



SUBMISSION TO NATIONAL COMMISSION OF AUDIT

**Prepared by
COTA National Policy Office**

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COTA AUSTRALIA

COTA Australia is the peak national policy body of older Australians. Its members are the eight State and Territory Councils on the Ageing (COTA) in NSW, Queensland, Tasmania, South Australia, Victoria, Western Australia, ACT and the Northern Territory.

COTA Australia has a focus on national policy issues from the perspective of older people as citizens and consumers and seeks to promote, improve and protect the circumstances and wellbeing of all older Australians; promote and protect their interests; and promote effective responses to their needs.

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INTRODUCTION

Australia's population is ageing and this will accelerate as the baby boomers move into older age. In 2011 there were 3 million people over the age of 65, making up around 14 per cent of the population and this figure will rise to over 8 million in 2050 or 25 per cent of the population. This demographic change is due in part to the ageing of the large baby boomer cohort and in part due to increases in longevity with life expectancy at birth and at age 65 both increasing significantly.

This poses significant challenges for Australia in terms of whether current social and economic systems and settings are meeting the needs of older people and capitalising on the opportunities of an ageing population into the future. COTA believes that rather than thinking an older population means less people contributing to our society and more people being a drain on Australia's resources, we should look at there being more people with the potential to contribute by working, volunteering, caring, investing their savings and consuming goods and services - providing the appropriate policy settings are in place to facilitate and create incentives for this, not discourage it.

To harness that potential Australia needs to start preparing now and put in place an overarching national action plan that will deliver on a long term vision for ageing. This needs to be a whole of government plan that looks at all aspects of people's lives including employment, health, income support, aged care, housing, education and training. Whilst it is not within the Commission's terms of reference to develop such a plan, we would urge the Commission to recommend that such a long term plan be developed as a priority.

We also encourage the Commission to look at all of the recommendations it makes to ensure they will have a positive impact on Australia's preparedness to address the challenge of ageing. The recommendations will need to address the issues of sustainability of service provision and funding, taking into account both pressures on expenditure and possible changes in revenue collection.

This submission focuses on policies and programs which are specifically targeted at older people. Older people are also users of broad non-age specific programs e.g. Medicare. Where we have commented on those we have used examples that show the impact on older people, but many of these are equally applicable to other groups. There appears to be an increasing level of concern in Australia around intergenerational equity with concerns that government expenditures are skewed towards older Australians at the expense of the generations coming behind them. The whole issue of intergenerational transfers needs closer examination and an analysis of the possible impact in that regard of government decisions for both expenditure and revenue.

The Government has announced it will undertake a number of reviews in the near future. These include a broad ranging tax review, a review of financial services and of social security arrangements, as well as a number of reviews of specific policy areas including Medicare Locals, Mental Health Services and electronic health records. The Government has also announced a Productivity Commission inquiry into child care and early childhood services. We have therefore not gone into details on any of those areas of government activity in this submission. We will be making submissions to each of these reviews.

ISSUES

Scope of government

COTA supports the guiding principles that government should have respect for taxpayers in the care with which it spends revenue and that government should live within its means over the economic cycle.

We also support in principle the notion that government should only do things for people that they cannot do efficiently for themselves. However, we think government has a role in ensuring the barriers to people doing that are removed and in providing incentives for people to change their behaviours if this is widely seen as desirable and would result in a greater common good.

An example of this would be that we see it is the role of government to ensure there is a legislative framework to prevent discrimination. Preventing age discrimination removes a barrier to older people remaining in the workforce, enabling them to be productive for longer and so boosting tax revenues and reducing income support expenditure. Australia still has low mature age workforce participation rates by OECD standards and age discrimination is one of the key contributors to this. We support the continuation of a dedicated Age Discrimination Commissioner within the Australian Human Rights Commission and funding for combating age discrimination in the workforce as a key component to changing this around.

