T h e A u d i t o r - G e n e r a l

Audit Report No.19
Performance Audit

The Planning of Aged Care

Department of Health and Aged Care

A u s t r a l i a n N a t i o n a l A u d i t O f f i c e

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Australian National
Audit Office

Canberra ACT
8 December 1998

Dear Madam President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit of the Department of Health and Aged Care in accordance with the authority contained in the *Auditor-General Act 1997.* I present this report of this audit, and the accompanying brochure, to the Parliament. The report is titled *The Planning of Aged Care.*

Following its tabling in Parliament, the report will be placed on the Australian National Audit Office's Homepage — http://www.anao.gov.au.

Yours sincerely

P. J. Barrett
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

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Contents

Abbreviations/Glossary

ACAC	Aged Care Advisory Committee
ACPAC	Aged Care Planning Advisory Committee
AIP	Approval In Principle
ABS	Australian Bureau of Statistics
ANAO	Australian National Audit Office
CACP	Community Aged Care Package
CCP	Community Care Package
DHAC	Department of Health and Aged Care (after 21 October 1998)
DHFS	Department of Health and Family Services (prior to 21 October 1998)
DOFA	Department of Finance and Administration
HACC	Home and Community Care
MPS	Multi Purpose Service
NESB	Non English Speaking Background
NHHR	Nursing Homes and Hostel Review
PCDB	People from Culturally Diverse Backgrounds
RRMA	Rural, Remote and Metropolitan Areas Classification
SLA	Statistical Local Area

Summary and Recommendations

Summary

Audit background

1. The Department of Health and Aged Care (DHAC) (formerly the Department of Health and Family Services) administers the Commonwealth Government's Aged and Community Care program.[1] The Commonwealth appropriated $3.0 billion in 1997-98 for the program to provide 146 000 places in residential aged care accommodation and community care packages (CCPs). Residential care is designated as high level or low level and is provided in residential facilities. High level residential care was previously termed nursing home care. Low level residential care referred to hostel accommodation. Community care is provided for the aged in their homes. In addition, the Home and Community Care (HACC) scheme, which is a jointly funded Commonwealth/state program, delivers aged care services.

Program objectives

2. The program's objectives[2] are:

to enhance the quality of life of older Australians through support for positive and healthy ageing and the provision of a cohesive framework of high quality and cost-effective care services for frail older people, people with disabilities, and their carers.

3. DHAC's objectives[3] for the planning of the aged care program are:

- to provide an open and clear planning process;
- to identify community needs, particularly in respect of people with special needs; and
- to allocate places in a way that best meets the identified needs of the community.

4. Planning is aimed at guiding the provision of aged care places in relation to the growing aged population and achieving a better distribution of, and access to, aged care facilities. It does this by distributing new aged care places in ways to reduce regional inequities and to achieve a better

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1 A reference to DHAC should be read as a reference also to DHFS.

2 Commonwealth of Australia, Portfolio Budget Statements 1998-99, Health and Family Services Portfolio, Budget Initiatives and Explanations of Appropriations 1997-98, Budget Related Paper No. 1.8, p. 163.

3 Commonwealth of Australia, *Aged Care Act 1997*, Commonwealth Government, Canberra, 1997, Part 2.2, Division 12, Section 12-2.

balance in the types of care. That is, by achieving a more appropriate mix between high and low level residential care, and a greater proportion of aged care in the home.

DHAC's operation of the program

5. The Aged and Community Care Program's planning framework consists of an annual process of decisions on the number of new places to be offered, their distribution and the selection of providers. It operates at three levels as follows:

- Level 1 — the estimation each year of the number of new aged care places, in proportion to the growth in aged population for each state and territory;
- Level 2 — the allocation of these new aged care places to regions and special groups of aged people in each state and territory; and
- Level 3 — the selection of providers of the new aged care places from applicants responding to advertisement in the press.

6. The program target is to provide 100 aged care places per 1000 persons aged 70 years and over. For Aboriginal and Torres Strait Islander communities, Commonwealth policy is to fund 100 places for every 1000 Indigenous Australians over 50 years of age. In more detail, DHAC has a target of achieving an equitable distribution between planning regions in line with the national benchmark of 90 residential places (including two respite places) and ten community care packages per 1000 persons aged 70 years and over by the year 2011. A 1998-99 Budget decision accelerated growth in the provision of community care packages to 12/1000 and the overall provision to 102/1000 persons aged 70 years and over for the next four years. In light of this, DHAC has set itself the objective of reaching the target level of 100/1000 ahead of schedule by the year 2001.

7. In 1996-97, DHAC allocated 4083 new aged care places at a total additional cost to the program of $41.7 million, while in 1997-98 the DHAC allocated 4979 new places at a total additional cost of approximately $50 million. DHAC's state office staff each year assess applications from would-be providers on a competitive basis and make recommendations to the Secretary, through central office, for the award of new places. Applicants include not-for-profit organisations, such as churches and charities, and for-profit organisations including listed companies.

Audit objective and scope

8. The audit objective was to form an opinion on the administrative effectiveness and efficiency of DHAC's processes for planning the Commonwealth's Aged and Community Care program. In particular, the audit addressed questions of how well the planning process has contributed to realisation of the selected program objectives of achieving an equitable distribution of places between regions, and selecting suitable service providers.

9. The scope covered the performance of DHAC's management in the administration of planning and related operations for management of DHAC's sub-program — 'Residential Access and Quality'. The audit did not review the operations of HACC as they will be reviewed in a separate audit.

10. The audit's focus was on the Level 2 and Level 3 planning processes in 1996-97 and 1997-98, which were primarily the annual assessment of applications for award of new aged care places. The *National Health Act 1953* and the *Aged or Disabled Persons Care Act 1954* governed 1996-97 planning processes, and the *Aged Care Act 1997* was implemented for the first time for the 1997-98 round of applications.

Audit criteria and method

11. Audit criteria are designed to assist in the development of an audit opinion. In this case, they were formed to assist in identifying the adequacy of current approaches to aged care planning, and whether there were lessons to be learned to improve the latter.

12. The audit involved four main methods of inquiry:

a) review of relevant Departmental documents and information, and discussions with Departmental officers in central and state offices;

b) evaluation of the design and operation of the Department's planning processes and assessment tools;

c) interviews with representatives of key stakeholder groups; and

d) the assistance of the Australian Bureau of Statistics (ABS) — in a consultancy role, to review the distribution of residential care and community care services in relation to the demographic characteristics of the aged population.

Audit conclusion

13. The Department has established planning and provider selection procedures consistent with legislative requirements for aged care. The planning process has guided the distribution of new places so as to reduce the inequities in access to aged care between those located in different states and regions. However, major inequities remain in the distribution of places between regions, especially between urban and rural areas. The number of aged care places has not kept pace with growth in the aged population. A contributing factor is that the planning process involves time lags of up to three years between the estimation of need and the provision of places. The Department has advised that it expects to reach its target for provision of aged care by 2001.

14. 1997-98 planning processes were more efficient than those in 1996-97. DHAC's selection processes for the allocation of new aged care places gave greater attention to the probity of the selection process than previously, following the introduction of new legislation. Notwithstanding such improvements, DHAC needs to take further action to make its purchasing of aged care services more effective. Areas for further action are indicated under key findings.

Key findings

15. DHAC has established systems and processes which satisfy the requirements of the *Aged Care Act of 1997* for a comprehensive and effective planning framework.

16. However, against the overall planning ratio of 100 places per 1000 aged persons aged 70 years and over, in 1998 the ratio of places to aged people was 93.7 places per 1000 compared with 98.3 places in 1986. This means that the provision of aged care under the program has not kept up with increases in the aged population. One factor which has contributed to this shortfall is the time lag between the estimation of places needed for a particular year and their becoming operational after selection of providers and the installation of required facilities. For residential places this lag is approximately two to three years. To meet the target planning ratio immediately, an addition of nearly 10 100 places would be needed. DHAC has set itself the objective of reaching the target level of 100/1000 by the year 2001, mainly by means of increased provision of community care packages.

17. In moving to achieve the policy goal of 40 residential high care, 50 residential low care, and ten community care packages by the year 2011, DHAC achieved approximately 46.7 residential high care, 40.6 residential low care, and 6.3 community care places per 1000 persons over the age of 70 by 1998. This means that the planning process has resulted in changing the mix of places in the appropriate policy direction but that further adjustment is required to meet the planned objective.

18. By 1997 and 1998 there was a more equitable distribution of places between regions than there was in 1992 but regional inequities remained significant. Similarly, while there has been some reduction in urban-rural inequities, the disproportionate numbers of places in some metropolitan areas persists and rural and remote areas remain underserviced. Administrative options to achieve greater regional equity are limited and difficult to achieve within funding limits.

19. DHAC is in a position to take administrative action to increase the ratio of aged care places from 93 to closer to 100 places per 1000 aged people by a modest amount. These measures include earlier completion of the annual timetable for selection of successful applicants to provide new places each year, and more rigorous monitoring of progress on establishing places 'approved in principle' to reduce the incidence of delays in provision of new places. ANAO notes that DHAC is addressing these issues in the 1998-99 round.

20. In addition, DHAC should consider compensating for the unavoidable residual lag between estimation of need for new places and their becoming operational by using, for each year, population estimates for two of three years in the future, thus anticipating the interim growth in numbers of aged people. This would work, for instance, by the Department in its 1998-99 round planning the provision of places for 2000-20001 or for 2001-2002, while taking account of any Budgetary limitations.

21. While maintaining the willingness of the industry to invest in aged care services, and through avoiding any disadvantage to clients, the Department could consider reviewing its current practice of allocating new aged care places for indefinite periods. Allocation of new aged care places for a limited number of years would provide the Department with greater flexibility to move places between regions.

22. DHAC has comprehensive statistical data which it uses to plan future allocations. Compared to some other health programs, the data collection is of high quality.

The targeting of places by region and special groups

23. DHAC's state offices use statistical data effectively to allocate new places between regions. These data are supplemented by project officer familiarity with local needs to target new places within regions.

24. The detailed local knowledge of DHAC project officers is diminishing through loss of experienced staff and the reduced time which remaining staff have for direct community and industry contact.

25. DHAC's consideration of aged care services provided by other levels of government varied between the state offices. The planning process should incorporate, on a consistent basis, the consideration of these other types of aged care, in particular the HACC program.

26. DHAC's state offices differed in how closely they specified preferred locations for new places. Consequently, some applicants wasted resources applying for a particular region when a specific subregion was the state office's real priority. Such wasted efforts could have been avoided if DHAC's state offices had informed applicants that the major focus was a subregion.

Selection process for aged residential and community care providers

27. The Department's Grant Administration Guidelines are directly relevant to administration of aged care subsidies and, consistent with Government purchasing policy, stress the need to assess value for money in awarding grants. A stronger emphasis on the purchaser / provider model and the associated probity requirements, together with implementation of

new aged care legislation, has changed the approach to assessment of applications in DHAC's state offices. In 1997-98, nationally standardised procedures were introduced under guidance from central office and with state office participation. This has reduced the extent of variation between state and territory offices in their assessment of applications.

28. The Departmental Planning Procedures Manual, produced in the early 1990s, was detailed and comprehensive but was little used in state offices. Following the introduction of new legislation in 1997, there would be great value for more efficient administration in DHAC's production of a new version.

29. DHAC made major improvements in the 1997-98 selection process, including in the linkage of the *Aged Care Act 1997* Allocation Principles to the provider selection criteria. Notwithstanding this, project officers' assessment and selection tasks can be simplified further. Improvements could include more obvious organisation of the Principles into selection criteria; revision of assessment procedures and tools; and refinement of the selection mechanism, especially in determining the best value for money applications from amongst strong contenders.

30. There were differences between state offices in their interpretation of Departmental guidelines to ensure probity in the assessment process. These differences need attention by DHAC's central office in order to achieve a nationally consistent approach to project assessment.

31. The training of assessors for the 1997-98 round of applications was inadequate and provided too late in the process. ANAO noted the constraints on the training's timing since the new legislation was assented to in July 1997 and proclaimed in October 1997, leading to a new round of applications being advertised shortly before Christmas 1997.

32. State office project officers had difficulty in understanding and in drawing conclusions from financial data provided by applicants on their capacity to provide aged care services. Improvements should include clearer definition of the purpose of the assessment process, and ensuring that state office project officers have adequate skills in financial analysis of data in applications. Where DHAC does not have trained staff, it should consider the costs and benefits of contracting assessments of financial data in applications to those qualified to do so. Otherwise, the Department is taking unnecessary risks by requesting generalist staff to make judgments about the investment of large amounts of public and private sector moneys.

33. Application forms did not require applicants to provide information

on the quality of the proposed community care, nor did they require existing applicants applying for new places to provide information on the quality of their existing community care. Shortcomings in the application form and in assessment procedures led to some confusion by assessors. The confusion was in assessors' use of financial inputs as measures of applicants' proposed care outputs.

34. Where there are few potential providers and limited competition, the purchaser / provider model has limitations in providing satisfactory aged care service outcomes. This is especially so in rural and remote regions and among some special needs groups. DHAC has now adopted a more systematic and active role to ensure that there is a sufficient number of aged care places in rural and remote areas.

35. The Department should take initiatives to improve the quality of applications from potential providers of aged care places. Initiatives could include provision of more comprehensive demographic data by region, oral briefings to meetings of prospective providers at the start of each annual round, and provision of consistent written advice to unsuccessful applicants.

36. DHAC's assessment and selection processes in 1997-98 were more efficient than in earlier years, despite the marked reduction in staff numbers and the introduction of new legislation.

An open and transparent process

37. The Department has begun to change its processes in order to provide for greater transparency in the aged care planning process, as required by the new legislation.

38. Further benefits can be gained from greater transparency by ensuring all potential providers have equal access to information in the allocation process. A variety of measures outlined in the report could lead to providers making more informed applications, thus contributing to a higher standard of care being available. In order to improve applications for provision of new places, DHAC should advise the aged care sector on how the numbers and types of new places are determined.

39. DHAC's state offices documentation of the reasons for recommending or not recommending applications was highly variable in 1996-97, but documentation improved in 1997-98. A strong emphasis on documentation of the assessment of each application is important for equity reasons and to provide confidence in Departmental decisions. The selection process would be improved by introduction of a consistent approach to comparative assessment of applications, regular central office reviews of

samples of state office assessments, and feedback to ensure the system benefits from the experience of all state offices.

Statement by DHAC in response to the report

40. The Departmental response to the draft of the report prefaced the response to the individual recommendations with the following statement:

> *The Department welcomes the contribution the ANAO has made to the improvement of the process for planning and allocating new residential and community aged care places. The draft report recognises that the Department is working hard to improve the aged care planning process. The work of the ANAO as reflected throughout the report has greatly assisted these endeavours.*
>
> *A number of recommendations in the draft report reflect measures that are currently being undertaken and improvements that are under development for the 1998-99 planning round. In these areas, the Department welcomes ANAO's suggestions for greater national consistency. They will lead to a more efficient, equitable and transparent planning process.*

41. The Department agreed with 21 recommendations, and with the other two recommendations with qualifications.

Recommendations

Set out below are ANAO's recommendations arising from this report, with report paragraph references and abbreviated responses from the Department. More detailed responses are shown in the body of the report together with findings.

Recommendation No.1 Para. 3.21

The ANAO recommends that DHAC include in its performance measures an indicator and a target for growth in the total number of aged care places, and report achievement against such a target, in order to demonstrate the extent to which growth in the total number of aged care places keeps pace with the increases in the aged population.

DHAC: Agreed.

Recommendation No.2 Para. 3.26

The ANAO recommends that DHAC conduct a review of its planning process to put in place appropriate action to achieve reduction in the time between estimation of the need for new places and the actual provision of these places.

DHAC: Agreed with qualification.

Recommendation No.3 Para. 3.46

The ANAO recommends that, in view of the continuing inequities in the distribution of aged care places, DHAC reassess its strategies for eliminating regional inequities, in particular, between metropolitan and rural areas.

DHAC: Agreed.

Recommendation No.4 Para. 4.6

The ANAO recommends that DHAC revise its Planning Procedures Manual to reflect the provisions of the *Aged Care Act 1997* and the move to the purchaser / provider model in its program administration in respect to the planning and allocation of residential and community care places.

DHAC: Agreed.

Recommendation No.5 Para. 4.14

The ANAO recommends that DHAC set medium term regional equity objectives and clearly define related program outputs so that there is clarity about what can be achieved between 1998 and 2011, and advertise these medium term objectives to industry.

DHAC: Agreed.

Recommendation No.6 Para. 4.21

The ANAO recommends that, in order to develop better coordination of aged care planning, DHAC systematically take into account state government planning processes including for HACC.

DHAC: Agreed.

Recommendation No.7 Para. 4.27

The ANAO recommends that, in order to improve the targeting of advertising of new places to the most needy areas and groups, DHAC introduce an effective means to maintain project officers' local knowledge of aged care needs, including through contact with state health agencies.

