

**Speech by The Hon Santo Santoro
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One of the key messages I'd like to leave with you today is that aged care in Australia is at a crossroads.

But with that, I also want to recognise that this is not a recent location for the industry. It has been at the same crossroads now for a little over a decade. Perhaps a little background will help to explain this.

The notion of aged care as a distinct policy area with specific public finance and centralised Commonwealth regulation is of course an initiative of the Howard Government. Prior to the last Coalition era, there was no Minister for Ageing, and prior to the Aged Care Act of 1997, there was no significant regulation.

Now, I'm well aware that there are some who might regard regulation as something of a regressive step. And I am well aware, as a servant of both State and Federal Governments, that all new regulations are inevitably accompanied by both administrative inefficiencies and deadweight losses.

Nonetheless, I'm sure we would all concede that the introduction of minimum standards, including such esoteric notions as fire compliance and individual accommodation, are major and significant improvements on the conditions which the Howard Government first audited after its 1996 election.

But of course, improved standards cost money. And the only way that aged care can currently be provided in this country is through substantial public subsidies.

Which, in turn, bring with them, a whole lot of politics. And, now that I find myself fortuitously in the role of the private citizen, I can provide some honest and hopefully serious insight into those.

Which is what I'd like to focus on today, given that my dear friend and long time adviser Henry Ergas has already and effectively dissected the minutiae of current funding arrangements.

I'd imagine everyone here is aware that the first step to good political practice is to recognise all the stakeholders and to understand their motivations. And with aged care, there's a fairly long list of each.

But broadly speaking, the core politics of ageing finance address five competing interests.

The first of these is obviously ageing Australians, who are variously interested in:

- Choice: whether they age in their own homes or in community accommodation, or a mixture of both;
- Quality: including both the accommodation quality and their physical security and medical care; and,
- Access: which is essentially a question of affordability and availability.

The access question is particularly fraught, and contains an embedded social justice imperative, which is why ageing policy has consistently sought to link performance payments to quotas of low-income aged Australians.

The problem with that design is that it presumes there is a full spectrum of aged care services in Australia, and the absence of a broad-based fully-private sector is clear evidence that that full spectrum doesn't exist.

The second key political grouping is the families of ageing Australians. Again, they have three overriding areas of concern, viz.:

- Relief: they want assistance with the care of their parents and spouses, whether that is respite for full-time informal carers, or full-time accommodation where parents can no longer safely live at home;
- Comfort: there is serious guilt and discomfort at placing family members in care outside the family, and children and spouses want certainty as to the quality of care; and,
- Again, money: no-one wants to pay more than necessary for such care, and they also have a weather-eye to the potential for aged care to erode their expected inheritance. Which for those of you who know your history, is one of the key reasons why we don't have high-care bonds.

Paradoxically, this second group, who are only indirect beneficiaries of the aged care system, are generally more politically influential – read noisy – than their parents who are the direct participants.

We don't have a substantial aged care lobby from senior Australians which parallels the movement in the US. And the typically later-age movement into aged care in Australia means residents tend to have passed their politically active zenith.

To demonstrate this point, compare the activity of the residents' organisations in retirement living.

But either way, there's something of a trend here. Everyone wants certainty and quality, and no-one wants to pay for it. This may be an associated artefact of the free public health system, as many Australians continue to see aged care as an evolutionary form of healthcare.

Group three of our five stakeholders is the aged care industry who manage the capital investment and service provision to the two groups outlined above. I would be unfairly maligning this group to suggest that their motivation is profit, as I'm well aware that there are any number of investors, both Church and corporate, who have entered the industry driven by a sense of mission.

But clearly profit is a prime motivator, and this provides a critical tension point with all the other stakeholders we're looking at.

This also applies to the churches and charitable component of the industry who must - at worst - break even with their operations but still strive to achieve financial surpluses for the never-ending improvements that must be delivered.

Associated with the standard corporate motive, I think there are two other goals which providers consistently pursue with their regulators.