Commonwealth-State responsibilities

There are some key areas that are of particular importance to older people:

- COTA strongly supports the COAG initiative to move the aged care component of the Home and Community Care Program (HACC) to the Commonwealth which has responsibility for other community and residential aged care under the Aged Care Act. This allows the development of a single aged support and care system which provides a continuum of care that meets people's changing needs as they age. The creation of the Home Support Program – bringing together HACC, National Respite for Carers, Aged Care Housing Assistance and Day Therapy Centres program funding – should be supported. Its development and introduction will reduce reporting requirements for service providers and improve outcomes for consumers. In particular it provides an opportunity to look at how these services are delivered so that they support greater independence of older people, reducing the demand for higher cost more intensive services.

Older people were often frustrated by the disconnection between the two service networks, often having to change providers when they moved from HACC to Commonwealth funded aged care and facing different eligibility and means testing requirements. Service providers also had to run different administrative systems for the two programs and faced different quality regimes and reporting frameworks.

Moving aged care HACC to the Commonwealth removes the duplication of effort and bureaucracy that was a feature of the HACC program. However, some concerns have been raised about how this centralised program is being administered with some providers concerned about excessive red tape and significant delays in getting funding out. This clearly needs to be addressed.

- Despite the National Health Reforms and moves to activity based funding for hospitals, the current split of funding and implementation for health services leads to cost shifting behaviours which do not always deliver the best health outcomes for patients. Current arrangements can result in both duplication and gaps. Older people who often have complex and chronic needs often find the system difficult to navigate and to access services they need. This is particularly true for people in rural and remote areas. A simpler, transparent and accountable health system is urgently needed

Commonwealth activities

In assessing if the Commonwealth government should stay involved in an activity, the Commission needs to look at the purpose of the activity. For many activities the Commonwealth's role is policy-setter and funder, providing leadership and working with other service providers and other levels of government to achieve jointly desired and agreed outcomes.

There are a number of Commonwealth activities that we think should continue, and reforms underway that should be fully implemented. These include:

- Full implementation of the Living longer Living Better reforms of aged care and the continuation of the Commonwealth's current roles as funder and regulator of the system. These reforms are designed to :
 - Move to consumer direction as a first step in moving to a market oriented model so that services better match people's needs.
 - Create a fairer, more efficient gate keeping role which would consistently manage access to government funded services and support
 - Acknowledge the need for greater user pays across the system and introduce higher fees from 1/7/2014. These need to be monitored to ensure the taper rates are reasonable and do not disadvantage people.

Government should look to build upon the reforms and introduce a system which links the resources provided to the consumer who can then determine how those funds are spent. This would enable creation of a market in many areas in Australia and require aged care providers to respond to consumer demand. The annual aged care approvals round could then be discontinued and that would result in significant red tape reduction and savings in public sector management. To be successful there needs to be investigation of the unmet demand for services, the gatekeeper role would need to be firmly established and a fair assessment approach in place.

- Continuation of the government's role as the provider of income support through pensions and allowances and continue to be the funder, policy setter and service

provider of those payments. Clearly there is a community expectation that income support payments are an integral part of Australian society and that they should continue to be a national program, with delivery through a national networked agency the most efficient way to achieve this.

- Continuation of the Commonwealth's pilot program on preferential treatment of the proceeds of re-sizing houses for older people. This will show whether pension eligibility is or is not a major factor in people re-sizing. Appropriate and affordable housing is emerging as a major public policy issue in which various incentives and disincentives are in play.
- Continuation of Government activity round the supply of affordable housing through the National Rental Affordability Scheme and other programs designed to make a contribution to the inadequate supply of affordable and appropriate housing.

Efficiency and effectiveness of government expenditure

Options for greater efficiencies and productivity improvements

Many government services are delivered through non government agencies, both for profit and not for profit organisations, as well as through State and Territory governments. Competition amongst service providers can help deliver efficiency by driving down the unit costs of services and can encourage innovation as service providers look to give themselves an edge in the tendering process.