DHAC: Agreed with qualification.

Recommendation No.8 Para. 4.31

The ANAO recommends that DHAC ensure that the planning details of the targeting of advertised new places are made clear to potential providers by specifying unambiguously the required location of new facilities or places.

DHAC: Agreed.

Recommendation No.9 Para. 4.37

The ANAO recommends that DHAC provide clear directions to state offices to ensure that they are correctly interpreting the definition of persons who are to be considered in the 'special needs' categories.

DHAC: Agreed.

Recommendation No.10 Para. 4.44

The ANAO recommends that, where there is insufficient competition between providers, such as in rural areas and among special needs groups, DHAC continue to explore alternative ways to promote development of aged care provision more effectively to achieve satisfactory outcomes.

DHAC: Agreed.

Recommendation No.11 Para. 4.52

In order to promote understanding of DHAC's decision making processes, the ANAO recommends that DHAC provide comprehensive information to aged care providers about the role of Aged Care Planning and Advisory Committees, and advertise for nominations for membership in all states and territories.

DHAC: Agreed.

Recommendation No.12 Para. 5.29

The ANAO recommends that DHAC revise its staff training to:

- schedule timely training on its annual guidelines;
- provide effective training to a larger proportion of project officers; and
- provide staff with an understanding of how to assess value for money in applications while maintaining the probity of the assessment process.

DHAC: Agreed.

Recommendation No.13 Para. 5.38

The ANAO recommends that DHAC:

- review the adequacy of financial information it requires for assessment of applications to provide aged care services; and
- where necessary and where there is a clear cost-benefit, employ or contract staff with relevant financial skills to assess this financial information.

DHAC: Agreed.

Recommendation No.14 Para. 5.42

The ANAO recommends that DHAC adopt a performance indicator or indicators, and targets, for assessment of the quality of community care packages to demonstrate how well the Department is assessing value for money in its purchases of community care packages.

DHAC: Agreed.

Recommendation No.15 Para. 5.44

The ANAO recommends that DHAC advise applicants for aged care places of its criteria for assessment of the quality of residential care and for community care packages.

DHAC: Agreed.

Recommendation No.16 Para. 5.55

The ANAO recommends that, in order to improve its selection of providers of new places, DHAC provide clear direction and clarify current differing interpretations across state offices of its program guidelines.

DHAC: Agreed.

Recommendation No.17 Para. 5.57

The ANAO recommends that DHAC review, and clearly specify, how the financial and performance data, which it receives from existing providers on a regular basis, can best be used by its staff to assess new applications from existing providers.

DHAC: Agreed.

Recommendation No.18 Para. 5.60

To promote greater national consistency of selection procedures and better practice through learning from state office experience, the ANAO recommends that DHAC's central office review samples of each state office's assessments of annual applications from aged care providers, and take effective action on the results of the reviews.

DHAC: Agreed.

Recommendation No.19 Para. 5.68

The ANAO recommends that DHAC commence the selection of new providers as early as possible in the planning year in order to minimise delay in the provision of new places.

DHAC: Agreed.

Recommendation No.20 Para. 5.73

The ANAO recommends that DHAC evaluate the implementation of its guidelines and procedures in different state offices to explain the interstate variation in the relative success of the not for profit and for profit sectors in gaining aged care places.

DHAC: Agreed.

Recommendation No.21 Para. 5.79

The ANAO recommends that in order to improve the efficacy of the assessment process, DHAC:

- link the Allocation Principles to the application form and to the assessment process in a simple and clearly understandable way; and
- make comparative assessments of those acceptable applications competing for the same advertised group of places, showing the extent to which each meets the selection criteria.

DHAC: Agreed.

Recommendation No.22 Para. 6.10

The ANAO recommends that DHAC provide guidance to state offices on the need to ensure all providers and potential providers have equal access to information and advice on the allocation process.

DHAC: Agreed.

Recommendation No.23 Para. 6.16

The ANAO recommends that DHAC implement procedures to communicate and document the assessment process more effectively. These procedures should include:

- briefing of potential bidders after the annual advertisement of new places;
- DHAC communication to applicants of key dates in the selection process in advance, including when DHAC will announce the identity of successful applicants;
- rigorous documentation of the assessment, so that decisions can be explained confidently at a later date if they are appealed;
- standardising the form and content of DHAC's responses to unsuccessful applicants in order to provide them with the most helpful information consistent with purchasing guidelines; and
- a special emphasis on informing interested parties in rural and remote areas of the aged care options available and the process for applying for places.

DHAC: Agreed.

Audit Findings and Conclusions

1. Introduction

This Chapter outlines the audit's objectives, criteria, methodology and audit opinion. This is followed by a brief description of the Commonwealth's Aged and Community Care Program.

Overview of the Commonwealth's Aged Care Program

1.1 Aged care in Australia includes a broad range of programs and services. These are provided and supported by different groups including Commonwealth, state and local governments, and the private and charitable sectors. Also, a large amount of informal care is provided by aged persons' family members and friends.

1.2 The Department of Health and Aged Care (DHAC) administers the Commonwealth Government's Aged and Community Care Program. It assumed responsibility for the Program from the former Department of Health and Family Services, DHFS, in October 1998. The Commonwealth spent $3.0 billion in 1997-98 to provide 146 000 places in residential aged care accommodation and community care packages (CCPs). High level residential care is primarily provided in nursing homes, low level residential care is provided in hostels, and community care is provided for aged clients in their homes. In addition, the Home and Community Care (HACC) scheme, which is a jointly funded Commonwealth / state program, delivers aged care services. The Commonwealth spent approximately $500 million on HACC in 1997-98. The Commonwealth appropriated $3.8 billion for expenditure on the entire Aged and Community Care Program in 1998-99.

1.3 The legislated objectives[4] for DHAC, in the planning of aged care, are to provide an open and clear planning process, to identify community needs (particularly in respect of people with special needs), and to allocate places in a way that best meets the identified needs of the community.

1.4 Planning is aimed at guiding the provision of aged care places in relation to the growing aged population. Simultaneously, it redistributes the Commonwealth's provision for aged care by channelling growth in an equitable and efficient manner and in ways which reflect community needs. This includes reducing the current regional inequities in the distribution

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[4] Commonwealth of Australia, *Aged Care Act 1997*, Commonwealth Government, Canberra, 1997, Part 2.2, Division 12, Section 12-2.

of aged care services, and achieving an appropriate balance between high level care, low level care and community care services for clients in their own homes.

Objective and scope of the audit

1.5 The ANAO decided to conduct the audit because of the scale and cost of the Commonwealth's Aged and Community Care Program, and because of the centrality of planning to DHAC's achievement of the Program's objectives.

1.6 The objective of the performance audit was to investigate the administrative effectiveness and efficiency of DHAC's processes for planning the Commonwealth's Aged and Community Care Program. In particular, the audit addressed the question of how well the planning process had contributed to the realisation of selected program objectives.

1.7 The audit focused on the Department's planning process and allocation of aged care places in two years, that is, the 1996-97 and the 1997-98 funding rounds. The 1996-97 funding round was the last funding round from the previous aged care legislative regime under two Acts dating from the 1950s, and the 1997-98 funding round was the first under the new *Aged Care Act 1997*. The audit did not include planning for the Home and Community Care (HACC) scheme within the Aged and Community Care Program because HACC will be reviewed in a separate audit.

1.8 Audit criteria assist in development of an audit opinion. In this case, they addressed whether all legal requirements were met, whether planning was focused on program objectives and reflected performance based management, management had effective and efficient planning systems and operations, whether DHAC consulted with its aged care clients and providers when planning, and whether management had reviewed the assumptions behind the planning regime.

Audit methodology

1.9 The audit involved the following four main methods of inquiry:

a) review of relevant Departmental documents and information and discussions with Departmental officers in central and state offices, particularly Aged and Community Care Program staff;

b) evaluation of the design and operation of the Department's planning processes and assessment tools. The Department used these tools to decide which applications best suited the Commonwealth Government's requirements for new aged care places;

c) interviews with representatives of key stakeholders including:

- representatives of aged care service providers;
- representatives of consumer advocacy peak bodies; and
- academics and medical practitioners specialising in aged care; and

d) the assistance of the Australian Bureau of Statistics (ABS); in a consultancy role, to review the distribution of residential care and community care services in relation to the location of the aged population.

1.10 Fieldwork was conducted between February and July 1998. States included in the fieldwork for the audit were New South Wales, Victoria, Queensland and South Australia.

1.11 The audit was conducted in accordance with ANAO Auditing Standards. It cost $392 000.

Description of the program and the planning process

1.12 Prior to 1997, nursing homes were subject to the *National Health Act (1953)* because they developed as a response to the aged's health needs. Hostels were subject to the *Aged or Disabled Persons Care Act (1954)* since hostels provided accommodation for the aged. Neither Act referred to program planning. However, the principles underlying the Acts, directions of the former Commonwealth Department of Health and some Cabinet decisions do refer to program planning.

1.13 From the 1950s the two sets of aged care provisions developed separately. A new direction emerged in 1986, when the Commonwealth Government's funding arrangements for nursing homes and hostels converged — but they were still under separate Acts. This convergence was a result of the Nursing Home and Hostel Review (NHHR).

1.14 A most important policy redirection was the 1996 Residential Aged Care Reform Package. In summary, this addressed:

- the combination of the nursing home and residential sectors into one residential care stream (and the renaming of nursing home beds as high level care and hostel beds as low level care);
- new income testing arrangements;
- a new accreditation and standards system; and
- an accommodation bonds scheme.

1.15 The Package led to the introduction of new legislation announced in the 1996-97 Federal Budget. The new legislation was the *Aged Care Act 1997*, which consolidated the two previous laws, and which bought together parts of the Aged and Community Care Program that previously did not have a legislative base. The 1997 Act reflected the increased government attention to be given to care for the aged in their homes. The new Act set out program planning objectives and directions. It is discussed in Chapter 2.

1.16 In 1997-98, the program's objective[5] was:

> *to enhance the quality of life of older Australians through support for positive and healthy ageing and the provision of a cohesive framework of high quality and cost-effective care services for frail older people, people with disabilities, and their carers.*

1.17 Planning for, and allocation of, new aged care places is the responsibility of the Residential Access and Quality sub program. The objective[6] of this sub-program was:

> *to provide a framework for residential aged care which creates an equitable distribution of accessible and cost-effective forms of quality care appropriate to the needs of older people.*

1.18 The principal objectives of the *Aged Care Act 1997* are detailed in Chapter 2.

DHAC's aged and community care planning

1.19 The Aged and Community Care Program's planning framework consists of an annual process of decisions on the number of new places to be offered, their distribution and the selection of providers. It operates at three levels as follows:

- at Level 1 the Minister, on advice from the Department, allocates new places between the states and territories. The number of new places is calculated for each state in proportion to the increase in the total aged population aged 70 years and over. The mix of different types of care is calculated according to formulae;
- at Level 2 the aim is to distribute the new places to areas or groups of greatest need within the states. DHAC state offices, using detailed demographic information and after consultation with stakeholders and with Aged Care Planning Advisory Committees (ACPACs), recommend

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5 Commonwealth of Australia, Portfolio Budget Statements 1997-98, Health and Family Services Portfolio, Budget Initiatives and Explanations of Appropriations 1997-98, Budget Related Paper No. 1.8, p. 217.

6 Ibid p. 235.

on the distribution of the new places between regions or to special needs groups, prior to advertisement in the press; and

- at Level 3, DHAC's state offices[7] select the most suitable providers in each region from amongst the applicants on a competitive basis. In 1996-97, these were recommended to the Minister for her approval. The *Aged Care Act 1997* gave DHAC's Secretary the authority for this approval.

The aged care target planning ratio

1.20 Government policy is to provide 100 Commonwealth funded aged care places for every 1000 persons aged over 70 years of age. For Aboriginal and Torres Strait Islander communities, Commonwealth policy is to fund 100 places for every 1000 Indigenous Australians over 50 years of age.

1.21 The mix of care within this planning ratio has changed over time. Long term planning determines the preferred ratios between the levels of care (ie, high and low level residential and community care). These are long term targets which guide each year's allocation between different levels.

1.22 In 1986, the existing pattern of provision was 65 nursing home beds and 33 hostel beds per 1000 persons aged over 70. In 1986, the Nursing Homes and Hostel Review[8] proposed that the Commonwealth should maintain a ratio of 100 residential beds per 1000 persons aged 70 and over. It further recommended to the Government that it reduce the proportion of nursing home beds in favour of hostel beds. The long term goal or planning ratio was set at 40 nursing home beds and 60 hostel beds.

1.23 Since the introduction of Community Care Packages (CCPs) in 1992, the Government has reduced the target for provision of hostel places on three occasions. Each time, the Government reallocated the resources to community aged care packages.

1.24 The current Government policy is to plan towards targets of 40 high level residential (formerly nursing home) beds, 50 low level residential (formerly hostel) places and ten community aged care packages, per 1000 persons aged 70 and over, with an equitable distribution of places between regions to be achieved by the year 2011. As part of this strategy, a decision in the 1998-99 Budget accelerates growth in provision of CCPs to twelve places per 1000 and overall provision to 102 places per 1000 persons aged 70 years and over for the next four years.

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7 Terminology used by DHAC is to call all state and territory offices 'state offices'.

8 Department of Community Services, Nursing Homes and Hostel Review, AGPS, Canberra, 1986.

1.25 To summarise, changes in government policy towards planning targets, ratios or benchmarks have been aimed at reducing the number of high care places and increasing the number of low care places, including care for frail older Australians in their homes. The goal has been consistent since 1986 of provision of 100 places for every 1000 persons over 70 years of age. Progress towards the achievement of the planning ratios is discussed in Chapter 3.

Commonwealth purchasing policy

1.26 A major change to the Department's approach to acquiring aged care services has come from the Commonwealth's development of its public service wide purchasing and procurement policies. The provision of funds by the Commonwealth for aged care is by means of subsidies to providers which are guided by the Department's Grants Administration Guidelines. The criteria for assessment of applications for grants stress the assessment of project value added, cost effectiveness, measurable outcomes and financial viability. The current purchasing and procurement policies have increased the focus on value for money in purchasing and on the rigour of the process.

1.27 These changes together with the Government's 1996 Residential Aged Care Reform Package, noted at paragraph 1.14, have been strong drivers of change over the period covered by the audit.

1.28 The core procurement principles and policies[9] to be followed by government agencies include:

- value for money;
- promoting national competitiveness and developing industry;
- supporting other Commonwealth policies;
- open and effective competition;
- ethics and fair dealing; and
- accountability and reporting.

1.29 Within this environment, and with a general move across Commonwealth agencies towards the purchaser/provider model, the Department has implemented the *Aged Care Act 1997* with its emphasis on transparency and probity. However, it should be noted that the Aged Care Program has always purchased services from third party providers. That is, the Department's service delivery model, in which it purchased services, was in operation before the *Aged Care Act 1997*. Notwithstanding, the Aged

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[9] Department of Finance and Administration, *Commonwealth Procurement Guidelines*, Canberra, 1998.

and Community Care Program has changed fundamentally in recent years. For the two most recent aged care funding rounds, these changes can be summarised as:

- the 1996-97 funding round was a transitional year between a project development, 'hands on' role and a more objective process; and
- the 1997-98 funding round introduced more rigour and a clearer approach to the Department's purchase of new aged care services — especially in regard to a strong emphasis on the probity of decision making — although it was still an introductory or transitional year.

1.30 While there was overlap between the two funding rounds covered by the audit, there were different sets of standards. Therefore, the ANAO reviewed planning processes in both years and has commented on aged care planning's transition between the former and current legislation.

2. Legislative Basis for the Planning of Aged Care

This Chapter considers the legislative basis for the planning of aged care, and outlines the Department's planning processes.

2.1 In 1986, in response to the Nursing Homes and Hostel Review (1986) into aged care services funding, the Commonwealth Government adopted a new approach to aged care. The Minister for Community Services in 1986 gazetted a schedule of principles under the *National Health Act (1953)* for the distribution of nursing home beds. These actions were followed in 1989 by the then Commonwealth Minister for Housing and Aged Care who gazetted regulations on the allocation of hostel places for the aged. These principles applied until the 1996-97 round of allocation of new places.

2.2 Following the introduction of community aged care packages (CACPs) in 1992, the Minister of State for Aged, Family and Health Services announced the first set of allocation principles for community care for the aged. These principles were formulated under the *Aged or Disabled Persons Care Act 1954*.

2.3 By the 1996-97 round, these principles had been taken into the process in that the application form and the assessment process were linked to the allocation principles. However, the ANAO noted that the linkages between the principles, the application form and assessment process were not easy to follow.

The *Aged Care Act 1997*

2.4 The 1997 Act superseded previous legislation and now provides a firm foundation for Departmental planning. It is explicit in its planning requirements. This has required the Department to be more comprehensive in its planning process to ensure legislative compliance.