The first of these is freedom to operate and innovate, and the need for noticeable breadth in the finance system and regulatory standards to permit that.

And the second is policy consistency: operators live with constant serious concern and often in genuine fear of capricious actions by Government. Both of these are serious and worthy concerns.

Our fourth group is staff, who work in a profoundly difficult industry environment, are not well remunerated for the qualifications and type of work required, and are consequently increasingly thin on the ground.

I presume that this is somewhat ameliorated by the GFC, but it is a long-term issue which both the Howard Government and its successor the Rudd Government have only begun to address. Training is the key, but money will typically matter as well.

And finally, we have the Government itself, in its three roles, as:

- The regulator which needs to assuage its own conscience – as a proxy for the community conscience – that appropriate levels and standards of aged care are being delivered;
- The financier, who must deliver both subsidy and enforcement, but not at the cost of any other policy area which the community regards as more important; and,
- The last line of blame, whether it's for poor service delivery, fraud within the family, or just plain old community dissatisfaction.

On that, it's worth reflecting that many of us who choose political careers do so with a genuine desire to serve the community. The first lesson is that whatever you do, it's usually the community that's going to give you the serve.

So, in light of that fairly simple stakeholder analysis, how might we rate the prospect of currently-favoured and many say necessary changes to the aged care regulatory arrangements.

Let's start with the simple one, which has been around the longest, and which is high-care bonds.

It ought to be a good idea. For operators and potentially their staff, it improves the income pool, which should also assist in improving standards and delivering security to residents and their families.

For Governments, bonds provide the potential to balance more of the funding for aged care on the private side of the ledger. Particularly as bonds are accounted for as exactly that: they are essentially no-interest or negative-interest loans, which have the practical effect of significantly reducing an operator's cost of capital.

It's worth noting here that Government never intended to subsidise capital investment in the aged care sector, and public finance has always sought to keep pace with recurrent expenditure – which is to say operating expenditure – rather than building price inflation or interest rates.

So there should be good news in this for everyone, given that so little of the bond's capital amount is ever retained by the operator.

It's worth adding here that existing prudential arrangements introduced by the Howard Government protect and guarantee the security of bonds for those people who view them from an inheritance point of view.

And yet, this fails the political test, which is why I am assured that it has no possibility of progress through the current Federal Cabinet. The political test is that while it is a different type of payment, and in fact often reduces the recurrent rental costs for residents and their families, it simply looks like a large extra payment.

And it's a well known rule of politics that things are what they look like.....

The second, and more complex reform which is currently being considered, is the idea of vouchers. This is recommended by Professor Hogan and the Productivity Commission, and has a great deal of merit, not least that it creates a more fluid and competitive market, in which aged care providers will be more typically competing for customers, rather than the other way around.

I don't mean to be excessively pessimistic about something so evidently meritorious, but I can see at least six major political problems associated with vouchers. These are:

- It is a radical overhaul to replace allocated places with a genuinely free market, and it will disadvantage at least some players, who – in the absence of a complex and far-ranging set of

special arrangements – will have strong incentives to run a campaign against the reforms and muddy the waters;

- Consumers may like this idea in principle, but not necessarily in practice, in the same way that they like the idea of choice, but may not enjoy having to exercise it. Aged care is – to the vast majority of Australians – an opaque and arcane business, and it suffers from critical information imbalances. Having to exercise a voucher will lead to confusion, and that is not a naturally attractive outcome for the Government;
- It's not telling too many secrets to let you know that there is a deliberate fiscal rationing motive at the heart of the current allocation system. Vouchers not only presuppose free supply, but they also imply freer demand, and that is risky for Government.

Currently supply is constricted by the Commonwealth, and demand is constricted by the classification activity of the States. There is something of an equilibrium here – albeit one that relies on studied inefficiency – and this is a balance Government will be loath to upset;

- There is an unfortunate precedent attached to aged care vouchers. Labor Governments all over the country have resisted vouchers in other government-subsidised sectors, most notably education, health and transport. Versions of vouchers have emerged, but they are more accurately either universal insurances, price discrimination arrangements [e.g. Seniors' discounts] or other more general direct and indirect subsidy schemes.