However, increased contestability can also lead to:

- Lack of certainty of continued funding leading to underinvestment in staff and difficulties in recruiting and retaining an appropriately skilled workforce.
- Lack of diversity amongst providers as the larger service providers are able to undercut smaller more specialist providers. This gives consumers less choice of service provider and services. This is particularly a problem for services for people from culturally and linguistically diverse (CALD) backgrounds, members of the lesbian, gay, transsexual, intersex and transexual communities (LGBTI) and other groups with special needs.
- In rural and remote communities there is a concern that smaller local service providers will be edged out with larger services based in the capital cities providing service to local communities. This is perceived as a reduction in services in the community and can certainly lead to reduced employment opportunities for local people and decreased consumption in the community.

The use of new technologies in service delivery and within government has been progressing at a rapid rate. This can have benefits for government by cutting the cost of service delivery and for consumers by giving them quicker and easier access to information and transactional processes. The Department of Human Services has successfully moved much of the business of Centrelink and Medicare online.

If this process is to accelerate then there needs to be some acknowledgement that a significant minority of the population, people on low incomes, some older people, and other disadvantaged groups do not have easy access to the technologies. Thought needs to be given on how best to improve their access to the technology so that they can fully participate in the services that are provided through that conduit. This includes looking at the cost of hardware, software and connectivity as well as the quality of that connectivity through the national broadband network however configured. At present the reality is that for many full and part pensioners these costs are beyond their income.

Rationalising the service footprint needs to be approached with caution. It is important to ensure there is an understanding of the full ranges of services being delivered by any agencies that will merge or take on broader range of services. This is particularly true for social services which are often dealing with vulnerable people.

COTA notes there has been some media discussion about outsourcing Centrelink services to Australia Post outlets as a way to reduce costs and make better use of Australia Post's infrastructure. Such a suggestion may work for the purely transactional side of Centrelink's business, much of which is moving online anyway. However, it ignores the assistance Centrelink officers give to some of the most vulnerable and disadvantaged people often when they are in crisis. Australia Post staff would need to be significantly upskilled, premises redesigned to provide privacy and more room for Centrelink customers which would come at a cost. In addition, many Australia Post outlets are small business franchises which are perceived and configured as retail businesses and adding the complexity of Centrelink payments may not be possible.

When looking at rationalising agencies and boards COTA believes the key issue that needs to be examined is whether or not there is a sound policy reason for the entity to be independent. If the function needs to be performed and it could easily move back into a mainstream government department without any loss of value then the agency can be abolished. However, if there are good reasons why the agency needs to have some independence from the government department, such as to ensure there is no conflict of interest and that it can impartially do its job, then it should be left alone.

A case in point is in Aged Care where we have long argued that the Complaints Service and the Quality Agency should be independent of the department and the service providers in order to be genuinely effective for consumers. We note that this is also Coalition policy

Options to manage expenditure growth

Expenditure on health, aged care and the age pension will put increased pressure on the government's budget as the population ages - as the newly released Productivity Commission's research paper on the ageing of the population clearly shows.

Age pensions

The 2009 Pension reforms under the previous government delivered a long overdue boost to the single age and other pensions, bringing them up to 27.5 per cent of total male average weekly earnings. This one-off increase, coupled with the improved indexation arrangements for these payments which link pensions to wages, ensures that older people on the age pension are no longer living in poverty. Indeed the age pension rates are now

within reach of the retirement income benchmarks developed by ASFA for a **modest** standard of living in retirement.

In our election panel survey 54 per cent of people felt their incomes were not keeping up with inflation. This is despite the improved indexation arrangements from the 2009 reforms and indicates the sensitivity of fixed incomes to increases in segment expenditure, such as rapidly escalating energy costs. If payments are not indexed appropriately then their value is eroded very quickly. Indexation arrangements are the key to keeping people out of poverty and the pension indexation that uses the better of wage increases or a specially constructed pension consumer index has successfully maintained the value of the pension. COTA believes strongly that the current indexation arrangements for pensions should continue to ensure older Australians never again fall into poverty. An adequate level of age pension underpins the participation of older people in their communities and families.

As our superannuation system starts to mature, more people will be retiring with a mix of income from compulsory superannuation and a part age pension. Many people are now retiring with superannuation and other savings which impact on their eligibility for the age pension in either the income or the asset test.