2.5 The new Act outlines the Commonwealth's responsibilities for aged care planning, that is, for DHAC to plan the distribution of aged care places between regions, and to plan the distribution of different types of care. The planning process requires DHAC to invite applications from potential service providers, and to allocate places to service providers whose applications best meet care needs identified by DHAC.

Objectives of the 1997 Act in relation to planning

2.6 The Act details the objectives of the planning process in Section 12-2 as follows:

- *to provide an open and clear planning process; and*
- *to identify community needs, particularly in respect of people with special needs; and*
- *to allocate places in a way that best meets the identified needs of the community.*

2.7 In addition, there are two parts of Section 2-1 in which the Act's objectives are related to the planning of aged care[10]. These are:

(i) to plan effectively for the delivery of aged care services that:

i. promote the targeting of services to areas of the greatest need;

ii. avoid duplication of those services; and

iii. improve the integration of the planning and delivery of aged care services with the planning and delivery of related health and community services.

j) to promote ageing in place through linking of care and support services to the places where older people prefer to live.

2.8 Chapters 3, 4, and 5 address how effectively DHAC is achieving these objectives.

The 1997 Act's allocation principles

2.9 The Act enables the Minister to make up to 23 sets of Principles that are required or permitted under the Act, or that the Minister considers necessary. Of these, the Allocation Principles are directly relevant to aged care planning.

2.10 The Allocation Principles under the new Act are more detailed then they were under the schedules related to the previous Acts. The Allocation Principles provide the Department with both regulation and guidance for the allocation of places through which aged care is provided.

2.11 The Allocations Principles set out:

> *...additional matters (that are not contained in the Act itself) that the Secretary must consider, in relation to each application for the allocation of places, in deciding which allocation of places would best meet the needs of the aged care community in a region*[11].

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10 Commonwealth of Australia, *Aged Care Act 1997,* Division 2.

11 Commonwealth of Australia, *Aged Care Act 1997* Principles, Commonwealth Government Printer, Canberra, 1997, Part 5, Division 1, 4.35. The relevant Allocation Principles are sections 4.36, 4.37, and 4.38.

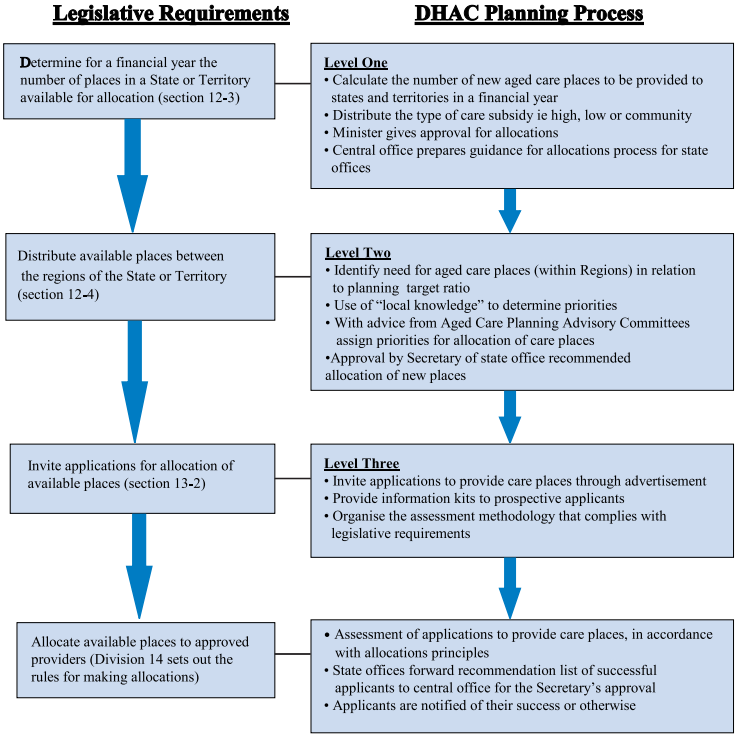
In summary, these Principles identify information to be sought from applicants through their applications about their suitability as providers and their capacity to deliver services.[12]

Legislative compliance

2.12 Figure 2.1 summarises the main legislative requirements in the planning of aged care and the corresponding Departmental processes. The application of these processes is discussed in Chapters 3, 4, and 5.

Table 2.1

Outline of Legislative Requirements and DHAC' Planning Processes



[12] In more detail, the Allocation Principles identify the following issues as those to be included in assessment of applications:

- concerning the applicant — the applicant's character and reputation; ability and experience; managerial skills, ability to comply with the conditions attached to receipt of subsidies and ability to meet the needs of the community to be served;
- concerning the application — the ability to provide the quality of care and support of clients' individual rights; to provide an economically viable service, and to provide assessment and review of care needs; the adequacy of community consultation about the service; ability to meet the timetable for establishing the service; the ability to give support to the social functioning of the care recipient;
- for community care — the ability to provide quality service appropriate to individual client needs and to ensure ongoing consumer consultation and involvement; and
- for other (including residential) care — to provide accommodation and care services that meet the needs of individuals including those with special needs; to provide a non-institutional environment.

3. Management Planning and Performance

This Chapter examines the extent to which management has been successful in establishing and operating effective planning systems and operations. It provides a perspective on the extent to which the planning of aged care has contributed to the success or failure of the program's goals.

3.1 A review of progress in attaining program objectives is important because it can throw light on the effectiveness of planning. Clearly, management is not in control of all of the program's outcomes, but through its planning, management is a major determinant of program outputs, leading to the designated outcomes.

The challenge for planning

3.2 Since the Commonwealth Government's major reforms in 1986 of its aged care provisions, the major challenges facing the planning of aged care have been:

- to assess the need for aged care services to be provided by the Commonwealth;
- to ensure the stock of aged care places keeps up with growth in the aged population;
- to work towards providing the right mix of different types of aged care places through shifting the emphasis; from nursing homes to hostel care (from high to low level residential care), and from residential to community care;
- to remove the significant geographic inequities in distribution of and access to aged care provision; between states and territories; and between regions within states and territories; and
- to ensure equitable access to special needs groups.

3.3 These aims were enunciated in 1986 and continue today, in part, enshrined in legislation in the *Aged Care Act 1997*.

Assessment of the need for aged care provision

3.4 The 1997 Act requires DHAC's Secretary to identify community needs, particularly in respect of people with special needs, and to allocate places in a way that best meets the identified needs of the community. These requirements are integral parts of the program's planning process. As

mentioned earlier, DHAC has since 1986 adopted as its goal the provision of 100 places per 1000 persons aged 70 years and over (referred to below as the '100/1000 ratio'). This provision of 100 places per 1000 is a target for the program.

3.5 DHAC notes that the 100/1000 ratio describes the context within which the program addresses community need. It does not define community need. At the macro level, the planning ratios are tools that help the program manage changes in the provision mix, addressing boundary issues and improving flexibility. At the micro level, the ratios are tools for managing the achievement of regional equity in service provision. The 100/1000 ratio is of particular significance since it determines growth in the number of new places each year in line with the increase in aged population. The target ratio has implications for the Commonwealth Government's Budget outlays because of the increasing number of places associated with an ageing population. It also has implications for the age care industry which is heavily dependent on Government subsidies for its growth, and most importantly, for the frail aged themselves. This is because the target ratio determines the growth in the number of places available for them.

3.6 The Department's rationale for allocation of new places has remained consistent since the report of the Nursing Home and Hostel Review (NHHR) in 1986. The report stated that there was no obvious evidence of major shortfalls in age care provision nationwide so it could be concluded that the level of provision was adequate. However, in that Review's opinion, what needed correction was the distribution of care on a geographic basis, the distribution of care between different socio-economic or ethnic groups within the population, and the mix of types of care to better reflect needs. The policy of successive governments since then has maintained that view.

Maintaining the provision of aged care places in proportion to the increasing aged population

3.7 The aged population has increased significantly in numbers and as a proportion of the total population. This increase will continue for the foreseeable future. Table 3.1 illustrates this trend with ABS data on recent and projected changes in Australia's aged population.

Table 3.1
Aged persons population increase 1986 to 2006

	1986	1992	1997	2006
Total population aged 70+	1 111 960	1 325 711	1 557 956	1 843 080
Aged persons 70+ as a percentage of total population	6.9	7.6	8.3	9.1

3.8 The growth in total number of aged care places of all types is shown in Appendix 1, Table A1.1. The ratios in the Table for 'All Types' of care (lowest row of Table) indicate that the number of aged care places is not keeping place with growth in the aged population.

3.9 The data in Table A1.1 show the trend from 1986, when the current planning regime was initiated, until 1998. The discussion which follows is based on analysis up to 1997. This was the latest year for which comprehensive population totals (that is, by statistical local areas and health regions) were available for the research conducted by ABS for the audit. Less comprehensive data were available for 1998, although they are shown in the Table. Comparison of the 1997 and 1998 statistics in the Table indicate that, for 1000 persons aged 70 years and over, the ratios of provision of each type of aged care has changed comparatively little between the two years. This means that the conclusions drawn from the ABS analysis of aged care provision and demographic data up to 1997 (discussed below) would apply in all significant respects were 1998 figures included in the analysis.

3.10 ANAO found that the total level of provision of aged care places has consistently fallen behind the target of 100 places / 1000 aged persons since 1986. The ABS statistics indicate that the level of provision has varied between 92 and 95 places per 1000 aged people for the years 1991 to 1998 (93.7 in 1998), and that this is a significant decline from 1986 when the 100 / 1000 planning ratio was first set.

3.11 When the numbers of places approved but not yet operational are included, the ratio does approximate the 1986 level and is closer to the planning ratio of 100 / 1000. In 1997, according to DHAC's statistics, the total of operational and projected places was 151 661. The ratio on this basis was 97.4 / 1000 compared to 93.5 / 1000 operational places (see Appendix 1 Table A1.1).[13]

[13] DHAC statistics on provision of aged care.

3.12 The differences between the numbers of operational versus approved places arises from the time lags inherent in the system. At the beginning of each financial year, DHAC revises its five year forward plan with the latest information on estimated numbers of aged people and on levels of aged care provision. Then, based on projections of the 70 plus population for the next five years, it estimates the number of new places needed to cater for the proportion of the expected growth in need for aged care arising in the coming year. Two processes intervene before these places become operational and these may take a few years to complete.

3.13 The first of these is the Department's selection of new providers. In 1997-98 this commenced in September 1997 and was completed only in June 1998 which was close to the target time for their provision.

3.14 Following the selection of care providers, the new places must be installed. Provision can require construction or addition of places in a residential facility, or growth in the capacity of a community care provider. On average, this phase takes two to three years for residential facilities, and about three months for community care packages. To provide enough time for industry providers to construct or to establish new capacity, DHAC approves or allocates these places 'in principle'. This is sufficient for the provider to install the service with the government guarantee of funding once the service becomes operational. In total, this means that the provision of new places to the aged occurs from one to three years or more after the particular point in time to which the estimate of need for the places refers.

3.15 For planning purposes, it is important to note that two different interpretations of the provision ratio can be used. The first is the provision of operational places and the second is the provision of operational places plus those approved but not yet operational. In 1986 all the places were operational. Since that time the allocation and selection processes have also involved places allocated but still in 'the pipeline', ie, places approved in principle (termed AIPs) but not yet operational. The AIPs are included by DHAC in some parts of the planning process since, from the Departmental perspective, these represent provisions through commitment, although not the expenditure, of Commonwealth funds.

3.16 From the client's perspective, however, AIPs are undertakings not yet available. The situation was that the number of operational aged care places in 1997 was approximately 6.5 per cent below the official target (or estimate of need), at 93.5 places for every 1000 aged persons. This shortfall is not temporary. Rather, it is inherent in the system since fulfilment of the provision of one year's AIPs will simply be replaced by the next year's unfulfilled AIP undertakings. To meet the target planning ratio immediately, an addition of nearly 10 100 places would be needed.

3.17 DHAC suggests that factors other than the time lag may be responsible for the shortfall. These include the possible effect of turnover in the industry and closure of services. DHAC is not able to quantify this effect, but ANAO considers that the number of places available but not utilised at any given time is likely to be relatively small. Another factor suggested by DHAC is that the client population may have grown faster than estimated. However, ANAO notes that since the same series of population estimates (based on the same set of demographic assumptions) have been used over recent years, this is unlikely to be a factor.

3.18 ANAO considers that a logical step would be to count operational places, rather than the total of operational and AIP places, as the measure of the extent to which the need for aged care places is being satisfied.

3.19 The use of the actual number of operational places as the fundamental measure for the outcome of the program raises the question of the appropriateness of DHAC's performance indicators for the program. In the 1998-99 Portfolio Budget Statements, there are indicators relating to the Department's outputs intended to achieve more equitable distribution of aged care places between health regions and a more appropriate proportion of types of care. At present, however, there is no indicator relating to the Department's performance in planning growth of the numbers of aged care places to keep up with growth in the number of aged persons.

3.20 ANAO notes that a decision in the 1998 Budget context permits acceleration of growth in the community care program by bringing forward places from future years. ANAO also notes that DHAC has set itself the objective of reaching the target level of 100/1000 by the year 2001.

Recommendation No. 1

3.21 The ANAO recommends that DHAC include in its performance measures an indicator and a target for growth in the total number of aged care places, and report achievement against such a target, in order to demonstrate the extent to which growth in the total number of aged care places keeps pace with increases in the aged population.

DHAC response

3.22 *Agreed. The Department currently reports on the provision of residential care places in each State and Territory, and on the provision of all places in each region.*

3.23 DHAC can also take administrative action to increase the number of aged care places from 93.5 to closer to 100 places by a modest amount. ANAO notes that DHAC has agreed that, in the past, there have been periods when projects have taken up to six years to become operational and the average lag was about four years. DHAC has informed ANAO that the lag is coming under increasing management scrutiny, beginning with the Government decision in 1995 to review and revoke outstanding allocations that had not become operational within a reasonable time. In addition, DHAC has noted that there is a legislative imperative for DHAC to actively manage and curtail the lag. The *Aged Care Act 1997* requires provisional allocations to become operational within two years, with the proviso that the Secretary can extend this period for a further twelve months if the provider can demonstrate that the project will be completed within this time.

3.24 DHAC expects the lag in provision of places will drop as a result of the changes referred to in the previous paragraph. ANAO notes that whilst this is so, the lag cannot be eliminated entirely since there will still remain a period of time between the estimation of the need at the beginning of each financial year and the completion of the provision process, particularly where building works are involved in nursing homes and hostels.

3.25 As a planning device and after taking account of Budgetary limitations, DHAC could consider using some compensatory measure. An example would be how the Department, consistent with Budget constraints, could consider in its 1999-2000 planning round, planning for the provision of places for the aged population as estimated for 2001-2002 or 2002-2003.

Recommendation No. 2

3.26 The ANAO recommends that DHAC conduct a review of its planning process to put in place appropriate action to achieve reduction in the time between estimation of the need for new places and the actual provision of these places.

DHAC response

3.27 *Agreed with qualification. The ANAO acknowledges that steps have been taken to reduce the lag between the time places are allocated and the time they become operational, in accordance with the strengthened requirements of Section 15-7 of the Aged Care Act 1997. Planning is already based on estimates of aged people in the future.*

Attaining the mix of types of aged care provision

appropriate to the 'need'

3.28 Table A1.1 shows numbers of aged care places and the change in the provision per 1000 aged people of the different types of care for selected years from 1986 to 1998.

3.29 The total number of nursing home places has shown only minor growth between 1986 and the 1992-1995 peak. Since then it has been stable or in very slight decline. This confirms DHAC's success in limiting growth in the provision of high level residential care. Here the planning challenge is not in providing sufficient numbers of places but in their appropriate distribution. This process is complicated by the permanency of DHAC's current allocations, where the allocation of government subsidies of unlimited duration hampers DHAC's efforts to transfer places from over-supplied to under-supplied regions.

3.30 Table A1.1 shows that the proportion of hostel places has grown significantly since 1986. The Table reflects DHAC's success in allowing growth in the numbers of hostel places. However, this growth rate has not been sufficient to match Departmental targets nor to compensate for the relative reduction in the provision of high level residential care.

3.31 Community Care Aged Care Packages (CACPs) were initiated in 1992, and renamed Community Care Packages (CCPs) in 1997. Table A1.1 shows that growth in the numbers of CCPs has been rapid, though CCPs remain a relatively small proportion of the total number of aged care places.

3.32 ANAO notes that, in summary, since the 1986 aged care reforms:

- the relative provision of nursing home care as a proportion of the total number of places has been reduced, although remaining fairly static in actual numbers;
- the provision of hostel places has increased considerably but nowhere near the rate required to keep pace with the increasing aged population, especially in the absence of growth in nursing home places; and
- the recent increase in low level care through community care provision has been notable, coinciding in some way with the slackening of the growth in hostel provision.

These achievements are generally consistent with the direction indicated by government policy.

