by councils, mounts an argument for the continued provision of services by local government and identifies the issues it believes will need to be addressed if HACC services are to be sustainable.

The MAV is also undertaking a project over the next 18 months – The HACC Sustainability Project to address, jointly with local government, the issues identified in its *Background Paper*. Terms of Reference have been developed and distributed to local government and invitations to participate on a Steering Committee have been issued.

These MAV initiatives are important, although they do assume a continued role for local government in HACC and the sustainability project does not give local government the opportunity to speak directly to the State Government.

The State Government may be engaged in planning for HACC post 2015 and post NDIS but is not currently involving local government or other HACC providers in such work. Local government can, of course, commence its own scenario planning and review the role it wishes to take in service provision but this leaves a risk of having decisions imposed by other levels of government.

The most pressing challenge for local government is to ensure it has a place at the table in Commonwealth-State policy considerations so it can influence outcomes and ensure it has sufficient time to plan for changes in service delivery.

The box below summarises the ten major issues that have been raised throughout this paper. Local government is facing potentially very significant changes in the HACC program and the earlier it is able to fully plan for these changes the better placed it will be to ensure continuity of services to local communities.

TEN KEY ISSUES FOR LOCAL GOVERNMENT

1. If HACC transfers to the Commonwealth in 2015, there will be many changes for local government. Lack of information is hampering local government forward planning for possible changes
2. If HACC does transfer to the Commonwealth, funding may be subject to competitive processes. There will be many competitors with strong bids
3. The Commonwealth may separate responsibility for eligibility assessments and service delivery meaning local government would need to exit one or other role
4. The Commonwealth may place performance ratings of local government and other HACC providers on a public website
5. Local government contributions to HACC have grown at an average of 8.4% per annum over the last 5 years, faster than the growth in most Council rates
6. Local government may find it increasingly difficult to recruit and retain sufficient staff to cater for the growing older population
7. The new National Disability Insurance Scheme will bring enormous change for the disability sector including local government. Most, if not all, services will be defunded and clients will have access to funds to purchase services of their choice from providers of their choice
8. Local government and not-for-profit services will likely lose HACC disability block-funding and will have to 'market' their services to clients or exit the program
9. Workforce planning may be difficult as disability client numbers may not remain constant
10. There is a significant opportunity cost in the provision of HACC services and local government could consider alternative allocation of these funds