COTA welcomed the decision to introduce deeming rates for financial assets which simplified reporting for pensioners and meant that fewer people incurred debts as a result of wrongly declaring income from financial assets. However, we feel that the process for setting deeming rates should be more transparent and provide greater certainty for people.

Under the previous government deeming rates did not change for three years despite significant changes in the interest rates available to pensioners, and even then only after pressure from bodies like COTA. It should be possible to more clearly identify which interest rates are being used to set the deeming rates i.e. which classes of products and how much these have to move before the deeming rate is adjusted. These changes could be linked to pension indexation so that they are reviewed every six months and changed if necessary. This would mean they would not mirror every fluctuation in rates but could better reflect the prevailing trend.

The current Work Bonus for people on the age pension is an important incentive to encourage workforce participation by older people and should be retained and monitored for opportunities to be further fine-tuned to achieve that objective.

There has been much discussion about the potential savings to be achieved by raising the eligibility age for the pension from the 67 it will be in 2023 to 70 and even beyond. This is seen as way of increasing workforce participation of older people and reflecting the significant increases in longevity we have experienced in Australia.

The problem with this approach is that it ignores the significant barriers older people face to stay in the workforce, both attitudinal and legislative. The Australian Law Reform Commission's report *Access All Ages* detailed the legislative barriers including upper age limits on personal superannuation contributions and much work has been done on the age discrimination at play in the Australian workforce. Clearly more needs to be done to remove this discrimination and make it possible for people to remain in the workforce before the age pension age can be increased. Otherwise all we would be doing is consigning older

people who lose their jobs to an extra period living on Newstart and sliding further into poverty.

COTA believes that consideration should be given to increasing the age for accessing superannuation, which is moving to 60, and the age at which income from superannuation is tax free, currently 60. If these were more closely aligned to the age pension it would remove a disincentive to remain in the workforce for a number of older people.

All of these measures should be enacted prior to any further increase in the eligibility age for the pension. If they are addressed then rational discussion of a longevity related pension age could be considered, together with other measures in health policy, housing policy, aged care policy, etc. There is no magic bullet.

Other income support

In March 2013 27.8 per cent of people on Newstart were aged 50 years or over. These people face significant barriers to returning to the workforce and so they make up over 33 per cent of the long term recipients of Newstart.

Older people who are unemployed and on Newstart Allowance are doing it tough. They are on a much lower rate of payment than those on the age pension and they do not have access to the more appropriate indexation. This means the value of their income support is going backwards in relation to the age pension and the minimum wage so more and more of them slip into poverty.

Many community organisations from ACOSS to the Business Council of Australia have called for an increase in Newstart and other related allowances. Part of their rationale is that people should not be forced into poverty and part of it is that the current low levels of payment actually make it harder for people to move out of unemployment into work. COTA urges the Commission to take a close look at the relationship between pensions and allowances and recommend that as a minimum they have similar indexation arrangements to stop the gap growing. In the longer term the government should look to increase the rate of allowances so people are not forced into poverty.

Health

The Productivity Commission's report *An Ageing Australia Preparing for the Future* highlights the need to look for productivity reforms in health care delivery. We agree that we need an improved system of resource allocation that is based on sound evidence as to what works and what is cost-effective. The Commonwealth government should lead the way in disseminating such evidence.

COTA has been calling for an urgent review of the way Medicare operates; we believe there is a need for it to be overhauled to ensure it gives better health outcomes and delivers services in a more efficient and effective way. In particular we believe the current fee for service model, particularly in primary health, is not the most efficient way to deliver good health outcomes. This is perhaps especially true for older Australians who tend to have a higher level of co-morbidities that can nevertheless be substantially self managed with appropriate advice and support.

We also believe that we need more effective illness prevention and early intervention measures which have the capacity to reduce demand for more expensive interventions later down the track. We acknowledge that more work is needed on the cost –effectiveness of such measures but believe that they do have the potential to assist people to healthy ageing and reduce the use of health services over time. COTA's own programs have demonstrated the efficacy of a health promotion approach with older people.