Reduction of inequities in aged care provision

3.33 One of the NHHR outcomes in 1986 was recognition of the inequities that existed in the distribution of and access to aged care facilities between states and territories, between different regions within states, between urban and rural areas and between different socio-economic and ethnic groups within the population.

3.34 ANAO notes that regional inequity is one of the principal issues which the Department addresses in its planning process. In its 1998-99 Portfolio Budget Statements, DHAC affirmed the goal of achieving regional equity

3.35 The audit found that considerable progress had been made to remedy the inequities both between states and between regions, but significant inequities remained.

3.36 The reduction in differences in the levels of aged care provision between the states is illustrated at Figures 1 and 2[14]. These graphs show the convergence of levels of provision over the period 1986 to 1997 for nursing home places and hostel places (Figure 1) and, for all type of care, including community care packages (Figure 2). The states are arranged in each graph from highest to lowest ratio in 1997, to illustrate the continuing levels of disparity as well as the fact that inequities have decreased considerably. The horizontal lines show the DHAC planning ratios in 1997 and the overall levels of provision Australia wide in 1986 and in 1997 to provide a basis for comparison.

[14] Based on ABS statistical analysis for ANAO, 1998.

Figure 1

Residential Aged Care Places by States 1986 and 1997
(No. of places per 1000 aged persons)

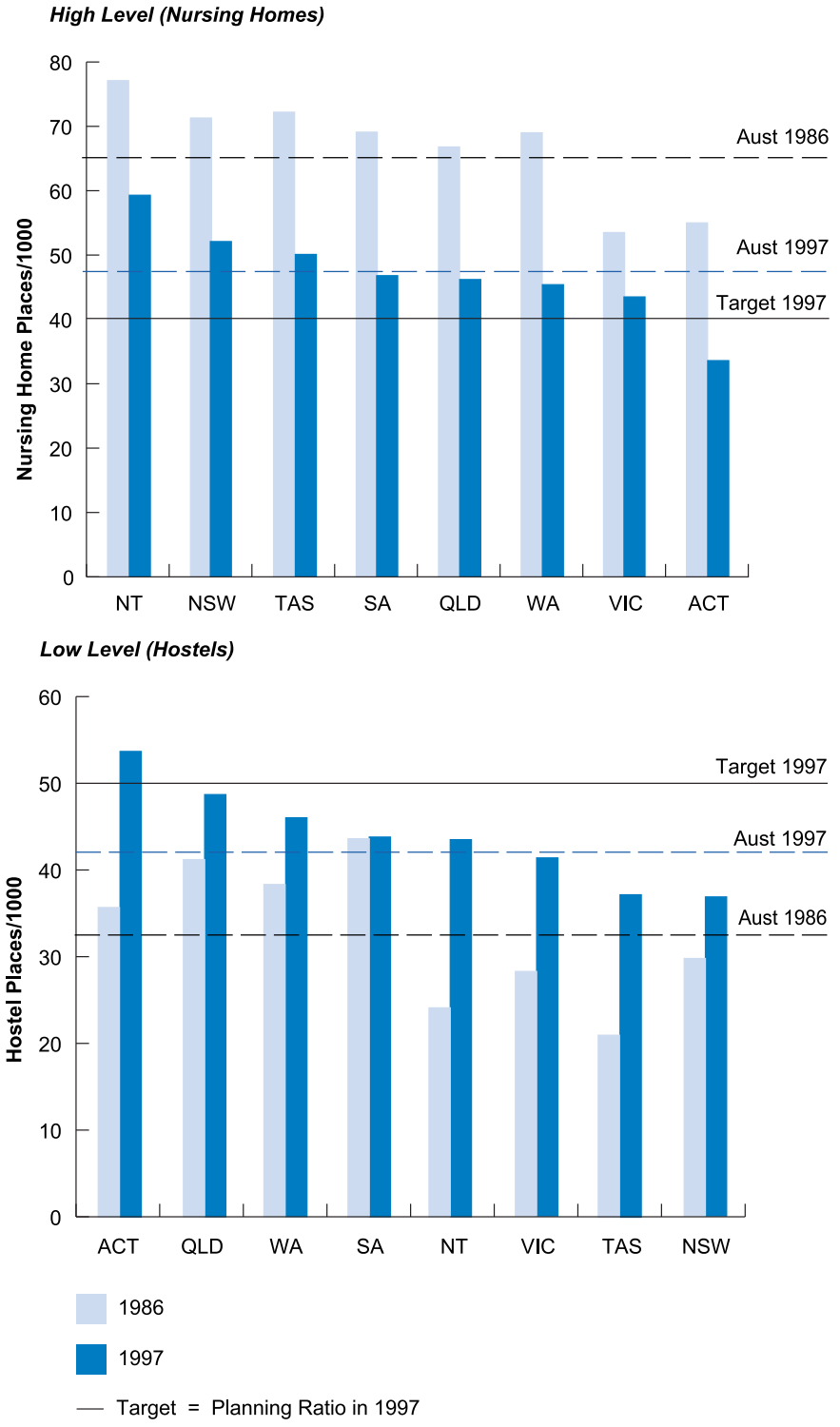
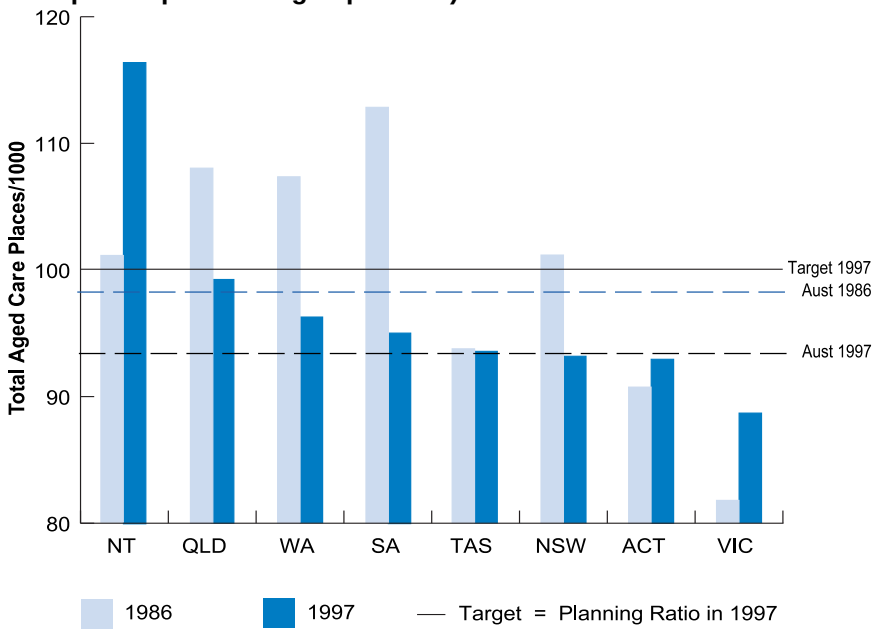


Figure 2

Aged Care Places (all types) by States 1986 and 1997
(No. of places per 1000 aged persons)

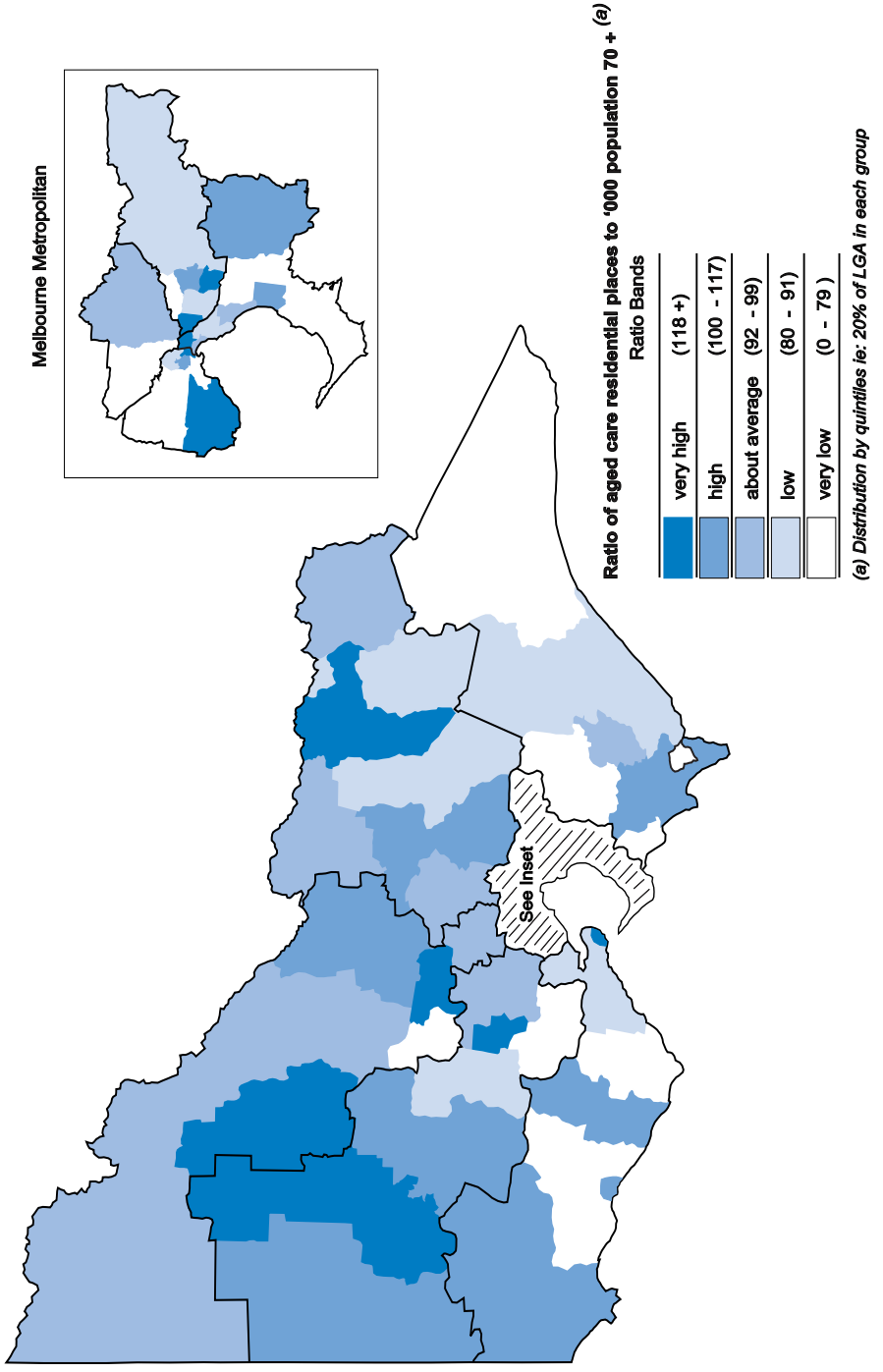


3.37 However, when the contrasts between regions, rather than between states, are considered, the scale of the persisting inequities is seen in a more realistic light.

3.38 The health care regions (of which at the time of the audit there were from 70 to 71 Australia-wide) are the standard units for health planning, and analysis of provision of different types of aged care by region is basic to the aged care planning process. All Aged Care Planning Regions are now aligned with state health regions except in New South Wales where the regions are aligned with Ageing and Disability Regions.

3.39 ABS analysis of data by regions shows that, between 1992 and 1997, there was a move in the direction of greater equity. This is illustrated by the lessening of the spread above and below the average of the regional ratios of aged care places to aged population. The move to lower inequities between regions is shown at Appendix 2. Notwithstanding, significant differences remained. An illustration is provided in Figure 3 which maps variations in provision of residential aged care by region in Victoria. Similar maps demonstrating similar characteristics of the distribution of aged care can be produced for each state. In both rural and urban areas there are considerable differences between and within regions. The reduction in inequities between regions achieved to date is notable but does not represent a major change. At the present rate of change, significant inequities are likely to persist for some time.

Figure 3
Distribution of Residential Care by LGA and Region — Victoria 1997



Lessening metro - rural imbalances

3.40 The major type of inequity in the distribution of aged care provision is that between urban and rural areas. This is acknowledged amongst stakeholder groups and by the Department. In all states the metropolitan regions, while comparatively very small in area, are on average twice the population size of rural regions. Within metropolitan regions the provision of care is often highly focused on one or two inner city regions with some other of the inner and outer urban regions less well serviced.

3.41 To analyse urban-rural differences in age care distribution, ANAO used the 'Rural, Remote and Metropolitan Areas Classification' (RRMA)[15]. Based on the Census of Population, ABS' classification allocates small scale areas (SLAs or Statistical Local Areas) into locational categories along a scale from rural and remote to metropolitan. ANAO commissioned ABS to calculate and analyse population estimates and numbers of age care places in these areas.

3.42 Using ABS statistics, ANAO was able to make a study of the extent to which relative disadvantage in aged care provision changed between 1992 (the earliest year for which comparable figure were available) and 1997. Assuming aged people living in regions with aged care provision in excess of the target ratio are not seriously disadvantaged in access to care, the study focused on the regions which were below target levels in provision of aged care.

3.43 To provide a measure of the extent of disadvantage in access to aged care, ANAO added the difference between the number of actual operational beds and the target number, for those regions with a deficit of places in 1992 and 1997 respectively[16]. The following observations can be made:

- for high level or nursing home care, no metropolitan region fell below the planning ratio. For rural areas, the total shortage of places grew Australia-wide from 1048 in 1992 to 2 208 in 1997;
- for low level or hostel care, the shortfall of provision from the planning ratio, Australia-wide, fell from 16 900 places in 1992 to 14 500 places in 1997, a fall of approximately 14 percent. The reduction in the shortfall was significantly greater in non-metropolitan (rural) areas;

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[15] Department of Primary Industries and Energy & Department of Human Services and Health, Rural, Remote and Metropolitan Areas Classification 1991 Census Edition, AGPS, Canberra, 1994.

[16] To place the 'deficits' in context , comparison with the surpluses is useful. For 1997, the totals of the 'surpluses' Australia-wide by region were: high care 14 056, low care 1 419, CCP 162 and a net surplus for 'all types' of 5 624 places.

- for community care packages, no realistic comparison can be made since CCPs only began to be provided in 1992. By 1997, there was a shortfall nationwide of 9 100 places spread evenly between metropolitan and non metropolitan areas;
- for all types of care, the situation nationwide is that for the regions below the planning ratio, the decline in the shortfall in quite slight (from 15 865 in 1992 to 15 837 in 1997-a decline of 0.2 percent)[17]. This can be interpreted as meaning that the increased provision of places to areas below the target level of provision has only just been able to keep pace with the growth in numbers of aged persons; and
- within this overall national 0.2 percent decline in relative disadvantage, the metropolitan areas have fared better; the metropolitan shortfall of all types of care declined from 6 048 places in 1992 to 5 574 in 1997; for the non metropolitan areas the shortfall increased from 9 817 places to 10 263 places between 1992 and 1997.

3.44 The numbers discussed above should be considered in the light of the fact that an unknown (but possibly considerable) number of aged people from non-metropolitan areas have found accommodation in metropolitan aged care facilities. On the other hand, since approximately two thirds of Australia's population live in metropolitan areas, and one third in non-metropolitan areas, a shortfall in provision of a given number of aged care places will on a pro rata basis be much more serious in a rural area.

3.45 In light of this situation, there are three courses of action open to the Department as follows:

- increase provision in regions below the target;
- reduce provision in regions over the target, by allocating no new places or less than would match population growth; or
- reduce provision in regions over the target by closing services.

Current policy is to allocate more new places to regions with the lowest relative provision and few or no new places to regions with the highest relative provision. ANAO acknowledges the difficulties facing management in this situation. Notwithstanding, some Departmental review of its approach to creating more equity between rural and metropolitan areas is warranted because the shortfall in aged care places in rural areas actually increased between 1992 and 1997.

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[17] The total for 'all types of care' is not the aggregate of the totals for each type separately. This is because some regions may have a surplus of one type of care and a deficit of another. The term 'all types of care' relates to the net deficit or surplus in which surpluses or deficits of different types of care, in a particular region, will offset each other.

Recommendation No. 3

3.46 The ANAO recommends that, in view of the continuing inequities in the distribution of aged care places, DHAC reassess its strategies for eliminating regional inequities, in particular, between metropolitan and rural areas.

DHAC response

3.47 *Agreed. The Department notes that the increase in care package provision in rural areas and the current expansion of the multipurpose service program provides an opportunity for strengthening strategies for eliminating inequities between metropolitan and rural regions.*

Possible limitations on length of time that subsidies are allocated to providers

3.48 A major constraint on Departmental planning is that, once places are allocated, the Department has no means of ensuring any subsequent redistribution. This is because in awarding new places to successful applicants, there is no time limit on the duration for which places are allocated. At present, the Department has no way of discontinuing places awarded to a provider other than because of a provider's breach of contract, for example, for poor standards of care and administration.