Voucher programs transfer policy and standards assessment from the Government to the community, and that isn't consistent with the Union and the Labor view of the world;

- One – and only one – of the reasons that existing providers are more likely to win new bed allocations, is that they have a track record, which is professionally and politically reassuring to the Government. While reputation will still play a role in an open market, a voucher scheme removes a preferred barrier to entry, and increases the political risk across the industry; and
- As a policy matter, the removal of bed allocation takes away the Government's capacity to ensure that there is a diverse spread of providers. In another industry, the ABC Learning experience has emphasised to the Government that excessive concentration in a publicly subsidised industry presents both real and political risk. And we would do well to recognise that childcare is, in the Government's mind, the epitome of a voucher scheme in action in the provision of a public good.

So, I think I said I don't want to be pessimistic, but I still want to be realistic. Vouchers are a tough call, and as I've noted here, there's no stakeholder group which they completely satisfy.

The other area of reform which is dear to the hearts of the industry, is the removal of regulatory burden. And it's notable that in the recent Productivity Commission report, this was identified as a consequence of the restricted allocation arrangements – for which we may read 'absence of a voucher scheme'.

Regulatory burden is not simply standards compliance.

It involves the setting of maximum fees and charges, to meet the Government's access goals. It involves police checks to ensure staff don't have criminal histories.

And it involves constant and sometimes ill-conceived enforcement which potentially affects reputation and ability to focus on business operation.

And again, it's a difficult one to change. And I will happily put my hand up and say that on my watch, regulatory burden was deliberately increased. Because we have to recognise that the community of people who occupy our aged care beds are amongst our most vulnerable citizens. Our first instinct, and I believe our first responsibility, is to ensure they are safe.

However, I contend strongly that how regulations are enforced is often more important and impactful than the regulations themselves.

Despite recent reports, and despite recent lobbying efforts by the industry, these are really not new ideas. And the reason they have little prospect is because each of them is too difficult an adjustment to make to a complex and integrated system.

As I said at the outset, this industry is at a crossroads, but it is a crossroads we've been sitting at for a decade or more, and it's time to step away and think of an entirely new direction.

Which is to say that it is effectively pointless for the aged care sector to consistently turn up to Government asking for more money or less interference or more freedom without recognising that it is a part of an organic community, which consists of all the stakeholders I mentioned above, including the residents and their loved ones, the staff (and their unions) and the Government in its three roles.

So what do we do instead. Well, first we need to build a coalition. There's a Ministry of Ageing, not a Ministry of Aged Care, and there's a lot of significance in that small semantic difference.

My starting point for this industry would be to build a coalition between the providers and the consumer groups, as well as the staff unions, to find out where there is the potential for common ground. Because if you don't, then as the population ages further, and the ageing become more politically organised and sophisticated, the aged care sector will be relegated to the least influential seat at the table.

From there, you need to find some changes which expand the industry and create freedom, but which don't compromise access or security concerns.

And that's going to be difficult. It requires consideration of options which haven't been fully explored in Australia, including innovative insurance products and community finance options. It means looking at the dormant but still important public sector desire to separate care from accommodation, to provide seamless transit through increasing disability, and to find concentration nodes for the delivery of community care.

The Inter-Generational Reports provide a stark, and perhaps even too optimistic picture of ageing in Australia, and there will need to be practical compromises to ensure that a reasonable proportion of ageing Australians receive care in the future at the standard they desire into the future. You need to be at the forefront of designing the whole system, rather than just arguing about your share of it.

I think there can still be substantive reform, and that we can get beyond the crossroads we're still at. But it requires imagination, and perhaps some new eyes, rather than the same old analysis and argument. I hope that some of you here today will take that challenge, and I wish you well with it.