Savings and price signals

Despite being the peak aged consumer organisation, COTA has been a supporter of the new and higher user charges introduced as part of the Living Longer Living Better Aged Care reforms. We believe these:

- Introduce a more sustainable balance between user pays and public funding in both in-home and residential aged care.
- Introduce greater consistency – and therefore fairness – as people with the same means are charged the same fee for the same service regardless of where they live.
- Create greater incentive and potential for a commercial market in aged care, particularly for in-home care which has been distorted by inconsistent and limited income testing or application of fixed co-payments.
- Need to be monitored to ensure they don't disadvantage people in accessing care who have assessed need but limited means.

COTA is also concerned that the move to allow all residential aged care facilities to charge for additional services should not be at the expense of everyone getting a reasonable standard of care. We are keen to ensure that the review of the specified care and services that must be delivered in return for the government subsidy clearly defines the standard package of care and also recommends processes to ensure that these are consistently delivered.

Another area of concern with regard to charges is health care. Recent studies show that 20 per cent of health expenditure is borne as out of pocket costs by consumers. This is on top of payments they make through the Medicare levy and private health insurance premiums.

It is often suggested that under Medicare the price signals are not strong enough and that by increasing existing co-payments e.g for pharmaceuticals under the PBS, or introducing a universal co-payment for bulk billed doctors' visits, that demand for these services would decrease and so provide some budgetary relief. The evidence from the introduction of the PBS co-payment and subsequent increases in it suggest any decrease in demand is short-lived with a dip in service usage straight after the measure is introduced but then demand increasing at the same rate as before.

The impact on health service usage depends on what proportion of such usage is discretionary and how much is unavoidable if the person is to remain healthy. Older people, who often have multiple or chronic conditions, are heavier users of health services than many other groups and so would be disproportionately affected by the introduction of new

co-payments. Already 1 in 10 people say they do not visit the doctor and get prescriptions that they need because of the cost and this proportion would increase with higher co-payments. Anecdotal evidence to COTA shows that people decline some prescribed medicines on the basis of their cost.

Older people value the safety net arrangements for both PBS and MBS, telling COTA that these make it possible for them to afford health services when they need them. The safety net arrangements should continue and consideration be given to improve them by having a combined MBS/PBS - one that provided better relief to people with multiple and complex conditions

Evaluation

All government programs should be properly evaluated to ensure they continue to meet their policy objectives and continue to give good value for money for taxpayer dollars. There need to be reviews that focus on achieving the desired outcome, not just looking at the administration of the programs.

We support whole of program reviews as part of any reform package, or for new programs such as the review scheduled for 2016 of the *Living Longer Living Better* reforms. These reviews should be built into the program design so the data needed to assess the outcomes is collected from the beginning. Our preference is that any review should be conducted by an independent external evaluator and ensure that consumers and service providers are able to participate fully in the reviews.

The Australian National Audit Office should continue its evaluation of how government programs are implemented.

CONCLUSIONS/RECOMMENDATIONS

In this submission COTA has tried to identify some additional principles the Commission could apply to its work to ensure that it is putting people first. The Intergenerational Reports have highlighted the major budgetary problems Australia could face if we keep the current policy settings. These are echoed in the recent reports from the Productivity Commission and the Grattan Institute which both put forward some possible reforms. We know what the problems are and COTA is now calling for in an integrated plan that sets out long term solutions which we start to implement now. It is also important that any short-term measures do not make implementing this long term plan more difficult.

We have also highlighted some areas that we think need attention, including:

- Maintain a dedicated Age Discrimination Commissioner within the AHRC and fund community awareness campaigns against ageism and age discrimination, which will flow thorough to increased productivity.
- Keep all aged care support and care under Commonwealth control and continue development of the Home Support Program.
- Continue current arrangements for indexation of age pensions.

- Develop a transparent and consistent approach to setting deeming rates for asset testing of pensions and allowances.
- Maintain the work bonus for the age pension.
- Continue to implement the *Living Longer Living Better* package of aged care reforms.
- Implement a wide ranging review of Medicare that looks at alternative models of funding, particularly for primary health care.
- Maintain safety net arrangements for PBS and MBS and investigate a combined safety net arrangement.
- Do not introduce additional co-payments for Medicare items.

COTA Australia
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