3.49 Currently, because there is a market for aged care places, providers buy and sell places. This can result in the transfer of places from one region to another. The Department has a direct influence over this market because the transfer of a place is subject to Departmental approval. The Department usually only approves transfers between regions when the move is towards regions of greater need.

3.50 The Department currently is unable to provide information on the numbers and scale of movements through this market mechanism. This is a small constraint on planning because the Department cannot estimate the extent of change in the location of aged care places brought about through market forces.

3.51 One proposal which may be useful in the context of redistributing places is that the Department could subsidise age care places for a defined and strictly limited period. This would allow greater flexibility in the allocation of places, and permit speedier achievement of regional equity. The duration of the allocation would need to be sufficiently long for would-be providers to receive a satisfactory return on capital, taking into account, for example, the depreciation rate on residential accommodation for the aged. In the case of residential care, the capital investment can be considerable. One of the incidental advantages of community care is that capital investment is much lower and this could allow greater flexibility. Pursuit of such a course of action would require transitional arrangements from earlier accepted procedure to the new arrangements.

3.52 ANAO acknowledges that the practical impact of such a change would take some time to emerge in the case of new residential allocations, though for care packages the improved flexibility would emerge earlier. DHAC has pointed out that to impose time limits on allocations already given could incur a risk of compensation payments. DHAC further emphasised that a limit on future residential allocations would need to be at least 20 to 25 years to allow providers to achieve a return on their investments. Therefore, the only part of the program where this measure could have a significant impact is with the Community Care Packages. The Department further noted that while this proposal may assist in providing greater flexibility to match the distribution of aged care places to need, it may impact on the willingness of the industry to invest in aged care services, could disadvantage clients, and would require a significant change of government policy.

3.53 Of note is that ANAO's proposal is only for the award of new places, not for the reassignment of existing places. Notwithstanding, ANAO agrees that such a move would require careful consideration of relative costs and benefits and notes that the industry restructuring exercise under way in 1998-99 may involve addressing these issues.

Conclusion

3.54 Over the past decade DHAC has developed and modified a planning regime which aims to fulfill Government policy direction. It does this primarily through planning the allocation of new aged care places which become available each year. ANAO considers that the planning system has been successful in bringing about considerable changes in the distribution and access of aged care places consistent with relevant government policies.

3.55 This has occurred in relation to both the changing of the mix of different types of aged care — increasing emphasis on lower level care and care in the community — and in reducing inequities between states, regions, and different demographic groups.

3.56 However, some change is still required before the policy goals are reached. The planning regime needs to continue to evolve to maintain the necessary pace of change, and this continuing change and improvement is the subject of the remaining chapters.

3.57 In addition, ANAO notes that the shortfall of operational places (93.7 operative places per 1000 aged people in 1998) from the planning ratio of 100 places / 1000 aged persons, which has developed over the period of the planning regime, has been inherently associated with the planning process.

4. The Targeting Process

This Chapter discusses the planning processes which support the targeting of new age care places and services to particular regions or special groups in the 1996-87 and 1997-98 allocation rounds. It also briefly considers DHAC's central office guidance to state offices.

Introduction

4.1 This Chapter addresses the Level 2 targeting activities carried out at DHAC's state offices and the central office guidance which precedes these. DHAC commenced to move towards the new planning regime in 1996-97, and it accelerated its introduction in 1997-98 with implementation of the new legislation. Therefore, both financial years were transitional.

Central office guidance to state offices on policy and process

4.2 As well as providing the annual national allocation targets, central office each year provides guidance to its state offices on any changes to procedures, in order to maintain a necessary degree of standardisation and quality across the state based planning systems. DHAC's state offices are responsible for recommending the allocation of new aged care places within their state boundaries.

4.3 Prior to 1997, central office guidance for state offices was limited. It relied on a Planning Procedures Manual and a decision on the annual allocations process timetable, together with a number of specific purpose strategies.

4.4 The Department's Planning Procedures Manual[18] was produced by central office in the early 1990s. The Manual was detailed and comprehensive, yet it was little used in state offices because it did not reflect the 1997 legislation and Allocation Principles adequately, and because it did not reflect sufficiently the program's purchaser/provider model. In other words, the Manual is now out of date, and there would be value in DHAC's production of a new version preferably in electronic form for ease of reference and updating. ANAO also considers it is crucial that those parts of current ad hoc central office guidance which are of continuing importance be incorporated in such a document. The ANAO proposes that

[18] Department of Health and Family Services, *Aged Care Planning Procedures Manual,* undated.

the Manual be revised in consultation with state offices and where appropriate with other stakeholders (such as peak provider bodies), to reflect current practice, and that it be strongly promoted to state offices. Currently, the Department is consulting with stakeholders in the development of amendments to the Allocation Principles that provide a legislative base for decision making and administration.

4.5 DHAC's central office has produced specific purpose aged care strategies to address issues such as provision for people living in rural and remote areas and for Aboriginal and Torres Strait Islanders. The Department may need to consider how these strategies are affected by the 1997-98 changes to the planning process. Also, as new strategies relevant to aged care planning emerge, the process of keeping state offices informed will need to be continued and the Planning Manual revised as required. In particular, these revisions will need to incorporate continuing emphasis and guidance on issues of contract management associated with the purchaser-provider approach to procurement of services.

Recommendation No. 4

4.6 The ANAO recommends that DHAC revise its Planning Procedures Manual to reflect the provisions of the *Aged Care Act 1997* and the move to the purchaser / provider model in its program administration in respect to the planning and allocation of residential and community care places.

DHAC Response

4.7 *Agreed. The Department will ensure that current practices designed to improve the probity, fairness and transparency of the planning process are reflected in the revision of the planning procedures manual for the current legislation.*

Targeting of distribution of new places within states and territories

4.8 It is the role of central office to co-ordinate the work of the states, primarily through appropriate guidance. The actual planning, however is done at the state office level. This includes targeting services to areas of greatest need, balancing service provision, avoiding duplication of services, and improving the integration of planning and delivery of aged care services with that of related health and community services.

4.9 In general terms, the Level 2 process involves state offices developing recommendations for consideration by ACPACs on the distribution of new aged care places between regions or special groups. The process of allocation of new aged care places occurs at three levels:

- an allocation between regions based on ABS' data and DHAC's regional data on aged care ratios and the surplus or shortfall of the numbers of places between regions;
- a notional allocation within regions using project officers' local knowledge; and
- consideration and confirmation by the ACPAC of the proposed allocations of new places between and within regions.

The recommendations from the ACPACs are then provided through the state office for consideration by the delegate of the Secretary of the Department

4.10 In developing recommendations to the ACPAC, state office staff, using ABS and DHAC data, make notional preliminary allocations to regions by calculating:

- the existing service provision ratios; and
- the actual numbers of places needed to reach regional targets.

4.11 The ANAO considered that the methodology used for these state office / ACPAC preliminary allocations to regions for new places was sound.

4.12 The next stage, in achieving regional equity in the allocation of new places, is for the state offices to set local directions and to interpret and supplement central office's strategies and direction. This can involve considerable initiative and semi-autonomy in decision making on state priorities. For example, ANAO was advised by the Victorian state office that it had developed a policy addressing the needs of aged people from non-English speaking backgrounds to the year 2000. Another example of state office initiatives was in how the South Australian state office decided to allocate nursing home places to South Australian country hospitals for the three years to 1998-99, after consultation with the South Australian Health Department. ANAO recognises the importance of this flexibility at state level to ensure allocations are matched to community needs.

4.13 The previous chapter indicated that, although there was greater regional equity than five years previously, significant inequities existed between regions in the proportion of available places. Given the magnitude of the task, the ANAO considers that the Department would be better placed to assess its own progress towards its long term goal if it set medium term objectives for ensuring regional equity. The Department's release of its medium term objectives would also assist aged care providers to plan ahead.

Recommendation No. 5

4.14 The ANAO recommends that DHAC set medium term regional equity objectives and clearly define related program outputs so that there is clarity about what can be achieved between 1998 and 2011, and advertise these medium term objectives to industry.

DHAC response

4.15 *Agreed.*

4.16 The discussion below provides suggestions about particular challenges the Department will encounter in the near future while working to achieve regional equity.

Observations on current practice 1996-97 and 1997-98

Identifying broad priority areas and groups for new places - data analysis

4.17 Before 1997, planning to achieve regional equity was achieved through a mix of analysis of statistical data and stakeholder consultations. The Department lessened its use of a consultative approach with the aged care sector in 1997-98.

4.18 Each state reviewed by the ANAO had a dedicated planning officer who oversaw the collation of the Level 2 information and developed recommendations for consideration by the state office's Aged Care Planning Advisory Committee. In the Queensland state office the aged care planning officer was located in the state office overall Planning area rather than within the Aged Care area. The ANAO considers this to have some merit, particularly with the program's increasing reliance on statistics provided by external parties, and reduced qualitative information from project officers. The specialist skills of planning experts are useful and an effective use of resources for Level 2 targeting.

4.19 State offices' main data sources were ABS' population statistics provided through DHAC's central office, and information on numbers of operational aged care places held on the DHAC payments system. These data were adequate for the two years reviewed by ANAO.

4.20 DHAC Aged Care Planning Regions have the same boundaries as state health regions, which impacts positively on joint Commonwealth/state planning endeavours. State governments nominate persons to ACPACs. State/territory and local governments also offer aged and community care services. These services include the Commonwealth funded/state and local government administered Home and Community Care program (HACC). DHAC's state office consideration of aged care

services offered by other levels of government tended to be ad hoc and to be inconsistent between the state offices. The ANAO found that the extent to which state offices incorporated into consideration of Commonwealth aged care provision the provision of aged care by other levels of government varied considerably between the states. An important additional element is to make use of state government health agency aged care experience and expertise. DHAC's state offices also varied in this respect. The Victorian and South Australian state offices were identified as having a close, cooperative mechanism between the Department and the relevant state government agency.

Recommendation No. 6

4.21 The ANAO recommends that, in order to develop better coordination of aged care planning, DHAC systematically take into account state government planning processes including for HACC.

DHAC response

4.22 *Agreed.*

Targeting of new places using local knowledge from community consultation

4.23 Until 1997-98, state office staff supplemented statistical data on the distribution of places and relative needs with qualitative information gained from discussions with stakeholders. In 1996-97 consultations ranged from one state office holding extensive discussions with stakeholders from all planning regions, to another state office which did not have any formal consultations (rather, staff drew on their project officers' local knowledge of regions and needs). In another state, state office staff consulted with the aged care sector only in the targeted, priority high need areas.

4.24 The ANAO considers this latter approach to consultation to be an efficient use of resources, and one which provides a sound basis for supplementing planning statistics with local knowledge. Such state office consultation increases the planning process' transparency, and it may lead to more appropriate and community supported service delivery.

4.25 With an even more pronounced move towards the purchaser/provider model from 1997-98, state based project officers will not have the advantage of frequent and close community involvement of previous years. The detailed local knowledge of DHAC's project officers is also diminishing through loss of experienced staff and the reduced time which remaining staff have for direct community and industry contact. Therefore, DHAC will need to find new and supplementary sources of information to inform its detailed targeting, especially within larger rural regions.

4.26 Other ways of securing this information may include closer liaison with state government health departments and more reference to advisory bodies and peak bodies. ANAO notes that DHAC state offices have various liaison arrangements with their respective state government counterparts. DHAC acknowledges the potential for a greater level of cooperation between the Commonwealth and the states in sharing information.

Recommendation No. 7

4.27 The ANAO recommends that, in order to improve the targeting of advertising of new places to the most needy areas and groups, DHAC introduce an effective means to maintain project officers' local knowledge of aged care needs, including through contact with state health agencies.

DHAC response

4.28 *Agreed with qualification. The Department does not accept that there is a need to introduce new measures but acknowledges the need to improve the current liaison and joint planning arrangements with State and Territory governments.*

4.29 A continuing problem in the targeting of allocations is that, due to the large area of some regions, the areas of highest need within regions are not targeted finely enough in DHAC's advertisements of new places. This has resulted in organisations applying in good faith to supply services in one part of an extensive region, but having minimal chance of success because the intended targeting was for elsewhere within the region.

4.30 ANAO considers that the Department should review the size of advertised target areas to ensure potential providers are given detailed information about where the Department requires services to be located. Potential providers should have a clear indication as to what parts of regions are to be targeted for the allocation of places. The information for applicants, or the advertisement, should provide adequate geographical information to allow people to decide whether to apply.

Recommendation No. 8

4.31 The ANAO recommends that DHAC ensure that the planning details of the targeting of advertised new places are made clear to potential providers by specifying unambiguously the required location of new facilities or places.

DHAC response

4.32 *Agreed.*

Consideration of needs of special groups

4.33 An important objective of the needs-based planning process is to improve equity of access for special needs groups. There are several aspects of management interest associated with these groups, including:

- their definition;
- recognition of how to target them effectively; and
- how to create the opportunity for appropriate outcomes.

4.34 The *Aged Care Act 1997* defines 'people with special needs'[19] as:

- people from Aboriginal and Torres Strait Islanders communities;
- people from non-English speaking backgrounds (NESB[20]);
- people who live in rural or remote areas; and
- people who are financially or socially disadvantaged.

4.35 In ANAO's discussions with state offices it became clear that some project officers misunderstand the definition of special needs groups. This confusion was both about which groups have special needs and about interpretation of whether some disadvantaged categories fell within these groups. A particular concern is whether dementia clients should be categorised as a special needs group, with proponents arguing for inclusion based on their need for special staff training and facility design.

4.36 There was also the example in the 1997-98 round where one state office in the advertisement for potential providers referred to war veterans as a 'special interest' group. This led to a provider confusing this group with 'special needs' groups.

Recommendation No. 9

4.37 The ANAO recommends that DHAC provide clear directions to state offices to ensure that they are correctly interpreting the definition of persons who are to be considered in the 'special needs' categories.

DHAC response

4.38 *Agreed.*

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[19] Commonwealth of Australia, *Aged Care Act 1997*, Commonwealth Government, Canberra, 1997, Part 2.2, Division 11, Section 11-3.

[20] Now known as People from Culturally Diverse Backgrounds (PCDB).

Approach to targeting special needs groups or in areas where competition is lacking

4.39 DHAC's central office and some state offices have developed internal policy guidance in order to address the disadvantages in aged care which some groups confront. In general terms, there are particular groups of frail older Australians that have problems in accessing aged care services when compared to older people in general. As noted above, the Act defines these groups as people with special needs under Section 11-3, and allows for the provision of services to specifically target their needs, in particular persons who live in remote locations, Indigenous Australians, and people from culturally diverse backgrounds (PCDB) groupings. Examples of particular policy decisions are:

- DHAC's assessment of special needs groups' aged care needs is not restricted to particular regions of high level need, but the assessment can occur at the level of an entire state; and
- the benchmark for provision of care to aged Indigenous people is 50 years, rather than the 70 years for the general population. This is in recognition of Indigenous Australians' lesser life expectancy.

4.40 Until 1997-98, state office project officers worked with aged persons with special needs to help determine their care needs and, in some cases, to assist in the development of aged care proposals. An example of good practice in this area was the use of Multi Purpose Services (MPSs) to cater for aged people living in remote areas. The MPSs are joint Commonwealth / state government initiatives which provide a coordinated framework for delivering a mix of health, aged care, family and community services suited to the needs of rural communities.

4.41 ANAO further notes that, with MPSs, there was extensive consultation and involvement with state governments to develop service delivery models which suited particular local needs. The 'Uniting for Care' initiative (August 1998) is another step for the Department in assisting aged care providers to increase the viability and standards of service in rural and remote areas.

4.42 In certain areas of Australia the purchaser-provider model may not be effective because a lack of potential suppliers limits competition. In particular, the demand for aged care services in rural and remote areas is generally below the threshold level of economic and financial viability of residential care providers. A basic premise behind the purchaser / provider model is that competition will drive potential suppliers to offer the best products in order to win the contract. Where there is limited competition in rural areas and with special groups, different approaches to provision of

aged care may be more appropriate, such as the use of MPSs. The Department is already working in other ways to give greater attention to aged care provision: for instance, DHAC informed ANAO that more than 75 per cent of a recent allocation of 200 residential care places went to rural areas.

4.43 In summary, with a clearer emphasis on the purchaser/provider model in selection of aged care providers, the Department will need to consider how the future requirements of minority groups can be met, and how it can effectively guide its staff involvement in any project application developmental work.

Recommendation No. 10

4.44 The ANAO recommends that, where there is insufficient competition between providers, such as in rural areas and among special needs groups, DHAC continue to explore alternative ways to promote development of aged care provision more effectively to achieve satisfactory outcomes.

DHAC response

4.45 *Agreed.*

ACPACs' recommendations to the Minister

4.46 Aged Care Advisory Committees (ACACs) were state based advisory bodies, established in 1987, to advise the Minister on the distribution of residential places to regions and special needs groups. The *Aged Care Act 1997* has renamed them Aged Care Advisory Planning Committees (ACPACs) and their role and functions have been codified in the Act's 1997 Allocation Principles.

4.47 The Allocation Principles specify that:

> *a committee's function is to advise the Secretary on the distribution of places among regions for different types of subsidy and proportions of care.*

They also state that:

> *if the Secretary requests advice from a committee about the distribution of places among the regions within a state, the committee must assess, and report to the Secretary on, the extent and priority of need among the regions.*

4.48 ACPAC members are appointed on the basis of their individual knowledge, experience and ability to contribute to the planning of aged care, and not as representatives of a particular organisation. The only exception to this is the representative from the relevant state government's program area.

4.49 DHAC's state offices propose to ACPACs where regional allocations should be targeted for endorsement by the Committee. In discussion with state offices, the ANAO has determined that, in the past, this has been a straight forward process with ACACs generally agreeing to state office recommendations with minimal changes.

4.50 There was some comment from state office staff that ACPAC's views were of limited value, especially with the availability of detailed statistical evidence at regional level. The ANAO considers that with the reduction in DHAC's community contact, the role of the ACPACs could be increasingly important as a means of providing community level advice to the Level 2 process. It is suggested that, after two years of operation, the Department schedule a review of the operations of the ACPACs to determine their level of effectiveness.

4.51 An allied matter is that a proportion of aged care providers do not understand the role of ACPACs. The lack of understanding is heightened if providers do not know how ACPAC members are nominated and selected. To avoid a risk of misunderstanding of the nature of the advice ACPACs provide to Departmental decision-makers and to avoid a weakening of the sector's confidence in Departmental decisions, the ANAO suggests that the Department provide more explicit information to aged care providers about the role of ACPACs, and advertise in all states for nominations for possible membership.

Recommendation No. 11

4.52 In order to promote understanding of DHAC's decision making processes, the ANAO recommends that DHAC provide comprehensive information to aged care providers about the role of Aged Care Planning and Advisory Committees, and advertise for nominations for membership in all states and territories.

DHAC response

4.53 *Agreed.*

Conclusion

4.54 1996-97 and 1997-98 were transitional years for DHAC's planning processes. The audit found that state offices had systematic approaches to achieve a proportionately equal distribution of aged care places between regions in both years. However, since the Department's goal is a long term one of regional equity by 2011, it could improve its management approaches by setting medium term targets to achieve regional equity. Most state offices

also needed to give more consideration in their planning to other levels of government provision of aged care services. There is a range of other initiatives which the Department could consider to improve its regional planning, including maintaining its project officers' local knowledge, more precise advertising of new places, clearer definitions of special needs groups, and project development where there is little competition between providers, such as in rural areas and for Indigenous communities.

5. The Selection of Service Providers

This Chapter discusses the planning processes which support the selection of suppliers of new age care places and services and points towards further changes which the Department must make to implement the new legislation to the full.

Introduction

5.1 This Chapter addresses the Level 3 or provider selection process carried out at DHAC's state offices. It is in this area that the changes in the Aged Care Reform package and in government purchasing processes have had the greatest impact on the planning system. Because 1996-97 and 1997-98 were transitional years to the new arrangements, the Chapter comments on selection processes in both years.

5.2 The ANAO noted that there were considerable differences in the states' procedures in the selection process in 1996-97, with some disparity in method and rigour of assessing applications, including both instances of good practice and some areas which could be improved. With the introduction of the new *Aged Care Act 1997* and better guidance from central office, the 1997-98 selection process was more nationally consistent. Overall, the ANAO has concluded that the process for selecting providers has improved with national guidance but there are still areas of concern as discussed below. In addition, the state offices have been the source of considerable innovation and good practice in the past, which a more standardised system would benefit from exploiting in the future.

5.3 Factors which explain the patterns to be described below include that DHAC's aged care planning staff were working within an environment of change brought about by the Government's greater emphasis on the purchaser/provider model, improvements in the selection process associated with the new legislation, and that there were reduced staff numbers to cope with the changes being made.

5.4 An overall challenge for the Department in its aged care planning process is to find an optimum balance between a nationally standardised and a uniformly high quality process, and the flexibility for each state office to meet local needs.

Co-ordination of the selection process

5.5 A major aim of the selection process is to recommend applicants who best satisfy the needs and criteria identified in the targeting recommendations. A further aim is to follow a purchasing process which is consistent with the Government's transparency and probity requirements, (transparency requirements are discussed in Chapter 6). The increased need for probity was formalised with the passing of the *Aged Care Act 1997* and this was reflected in more formal, structured direction being provided by central office for the 1997-98 round. ANAO noted that, with the impending changes in mind, some state offices had begun to tighten up their processes in the previous year.

5.6 In January 1998, central office convened a national meeting of co-ordinators from all states to discuss 1997-98 procedures and issues. The purpose was to increase standardised direction from central office. The meeting established five working groups to develop an assessment framework based on:

- approaches to assessment teams, and to late and non conforming applications;
- approved providers;
- training of assessment teams;
- document handling and receipt, probity files and paper trails; and
- debriefing and statement of reasons.

5.7 The working groups in most cases produced short guides on these issues. This initiative had the potential to address a number of concerns which the ANAO observed in relation to the 1996-97 allocation round. It is noted that the involvement of state office staff in such working parties will assist in reaching practical solutions and in promoting state project officer acceptance. There were constraints on the timing of a meeting to train staff because the new legislation was introduced mid-1997 and because of the appointment of a new Minister in October of that year. Notwithstanding, this meeting of the program's national coordinators would have been more useful to state office staff were it held earlier in the process. This would have allowed better preparation and more effective implementation of its outcomes in the state offices prior to the beginning of the selection process.

5.8 ANAO notes that a more timely national meeting was held in August 1998 to review the 1997-98 process and to discuss enhancements for future rounds.

The advertisement

5.9 The annual press advertisement in each state is a primary source of information for potential providers of residential places and care packages. It provides general information on the program and assessment criteria, as well as information on the numbers of allocations, targeted regions and special needs groups targeting.

5.10 The two issues associated with the information provided in the advertisement are:

- the amount of detail on the program and the assessment process; and
- the targeting of locations and numbers of allocations publicly advised.

5.11 Before 1997-98, the program and assessment information provided by state offices in the advertisement varied in content, comprehensiveness and clarity. In 1997-98, central office prepared a standardised outline of the advertisements, which was intended to have nation-wide consistency in the content of information provided through this process. ANAO found that the NSW state office included some extra information, beyond that of the other state office advertisements. It appeared, in at least one case, to have created uncertainty about the priority applicants should give to war veterans. In other words, there was uncertainty about the definition of a special needs group.

5.12 State offices have a number of available options to specify the places to be advertised for each region. The first being to advertise the location without indicating numbers of available places, which, when adopted by one state office and in the opinion of DHAC's staff in that state, resulted in a difficult and complex selection process and is clearly best avoided. A further option is to advertise in such a way that the total number of places advertised for all regions is the same as the state total, thus providing industry with realistic information. However, if there are insufficient good quality applications in one region, some places may not be allocated.

5.13 The ANAO suggests that the most appropriate method of informing industry of numbers of available places, while retaining some flexibility in the allocation process, is to advertise for individual regions at levels slightly higher than the total allocation indicating that up to a given number of places will be allocated. This retains the flexibility to allow the aggregate allocation to be contained within the state total. The ANAO notes the Victorian state office advertised in this way in 1997-98.

Provision of application forms and guidance to would-be applicants

5.14 Nationally standardised application forms were used in 1996-97 and 1997-98. In the absence of major complaints from applicants to the Department, ANAO concluded that the application form was acceptable. However, there have been some suggestions from assessors and providers for improvements, as discussed later in this Chapter at 5.75 et seq.

5.15 DHAC provides potential suppliers with a standard information kit. In 1997-98 the information kit contained the application form, program fact sheets, a copy of the allocation principles, funding and conditions information, the business rules for the allocation round and a number of other supporting documents. The business rules described the application process including criteria and assessment procedures.

5.16 ANAO notes that the Victorian state office provided seminars for industry in 1996-97 and 1997-98. As discussed in Chapter 6, a briefing of potential bidders is considered good practice in that it provides industry with clear guidance on the Department's selection procedures and expectations.

Devising and implementing the assessment methodology consistent with probity needs

5.17 Before 1996-97, each state used its own assessment form and, in some cases, these forms were little more than a simple sheet for listing advantages and disadvantages of each application. In 1996-97, central office provided a model assessment form, developed by NSW state office, for national use. The Victorian state office developed its own form in 1995-96 and refined it for 1996-97, prior to the central office decision to disseminate a national form. Therefore all states, except Victoria, used the national form in 1996-97. This example highlights the degree of devolution of central office decision making to state offices at that time.

5.18 In 1997-98, all state offices used a nationally standardised assessment form and central office provided a set of guidelines for assessors. Essentially, these guidelines gave assessors direction in how to interpret responses in applications. State offices advised they found the guidelines to be useful but considered that they could be developed in line with the discussion below.

5.19 A major advance in the 1997-98 selection process was the linking of the principles enunciated in the *Aged Care Act 1997* to the criteria to be used in the selection process. Notwithstanding, comments from state management staff indicate that there is still some considerable way to go in developing a nationally standardised, high quality and convenient

assessment sheet and set of guidelines to facilitate the linking of principles through the application form to the assessment process in a simple and clearly understandable way. ANAO considers further improvements could include a simpler organisation of the Principles into a small number of selection criteria, revision of assessment procedures and tools, and refinement of the selection mechanism especially for determining the best application from amongst strong contenders (see below).

5.20 The ANAO noted that this need for further development is evidenced by the differing approaches taken by state offices in the assessment process for the 1997-98 round. ANAO and DHAC agreed that the amended procedures for 1997-98 did not solve all the identified problems. In the final sections of this Chapter the ANAO suggests a revised framework for assessment which may go some way to addressing this issue.

Assessment teams

5.21 Before 1997-98 it was generally considered appropriate for applications to be assessed by staff who had been involved in project or application development work in the targeted area. This provided for an informed decision based on local knowledge of the relevant community. However, this approach risks actual or perceived bias in favour of the assisted projects or applications. That was one reason for the Department's introduction of a more rigorous approach in 1997-98.

5.22 For 1997-98 each of the state offices reviewed by the ANAO, with one exception, used assessment teams whose members were not aligned with their project officers' regional responsibilities. One state office used assessment teams whose members had contact, in their day to day jobs, with regions for which they assessed applications. State offices surveyed considered that team assessment promoted consistency in the selection process and minimised the potential for bias.

5.23 From discussions with state offices the ANAO notes there are differing interpretations of how strictly the 'arms length' approach from applicants was applied. ANAO considers that the Department should provide guidance to state offices on how to balance probity considerations in the assessment process with the assessors' need to be aware of the circumstances and environment of local communities.

Training

5.24 ANAO noted that, before 1997-98, across state offices there was uneven effort at standardisation of assessors' approach. Discussion with state office staff indicated that formal training was not a priority and, where training was provided, it was mainly on the job. Consequently, different assessors could interpret the same application in different ways.

5.25 On the job training, on its own, can be quite useful where there is little change from year to year in procedures and where staff turn-over is minimal. However, ANAO was advised that staff reductions caused much disruption during the 1996-97 assessment period and that a number of assessment staff were seconded from other areas within the Department to assist in completing the assessment process. The timing of staff reductions did not allow for formal training sessions. Each of the state offices advised the ANAO that, in 1997-98, they were in a position of having less experienced staff with less corporate knowledge than in previous years.

5.26 The changes which occurred for the 1997-98 round, including increased probity and the use of national assessment forms, meant that there was, of necessity, greater emphasis on instruction for staff. State office based training for 1997-98, in general, consisted of working through the national guidelines and 'piloting' some applications to ensure consistency. This was supplemented by on the job training.

5.27 Concerns expressed by staff in three state offices included that:

- instruction in use of the new assessment form was not comprehensive enough and the increased importance of probity in the selection process was not sufficiently emphasised given the changed procedures and the relative lack of experience of a number of officers involved in the assessment; and
- a substantial number of staff were not involved in the targeted central office training provided through the national meeting, and the benefits of training were not disseminated in sufficient detail.

5.28 The ANAO considers that training provided in 1997-98 was limited and that there was inadequate preparation as evidenced by scheduling problems. The Department needs to put in place a formal training program for future years.

Recommendation No. 12

5.29 The ANAO recommends that DHAC revise its staff training to:

- schedule timely training on its annual guidelines;
- provide effective training to a larger proportion of project officers; and
- provide staff with an understanding of how to assess value for money in applications while maintaining the probity of the assessment process.

DHAC response

5.30 *Agreed.*

The evaluation of applications against the assessment criteria

5.31 The ANAO analysed processing at the state office level in respect of 1996-97 (three states) and 1997-98 (two states) with a focus on assessment by state office staff of applications. A sizeable sample was reviewed (20 per cent of applications) in each state.

5.32 The ANAO's overall impression of how the different approaches worked in 1996-97 is that, in two of the three state offices reviewed, the selection process worked well. In the third office the process was less thorough. The ANAO has reservations about how well that office could support its 1996-97 recommendations. For the 1997-98 round, standardised procedures meant greater national consistency in the selection process. However, there were some areas for improvement which are also discussed below.

5.33 The project selection process is complex. Improvements in the assessment tools will assist staff to recommend the best providers and to have sufficient information to explain or defend their recommendations. ANAO also notes that the competition for new places will become even more intense as:

- more privately owned companies apply to provide community care packages; and
- the providers become more familiar with the purchaser/provider competitive process.

5.34 This increasingly highly competitive situation will require further improvements in the selection process to assist project staff to differentiate between higher quality applications.

Assessment of economic viability and financial matters in applications

5.35 Project officers in the four states visited told ANAO of the difficulty in interpreting financial information supplied by providers in their applications. ANAO suggests that there should be value in DHAC clarifying what it is attempting to achieve in sections of the application form relating to financial matters. For example, not all of the information on financial matters is gathered in a form which assists comparative assessment of applications and the assessors are not clear on how to use the information. Clarity in this is especially important given the difficulties involved in making judgments on complex financial matters within the confines of information elicited in an application form. The Department accepts the need to clarify the purpose of the sections of the application relating to financial matters and agrees that clarity is needed. With the increasing skill on the part of applicants in completing the application forms, it is

predictable that the selection process will become increasingly difficult as project officers seek to distinguish between a larger number of quality applications.

5.36 The Department is in a vulnerable position because generalist staff are expected to make judgments on accounting data provided by applicants, where applicants may be proposing million dollar investments. The Department may wish to consider employing specialist accounting staff as being more cost effective. DHAC has advised ANAO that it is examining this and related options for the 1998-99 round.

5.37 Given the relative ease of entry into the business of providing community care, there is a particular need to guard against unscrupulous or sub standard providers. The New South Wales state office provides an example of good practice in the monitoring system which it is developing. The planning implications of this are that the application form might provide details of proposed operations for future monitoring, representing a contractual undertaking by the provider if the application is accepted. This could provide an effective self-regulation device for industry providers.

Recommendation No. 13

5.38 The ANAO recommends that DHAC:

- review the adequacy of financial information it requires for assessment of applications to provide aged care services; and
- where necessary and where there is a clear cost-benefit, employ or contract staff with relevant financial skills to assess this financial information.

DHAC response

5.39 *Agreed. The Department notes that the financial aspects of the application and assessment are being reviewed for the 1998-99 round. The Department will consider the use of specialist staff where appropriate.*

5.40 In a related context, a community care package applicant had provided information on the quality of its proposed service provision, such as quality assurance accreditation. However, project staff did not know how to interpret the accreditation, including not knowing whether to give accreditation a great deal of emphasis or no emphasis in the selection process. Subsequently, in one state, project officers used an applicants' proposed operating costs as a proxy for the quality of care. That is, financial inputs were used as measures of outputs. Closer examination revealed that neither the application nor assessment forms gave attention to the quality of community care services being selected.

5.41 This example highlighted the importance of central office clarifying for state offices how they should assess the quality of proposed care, especially community care. It also highlighted how financial information in applications was being used mistakenly by project officers.

Recommendation No. 14

5.42 The ANAO recommends that DHAC adopt a performance indicator or indicators, and targets, for assessment of the quality of community care packages to demonstrate how well the Department is assessing value for money in its purchases of community care packages.

DHAC response

5.43 *Agreed. The Department is developing processes for assessing the quality of community care packages.*

Recommendation No. 15

5.44 The ANAO recommends that DHAC advise applicants for aged care places of its criteria for assessment of the quality of residential care and for community care packages.

DHAC response

5.45 *Agreed. The Department notes that the requirements of the Aged Care Act 1997 and the Allocation Principles are described in information supplied to applicants and form the basis of the application form.*

External validation

5.46 In 1996-97 each of the state offices sought the assistance of specialist expertise through requesting DHAC's Standards and Financial Validations Sections to check for any building quality issues or financial concerns. This included interpretation and judgment of matters in the application, and the checking of previous records of those applicants which were current providers. ANAO considers it is good practice for assessors to get specialist advice from outside the assessment team where needed.

5.47 The ANAO found two issues of concern for future rounds:

- with the transfer of DHAC Standards Section's activities to an external agency, the Department will need to develop suitable protocols to exchange information with the new standards agency; and
- the Department will need to seek alternative sources of expertise to provide advice on issues such as viability of would be providers and feasibility of projects proposals.

Contact with applicants and interpretation of probity guidelines

5.48 Project officer contact with applicants decreased over the two years studied. Prior to 1997-98, some state offices supplemented the information in applications with discussions with applicants. In 1996-97 the level of contact with applicants varied from one state advising of minimal contact with applicants to another state which interviewed applicants extensively. For 1997-98, selection was based solely on information provided in the application, and there was limited contact with applicants during the six week application submission period. This latter approach was decided upon by the Department to provide nationally consistent probity standards.

5.49 There are differences between state offices in their interpretations of the probity guidelines. A major area requiring central office clarification to project officers is the admissibility of information from sources other than the application once the selection process has commenced. DHAC advised ANAO that it was giving more training and guidance in the 1998-99 round in how much contact with applicants is consistent with probity requirements.

5.50 The possible sources of additional information are from the applicant itself, or from a variety of other sources such as Departmental records or ACPACs. ANAO considers that it is legitimate to contact an applicant to confirm details which are unclear, in particular, for clarification of items of basic information (such as addresses or approved operator status) but not to allow the applicant to provide supplementary information which might enhance the application to provide an unfair advantage in comparison with other applications. DHAC advised ANAO that its central office staff provided such instruction to state office personnel in January 1998 for the 1997-98 round. However, ANAO's fieldwork in state offices indicated that those central office requirements were neither necessarily understood nor applied in state offices.

5.51 Regarding information from Departmental and other official sources, ANAO notes that the *Aged Care Act (1997)* at section 14-2 (d) requires that the assessment of applications for allocations 'consider, in relation to each application . . . if the provider has been a provider of aged care — its conduct . . ., and its compliance with its responsibilities as such a provider, and its obligations arising from receipt of any payments from the Commonwealth for providing that aged care'. There is a range of relevant information which is collected on a routine basis which is available to facilitate this assessment.

5.52 DHAC receives an annual statement of information from nursing home providers. The statement of information is prepared following an assessment of the performance by the facility against the Commonwealth's standards on nursing home care.

5.53 DHAC also receives annual audited financial statements from community care providers. The ANAO was advised by state office staff that project officers sometimes used such information when reviewing new applications from existing providers. Notwithstanding, there was little documentation of such information being used in the project selection process. It was important for DHAC to formally include in its assessment procedures use of such information in the selection process.

5.54 It is important that assessors be aware of recent or current bad practice on the part of an applicant, and to have the advantage of Departmental records of current providers which might assist in making the most valid decision, especially when this is to choose between closely contesting applicants. In these cases it is important to ensure that the guidelines are clear and helpful and can be followed consistently by assessors in all states.

Recommendation No. 16

5.55 The ANAO recommends that, in order to improve its selection of providers of new places, DHAC provide clear direction and clarify current differing interpretations across state offices of its program guidelines.

DHAC response

5.56 *Agreed.*

Recommendation No. 17

5.57 The ANAO recommends that DHAC review, and clearly specify, how the financial and performance data, which it receives from existing providers on a regular basis, can best be used by its staff to assess new applications from existing providers.

DHAC response

5.58 *Agreed.*

5.59 The ANAO considers a useful check by the Department on the differences in interpretation which are emerging could be through regular central office review of a sample of each state office's assessment of applications. This would also reinforce central office's quality control role.

Recommendation No. 18

5.60 To promote greater national consistency of selection procedures and better practice through learning from state office experience, the ANAO recommends that DHAC's central office review samples of each state office's assessments of annual applications from aged care providers, and take effective action on the results of the reviews.

DHAC response

5.61 *Agreed. The Department will ensue that this quality control step is included in processes for the 1998-99 round.*

Notifying applicants of the outcomes of applications

5.62 ANAO considers that the recommendations to the Minister, at the culmination of the 1996-97 and 1997-98 rounds, were well presented and provided sufficient information. The notification of applicants of how they fared in the selection process is a transparency issue and is discussed in Chapter 6. In summary, current practice on providing feedback to applicants varies between states with some state offices providing greater and more useful detail than others.

Efficiency of the assessment process

5.63 The following factors were considered when forming an opinion on the efficiency of the 1997-98 project selection processes:

- in 1996-97, there were 1248 applications for 4143 aged care places nationally. The time taken between advertisement of the places and the Minister's announcement of the successful applicants was 21 weeks;
- in 1997-98, there were 1139 applications for 5238 aged care places nationally, while the time taken between advertisement of the places and the Minister's announcement of the successful applicants was 24 weeks;
- there were significantly less staff in state offices in 1997-98 than in previous years, and those who had departed carried with them a great deal of experience;
- the roles of staff changed from 1996-97 to 1997-98. Staff in the most recent year had a smaller industry development role, but they had to learn to administer new legislation; and
- the 1997-98 selection process required more training because of the new legislation, and because of the greater rigour imposed by the raised standards of selection and by probity requirements.

5.64 When these factors are considered, it is probable that DHAC's assessment and selection processes in 1997-98 were more efficient than in earlier years.

5.65 In relation to the actual timing of the assessment process the ANAO notes that the Department's Planning Manual shows the annual allocation process being completed between June and November. In 1995-96 the process, from the advertisement to the Minister's announcement of successful bidders, was completed between July and December. In 1996-97 and 1997-98 this process extended from October / November to the following May / June. This indicates there has been considerable slippage over time as shown in Table 5.1. Slippage was at least partly explained by delays associated with the February 1996 Federal Election, and with the August 1996 and May 1997 Budgets.

5.66 Also, the ANAO noted that the Department imposes very strict time constraints on applicants (ie, six weeks to complete the application) but does not impose a similar discipline on itself. There is a considerable amount of time taken by the Department to finalise the process. ANAO suggests that industry be given a firm indication of when the results of the application process will be announced so that the competitive assessment process does not appear to be open ended and with no time limit.

5.67 In relation to the time allowed for application to be submitted in the 1997-98 round, some state office staff and stakeholders have commented that six weeks over the Christmas-New Year period is insufficient for applicants to prepare an application of sufficient detail, especially where those applications involve negotiations with banks over very large investments and negotiations over land purchases. DHAC has advised that, in future, it is intended to give respondents more time to apply in rounds where there is no alternative to advertising in the weeks before Christmas.

Table 5.1
Timing of planning process

Stages	Planning Manual (a)	1996-97 Round (b)		1997-98 Round (c)	
		Initial	Actual	Initial	Actual
Level 1 : Recommended and announced by the Minister	June	16/10/96	Oct 1996	Early Sept 1997	Signed 12/9/97
ACPACs Meet for recommendations	April to May	May 1996	2/9 to 9/9/96	Sept 1997	22/8 to 2/10/97
Level 2 :Recommendations to: • central office • Minister	 May May	 11/9/96 26/9/96	 12/9 to 17/9/96 3/10/96	6/10/98	Sept/Oct 1997
Level 2: Approval of distribution	June	16/10/96	24/10/96	17/10/97	Nov/Dec 1997
Advertisement placed	July	26/10/96	9/11/96	1/11/97	13/12/97
Applications close	not prescribed	6/12/96	20/12/96	15/12/97	30/1/98
Applications: • developed • assessed	July to Oct	not applic Dec/Mar	not applic Dec/April	not applic Dec/Mar	not applic Dec/May
Level 3 :Recommendations to: • central office • Minister	Oct to Nov	12/3/97 21/3/97	27/3 to 2/4/97	6/3/98 1/4/98	May 1998 June 1998
Ministerial announcement of outcomes	Nov	4/4/97	8/5/97	End April 1998	June 1998

(a) DHFS Planning Procedures Manual, p. 8.

(b) Delay associated with February 1996 Federal Election and August 1996 Federal Budget.

(c) Delay associated with May 1997 Federal Budget.

Recommendation No. 19

5.68 The ANAO recommends that DHAC commence the selection of new providers as early as possible in the planning year in order to minimise delay in the provision of new places.

DHAC response

5.69 *Agreed. However, the Department notes that the Minister makes places available for allocation in the planning process each year, and on occasion the timing of this approval can be subject to factors such as Federal Elections and Budgets.*

Difficulties of entry into the community care sector by providers from the 'for profit' sector

5.70 For the 1997-98 allocation year, the ANAO reviewed the New South Wales state office data relating to the 'for profit' sector applicants. Aggregate data showed that the 'for profit' sector applicants had a lower probability of success than 'for profit' sector applicants in other states.

5.71 Nationwide, the 'for profit' sector in applying for community care places was successful in 16 per cent of applications compared to the 'not for profit' sector success rate of 31 per cent. The New South Wales 'for profit' sector zero per cent success rate compared to a 'not for profit' sector success rate of 29 per cent. Also in 1997-98, no 'for profit' applicant was successful in gaining new community care places in West Australia and Victoria. Nationally, DHAC advised ANAO that considerably more private sector providers obtained subsidies in 1997-98 than in previous years.

5.72 Given the scale of the difference in success rates between 'not for profit' and 'for profit' sectors, ANAO was conscious of the possible opinion on the part of some providers that there may be a systemic bias in the selection process against the 'for profit' sector. ANAO, however, could find no obvious reason to explain the differences in these rates. In an inspection of a sample of applications in New South Wales, contested by both applicants from both the 'for profit' and 'not for profit' sectors, the ANAO detected no discernible bias towards the 'not for profit' supplier.

Recommendation No. 20

5.73 The ANAO recommends that DHAC evaluate the implementation of its guidelines and procedures in different state offices to explain the interstate variation in the relative success of the not for profit and for profit sectors in gaining aged care places.

DHAC response

5.74 *Agreed.*

Proposals for a simpler, more reliable and effective assessment tool

5.75 There are considerable difficulties with the assessment process arising partly from the length and complexity of the application form and the large number of criteria which it addresses. In discussions with officers from both state and central office involved in the aged care planning process, ANAO made a number of suggestions for simplifying and improving the process.

5.76 These discussions took place when ANAO attended the debriefing workshop on the 1997-98 round. In this context the Department undertook revision, in the light of 1997-98 experience, of the linkage of the allocation principles to the assessment process, of the application forms and assessment guidelines and processes for the 1998-99 round. ANAO notes that the Department intends to adopt many of the following suggestions.

5.77 These suggestions are provided in some detail in Appendix 3. In summary, the selection process would be assisted by considering the following developments:

- providing a seamless linkage between the three main assessment tools: the Allocation Principles, the assessment tool and the application form. The latter two should be redesigned to closely correspond;
- simplifying the Allocation Principles under a small number of broad headings such as the applicants proposed standard and quality of care, organisation of service delivery, and a range of financial and economic matters;
- clarifying the purpose and treatment of financial and economic matters;
- structuring the selection process to provide for evaluation of each application against the selection criteria, followed by a focused comparative assessment of short listed applications;
- establishing relative priorities and/or weightings between the main criteria;
- structuring the assessment to consider applications under the following broad headings:
    - establishing acceptable levels of managerial competence and of suitability of proposed arrangements to the needs of the application for operational and organisational requirements;
    - establishing project viability — both in the establishment and in the operational phases;

- providing quality of care — the assessment of professional competence, quality of facilities, and treatment of consumers; and
- achieving value for money — including the applicant's market analysis and the number of services which the applicant undertakes to deliver.

5.78 'Quality of care' and 'value for money' are, respectively, the first and second in importance among the criteria and should preferably be the main criteria used in the final comparative assessment process.

Recommendation No. 21

5.79 The ANAO recommends that in order to improve the efficacy of the assessment process, DHAC:

- link the Allocation Principles to the application form and to the assessment process in a simple and clearly understandable way; and
- make comparative assessments of those acceptable applications competing for the same advertised group of places, showing the extent to which each meets the selection criteria.

DHAC response

5.80 *Agreed. The Department appreciated the ANAO's involvement in consulting with State Office assessment staff on these issues, which included participating in the National Debriefing Meeting for the 1997-98 planning round. The Department will continue to improve the assessment process in the light of the discussions and the ANAO's recommendations.*

Conclusion

5.81 DHAC has taken major steps forward in using the new legislation to select providers. However, it can improve the effectiveness and efficiency of its processes by providing staff training at better times, providing more accurate information in its advertisements about the number of new places, informing staff how to balance the importance of probity in the selection process with the need to obtain value for money for the Commonwealth, by using specialist staff or contractors to evaluate financial data in applications, by giving greater attention to the quality of care promised by community care providers, and by considering whether it can use in the selection process information already supplied by those existing providers which apply for new places. ANAO notes that the Department intends and, in some instances, is already taking up for the 1998-99 application round many of the improvements suggested in this Chapter.

6. An Open and Clear Process

This Chapter considers the requirements which arise from both legislation and accepted practice for an open and clear process in the planning of aged care, and comments on the extent to which these requirements are met in the planning process.

The legislative requirements for an open and clear process

6.1 One of the 1997 Act's three objectives for the aged care planning process is 'to provide an open and clear planning process' (S12-2a). The Act details other requirements of openness and clarity, including that Ministerial determinations of the number of places available for allocation must be published in the Commonwealth Government Gazette; that, in distributing aged care places, the Secretary must comply with any requirements specified in the Allocation Principles; and that the Secretary may establish Aged Care Planning Advisory Committees.

6.2 ANAO considers that, within the constraints of requirements for commercial confidentiality, the Department is taking steps to provide the openness and clarity of processes required by legislation.

The benefits of an open and clear process for aged care planning

6.3 As explained earlier, in the 1997-98 planning round, transparency became of much more concern that in previous years, both because of the specific reference in the legislation and because of the move to the purchaser/provider model with its strong emphasis on probity considerations.

6.4 The ANAO recognises that there are constraints on how open an administrative decision-making process can be to external scrutiny, including, for example, reasons of cost and the need to maintain the confidentiality of commercially sensitive data in applications. However, overall, and in order to maximise the sector's and stakeholders' confidence in the Department, the planning process should be as clear as is practicable, with confidentiality maintained only in aspects where there is a demonstrated need.

6.5 Potential benefits from a transparent planning process include:

- a better quality of applications as a result of applicants being more informed of DHAC's expectations;
- greater accountability to Parliament and the public where the Department can more easily demonstrate where expenditure of taxpayers dollars is occurring and why;
- more realistic expectations on the part of industry and the public when the Department is able to explain the targeting of new places to areas of highest need;
- a reduction in adverse comment and complaints about the process and its outcomes from an increased perception of fairness of the process; and
- aged care providers offering more satisfactory provision of services to match aged care needs — through aligning their business planning more closely with the Government's planning directions.

6.6 The over-riding advantage gained from the operation of an open and clear process in the planning of aged care by stakeholders is greater confidence in the fairness of Departmental decision-making.

Observations on openness and clarity of the planning processes

6.7 ANAO found that there was considerable variation between the states in the openness and transparency to stakeholders of their planning, and in understanding of the process amongst providers. This was particularly noticeable in the 1996-97 round. In the 1997-98 round, the central office coordination through its emphasis on probity was beginning to increase awareness of the need for transparency.

6.8 The difference of approaches between state offices included:

- the nature and the effectiveness of consultation with stakeholders in the allocation of new places within the states;
- the extent of contact with applicants before and during the selection process in both the planning years examined; and
- the extent and adequacy of advice to unsuccessful applicants.

6.9 These variations extended, in 1996-97 in particular, to differences in approaches by field officers within the same office. Consultation by ANAO, with a selection of providers and their peak bodies, suggested it is likely that the spread of information to industry was rather uneven since not all providers received the same level of attention from field officers.

ANAO observed a marked unevenness in the understanding of the planning process among applicants in the 1996-97 funding round. This was evidenced by the varied relevance of information provided to the Department in application forms, and, in some cases, it was apparent from some misunderstanding of basic assumptions, such as in the definition of a special needs groups. The Department could consider how greater openness, clarity and targeting of information can improve providers' understanding of the process. It moved in this direction for the 1997-98 round.

Recommendation No. 22

6.10 The ANAO recommends that DHAC provide guidance to state offices on the need to ensure all providers and potential providers have equal access to information and advice on the allocation process.

DHAC response

6.11 *Agreed.*

6.12 The Department can facilitate an open and clear process in the planning of aged care, firstly by providing general information to stakeholders to ensure that they have the opportunity to gain a sound understanding of the Department's planning process for aged care.

6.13 Secondly, the Department can pursue particular communication strategies aimed at specific outcomes especially in regard to the targeting (Level 2) and the selection processes (Level 3).

To promote general understanding of the planning process

6.14 As noted above (paragraph 6.8) ANAO identified several issues where there was a lack of understanding by some key stakeholders of the general aims and operations of the planning process. Improving the level of this understanding could benefit both consumer and provider in that the benefits of the competitive process depend in part on all providers being aware of what is needed by the purchaser and the associated reasons. Examples of areas where the Department could bring improved transparency include:

• The Department's application of the planning target ratio[A3]

The ANAO considers that the Department's approach to allocating new places between states and territories needs to be better presented to industry since, in discussions with providers and their peak bodies, it was clear that not all understood its basis. This may have contributed to the low level of understanding of the competitive nature of the process on the part of some well-established providers whose applications understated what services they could provide in future. The ANAO suggests that DHAC make greater

efforts to clarify the rationale for the allocations process, including through explanations of the formula governing the annual increase in aged care places and for deciding on the proportions of different levels of care.

• The role of Aged Care Planning Advisory Committees

The ANAO found from discussion with providers and industry peak bodies that the role of ACPACs is not well understood by some sections of the industry. The purpose, method of selection and means of operation could usefully be better promoted to industry. Enhancing industry's understanding that the role of ACPACs is to provide objective and impartial advice would raise the confidence of industry in the fairness of the allocation process.

• The respective roles of different levels of government in health

Consumer advocacy group representatives noted that many members of the general public do not understand for which health services the Commonwealth and state governments have responsibility. This lack of understanding creates difficulties for the Department in its attempts to ensure that its processes are seen as open and clear.

Specific ways to improve stakeholder understanding of the planning process

6.15 The following section highlights the transparency aspects of issues discussed in more detail in earlier Chapters:

• Consultations leading up to a Level 2 decision

ANAO observed for both planning years that state offices varied in their approaches to consultation with stakeholders in the allocation of new places between regions. The ANAO notes that there are benefits to be derived from a more standardised approach, which combines providing general information for all stakeholders, with more detailed consultations with stakeholders in regions that are identified as being most in need of new aged care places and whence DHAC hopes to attract good quality applications. ANAO agrees with DHAC that there is a need to balance consultation with stakeholders with robust targeting data. Otherwise there is a danger that aged care planning will be distorted by the lobbying ability of particular stakeholder groups, with a move away from an objective foundation in data. Stakeholders provide valuable input to ACPACs on the most appropriate service emphasis for particular regions, for instance, in terms of a focus on dementia care or a particular ethnic group. However, decisions on the quantum of places available should always rely on objective targeting data.

• Briefing of potential bidders

State offices varied in their approaches to briefing potential applicants once

the new places were advertised — some did and some did not brief potential applicants. It should be normal business practice for all state offices to brief interested parties on the selection process, the business rules and the requirements of a successful proposal for aged care places. [A4][A5]

• The advertisement of new places

The annual advertisement published in newspapers inviting organisations to submit proposals for aged care places is one of the major ways that information about the Department's planning is communicated to stakeholders. This was another area in which in 1996-97 states differed in their approaches. In 1997-98 the advertisement was more or less standardised across states. Given the volume of information it had to carry, it appeared to be clearly presented and there were no major complaints in this respect from industry peak bodies. Notwithstanding, there was a problem in one state where the state office's changes to the standardised advertisement led to a provider's confusion about the definition of special needs groups.

• Timetable for assessment of applications

Industry representatives noted the lack of information, until very late in the process, on timing of DHAC's announcement of the success of their applications. A knowledge of the timing of the announcement of successful places is very important for applicant organisations.

• Need for documentation

Clear documentation of the selection process is essential to allow the selection decisions to be reviewed if necessary. In one state office in the 1996-97 round, the documentation of the selection process was sparce and inadequate. This diminished the openness of the process by making it difficult at a later date for the Department or an outside appeals body to review how the decisions were made. It also raises an issue of whether the Department would be in a position to confidently defend its decisions, if they were contested. ANAO noted improvement in the standard of documentation in the 1997-98 round, but there remains a need for a more concerted and consistent emphasis on adequate documentation. Also, in order to ensure that all relevant information is available, DHAC may consider invitations to short-listed potential aged care providers, in closely contested regions, to present their applications orally to the assessment panel to allow clarification of any outstanding issues. This can be done consistently with Departmental guidelines, and it can provide senior officers with another option for their involvement in the process of recommending providers.

• DHAC feedback to applicants

State offices varied in the extent and quality of information to unsuccessful applicants from provision of reasonably full, accurate and helpful information (with the opportunity for a face to face discussion) to a minimalist stereotyped form of words which would have been of little help. Effective advice to applicants can lead to greater confidence in the process for unsuccessful applicants and improved applications in future years. Effective advice should include reference to parts of an application where the applicant did not meet the criteria, or where another preferred applicant was judged to be more suitable. Central office guidance to state offices was inadequate on the definition of adequate advice to unsuccessful providers on their applications.

• Transparency for clients — the frail aged and their carers

ANAO notes the particular difficulties in achieving consumer involvement in the operation of an open and clear planning system. Several people observed that older people had limited interest in specific information regarding the planning of aged care services until they had a personal need, or when a family member or friend wanted to use such a service. While there appeared to be relatively few complaints from potential consumers, advocacy groups suggested that this did not mean that these potential customers were well informed about aged care options. Ensuring potential aged care clients are well informed is clearly difficult for DHAC to achieve. ANAO suggests that the Department explore the extent of awareness of aged care options among older people, and consider what benefits might be gained from greater effort in the area.

Recommendation No. 23

6.16 The ANAO recommends that DHAC implement procedures to communicate and document the assessment process more effectively. These procedures should include:

- briefing of potential bidders after the annual advertisement of new places;
- DHAC communication to applicants of key dates in the selection process in advance, including when DHAC will announce the identity of successful applicants;
- rigorous documentation of the assessment, so that decisions can be explained confidently at a later date if they are appealed;
- standardising the form and content of DHAC's responses to unsuccessful applicants in order to provide them with the most helpful information consistent with purchasing guidelines; and
- a special emphasis on informing interested parties in rural and remote

areas of the aged care options available and the process for applying for places.

DHAC response

6.17 *Agreed. The Department will seek further improvement and greater national consistency in its briefing of potential bidders, communication, documentation, forms and development work in rural and remote areas. The Department is establishing a provider reference group to assist in this process improvement.*

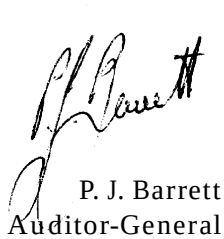
Open and clear process in the purchaser/provider model

6.18 An issue raised earlier is the difficulties associated with the time constraint for providers in submitting applications. The Department can assist providers by nominating, in general terms, the regions of greatest need for new places which are most likely to be advertised in future funding rounds[A6]. Whether this should be done as part of the already heavily laden advertisement of new places or through some other means would require careful consideration. Such advice would assist potential applicants in their forward planning process, help them anticipate future advertisements, and better prepare them both in terms of their own business strategies and market research, and to prepare a good quality competitive application.

Conclusion

6.19 This Chapter readdressed information and issues raised earlier but from the viewpoint of achieving an open and clear planning process as required in the legislation. The Chapter found that the Department has attempted to give a higher priority to the openness and clarity of its planning, as required by the new legislation. It highlighted to its staff how an open process can gain industry confidence in the selection process, and lead to higher quality applications. The Department should also clarify for staff the extent of guidance that they can furnish to actual and potential providers on the selection process. Such clarification was provided more in 1997-98 than in the previous year. Overall, in the transition from the previous to the new legislation, the Department had possibly not recognized

sufficiently the importance of explaining its planning processes to the aged care sector. Beyond this, the Chapter canvassed several ways in which the Department can better match the planning process to the relevant objectives of the planning process.



Canberra ACT
8 December 1998

P. J. Barrett
Auditor-General

Appendices

Appendix 1

Tabular data on provision of Aged Care, 1986 to 1998

Table A1.1

Numbers of Commonwealth funded aged care places and ratios for provision by type of aged care to aged population — 1986 to 1998 (a-c)

TYPE OF CARE	1986		1992		1995		1997		1998	
	Places	Ratio	Places	Ratio	Places	Ratio	Places	Ratio	Places	Ratio
Nursing Homes	72 657	65.3	74 528	56.2	74 695	51.1	74 166	47.6	74 724	46.7
Hostels	36 644	33.0	50 847	38.4	59 923	41.0	64 804	41.6	65 000	40.6
Care Packages	nil	-	235	0.2	2 592	1.8	6 643	4.3	10 046	6.3
Total All Types	109 301	98.3	125 610	94.8	137 210	93.9	145 613	93.5	149 770	93.7 (rounded)

a) The places are ‘operational places’ that is, excluding ‘approvals in principle’.

b) The ratio is the number of operational places per 1000 aged persons aged 70 years and over.

c) ABS statistical analysis for ANAO, 1998.

Appendix 2

Reduction of inequities in aged care provision between health care regions 1992 to 1997

Government policy is to achieve by the year 2011 a ratio of 40 high level residential places, 50 low level residential places and 10 care packages for every 1000 persons over the age of 70 years in each geographic region.

The following are the means and standard deviations between the 71 health planning regions in Australia, for the three types of aged care and all types together for the two years, 1992 and 1997.

Table A2.1

Means and standard deviations for differences between target ratio and actual ratio for different types of aged care and all types together.

Types of Aged Care	Target 1997	1992		1997	
		Mean Ratio	Std Dev	Mean Ratio	Std Dev
Nursing Homes	40	51.6	29.6	43.4	17.6
Hostels	50	42.3	19.6	45.2	16.5
Community Care Packages	10 1	n.a. (a)	n.a. (a)	7.1	9.3
All Types of Care	100	94.1	39.5	95.7	34.2

(a) CCPs were initiated in 1992

The ratios noted in Table A1.1 differ from those in Table A.2.1 (above) because:

- Table A1.1 provides the ratios for Australia as a whole and the definitive ratios for nation-wide provision; and
- Table A2.1 presents the mean ratios of the regions (ie. 70 separate units) and the associated standard deviations as measures of the distribution of regional ratios.

Appendix 3

Proposals for a simpler, more reliable and effective application assessment tool

1. There are considerable difficulties at present with the assessment process arising among other things from the length and complexity of the application form and the large number of criteria which it addresses. In discussion with the officers from both state and central office involved in the aged care planning process, ANAO made a number of suggestions for simplifying and improving the process. These suggestions were generally accepted by DHAC's central and state office staff as providing a useful guide for future review and development of the assessment process.

Linking the application form to the principles through the assessment process

2. The recent versions of the application form address the allocation principles but in ways which are not in every case easy to follow. Ideally there should be a seamless linkage between the three main elements of the assessment process:

PRINCIPLES <—> ASSESSMENT <—> APPLICATION

3. In this way, information supplied by the would-be service provider in the application form can be related to the guiding Allocation Principles, which represent the preferences of the purchaser (the Government), by the assessor through use of a standard assessment form. One of the main aims of redesigning the application form and the assessment form should be to make the two documents correspond closely to each other.

Simplicity and understanding

4. To simplify the application assessment process, ANAO suggests that the allocation principles be grouped under a small number of main headings addressing important issues, such as the applicant's proposed quality of care and organisation of service delivery, and a range of relevant financial and economic matters.

5. The ANAO's examination of the assessment forms in state offices indicated that assessors were not confident in addressing financial and economic matters. This was confirmed in ANAO's discussions with groups of assessors. Either assessors were not fully aware of the purpose of the financial questions in the application form, or were lacking in the necessary expertise to assess these questions.

6. ANAO suggests that financial questions be grouped according to the purpose for which the information is required in the application as follows:

a) financial and economic viability:

- establishment of the project; and
- continuing operation.

b) providing value for money:

- market analysis; and
- quantum of service to be provided.

7. The information on viability is to reassure the Department that the applicant reaches some basic standards of management and reliability of performance. The value for money category is an aid in comparative assessment of the benefits provided by the applicant.

8. Staff should be trained to assess the financial data in application forms, or this part of the assessment should be contracted out.

A structured approach to the assessment process

9. The assessment process should be structured as follows:

- an initial elimination process (optional) (this would involve deciding on prerequisites — see below);
- an assessment of each application separately against all criteria; and
- a comparative assessment of the short listed applications.

10. A set of minimum criteria can be useful to eliminate some applications, such as those which are not from approved providers, or those which apply for places in locations not included in the advertisement for new places. Whether a preliminary elimination is to be used will depend on an assessment of the risks and benefits involved. The main benefit is time saved by removing the need to assess, in detail, an unacceptable application.

Establishing the relative priorities of the main criteria

11. ANAO notes that the Department's central office had not indicated to state offices that there should be priority or weighting attached to any criteria. ANAO suggests, that, in a comparative assessment process, there are advantages in deciding beforehand on which criteria are most important in the selection process. For example, there are those which need only to be satisfied, and those for which a greater or lesser quality or quantity will have a bearing on the benefits.

12. The former are often of the 'yes/no' type (for example, 'is the applicant an approved provider?'), or are items for which there is a minimum level which need to be satisfied (for example, evidence of 'an adequate level of managerial skill'). These characteristics can be termed 'attributes'. Those characteristics which vary significantly in quality or quantity can be termed 'variates'. These are more useful in comparative assessment and include criteria such as 'quality of care' or 'value for money'.

13. In the structured approach referred to above, the criteria in the initial elimination process are likely to be attributes whilst the variates become more important in the final comparative analysis of short listed applicants.

A possible basis for a redesign of the application and assessment forms could be as follows:

- identification items — the conventional information to identify the applicant and the advertisement which it is addressing;
- initial elimination process (optional) — these are most likely to be attributes and be drawn for the 'operations and organisation' or 'project viability' sections;
- operations and organisation — the focus here will be on managerial competence and feasibility, mostly in the form of attributes;.
- project viability — this covers viability both in establishing the project and ensuring a reliable prospect of its continuation, usually in the form of attributes;
- quality of care — of all the criteria this is likely to be seen as the most important and should be structured so as to include variates to facilitate comparison; and
- value for money — this is likely to be seen as the second most important criteria and items included should also be structured as variates. It will include the assessment of the applicant's market analysis (from community consultation and other sources), and the scale of the benefits which the applicant is offering to provide for the level of subsidy being paid.

Performance audits in the Health and Aged Care

Portfolio

Set out below are the titles of the reports of the main performance audits by the ANAO in the Health and Aged Care Portfolio tabled in the Parliament in recent years.

Audit Report No. 19 1994-95
Efficiency Audit
Validation of Nursing Home Funding
Department of Human Services and Health

Audit Report No. 5 1995-96
Provision of Hearing Services
Australian Hearing Services

Audit Report No. 18 1995-96
CETP
Department of Health and Family Services

Audit Report No. 24 1995-96
Impact of Sunset Clause on Investigatory Powers
Health Insurance Commission

Report No. 8 1996-97
Drug Evaluation by the Therapeutic Goods Administration
Department of Health and Family Services

Report No. 31 1996-97
Medifraud and Inappropriate Practice
Health Insurance Commission

Report No. 12 1997-98
Pharmaceutical Benefits Scheme
Department of Health and Family Services

Report No. 45 1997-98
Planning for Rural Health
Department of Health and Family Services

Report No. 13 1998-99
The Aboriginal and Torres Strait Islander Health Program
Department of Health and Aged Care

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Audit Report No.1 Performance Audit
Corporate Governance Framework
Australian Electoral Commission

Audit Report No.2 Performance Audit
Commercial Support Program
Department of Defence

Audit Report No.3 Performance Audit - Follow-up
Assessable Government Industry Assistance
Australian Taxation Office

Audit Report No.4 Performance Audit
Client Service Initiatives
Australian Trade Commission

Audit Report No.5 Performance Audit
Commonwealth Agencies' Security Preparations for the Sydney 2000 Olympics

Audit Report No.6 Audit Activity Report
Audit Activity Report: January to June 1998
Summary of Outcomes

Audit Report No.7 Performance Audit
Management of the Implementation of the New Employment Services Market
Department of Employment, Education, Training, and Youth Affairs

Audit Report No.8 Performance Audit
Safeguarding Our National Collections

Audit Report No.9 Performance Audit
Accountability and Performance Information
Australian Sports Commission

Audit Report No.10 Performance Audit
Sale of One-third of Telstra

Audit Report No.11 Performance Audit
OGIT and FedLink Infrastructure
Office of Government Information Technology

Audit Report No.12 Performance Audit
Taxation Reform
Community Education and Information Programme

Audit Report No.13 Performance Audit
Aboriginal and Torres Strait Islander Health Program
Department of Health and Aged Care

Audit Report No.14 Performance Audit
Prescribed Payments Scheme
Australian Taxation Office

Audit Report No. 15 Performance Audit
Postal Operations
Australian Customs Service

Audit Report No. 16 Performance Audit
Aviation Security in Australia
Department of Transport and Regional Services

Audit Report No. 17 Performance Audit
Acquisition of Aerospace Simulators
Department of Defence