

ANSWERS TO ESTIMATES QUESTIONS ON NOTICE

HEALTH AND AGEING PORTFOLIO

Supplementary Budget Estimates 2010-11, 20 October 2010

Question: E10-134

OUTCOME 4: Aged Care and Population Ageing

Topic: AGED CARE PROVIDERS

Written Question on Notice

Senator Boyce asked:

- a) It's been claimed by the Department that many private aged care providers are doing well, are profitable and that this is a measure of their efficiency. What are the providers so identified by the Department doing to be so efficient?
- b) What does the Department's notion of efficiency mean?
- c) How is it defined, quantified and measured in relation to an aged care facility?
- d) Does the Department accept that 'efficiency' can also be a warning sign that something is wrong?
- e) Could so-called efficient facilities be offering a lower standard of accommodation, or lower level of staffing, or lower standard of staff care?
- f) Could their efficiency be based on a strategy of 'cherry picking' residents who can afford to pay more?
- g) Are the Department's facilities of 'efficiency' providing the standard of care the community wants and a standard of which we can be proud?
- h) Does the Department actively measure and monitor the operations of aged care facilities that provide them with the data to enable it to answer the previous three questions? If so what is it?

Answer:

- a) The Department analysis of the profitability and efficiency of residential care providers is based on the financial information contained in the providers' audited general purpose financial reports. These reports do not provide sufficient Information to allow the Department to identify the drivers of efficiency and profitability.
- b) Technical efficiency is a measure of an enterprise's relative ability to convert inputs into outputs. That is, it is a measure of an enterprise's potential to increase quantities of outputs from given quantities of inputs, or the potential to reduce the quantities of inputs used in producing given quantities of outputs. Technical efficiency is affected by the size of operations (scalar technical efficiency) and managerial practices (non-scalar technical efficiency). In the case of residential aged care, it is a measure of an enterprise's relative cost of providing days of care to residents of a given frailty.

Further information can be found in Peacock S, Chan C, Mangolini M and Johansen D (2001) *Techniques for Measuring Efficiency in Health Services*. Productivity Commission Staff Working Paper. Canberra: Productivity Commission, which can be accessed at: <http://www.pc.gov.au/research/staffworkingpaper/tmeihs> .

- c) The Department uses the financial information from the providers' general purpose financial reports to estimate the efficiency of providers' residential aged care operations. Data envelopment analysis is used to estimate the production frontier and measure the relative level of efficiency based on a measure of the gap to the frontier for each enterprise.

Further information on the application of these concepts to residential aged care, including a survey of the international literature, can be found in: Centre for Efficiency and Productivity Analysis (2003) *Efficiency of Aged Care Facilities in Australia*. Canberra; Department of Health and Ageing, which can be accessed at: [http://www.health.gov.au/internet/main/publishing.nsf/Content/C07BC470B2C4A915CA256F1900101D48/\\$File/cepareport.pdf](http://www.health.gov.au/internet/main/publishing.nsf/Content/C07BC470B2C4A915CA256F1900101D48/$File/cepareport.pdf) .

- d) No. By definition, efficiency is a relative measure of an enterprise's capacity to produce outputs of a given quality. That is, it is a measure of an enterprise's potential to increase quantities of outputs of a given quality from given quantities of inputs, or the potential to reduce the quantities of inputs used in producing given quantities of outputs of the given quality.
- e) Efficiency is a relative measure of the ability of an enterprise's potential to increase quantities of outputs of a given quality from given quantities of inputs, or the potential to reduce the quantities of inputs used in producing given quantities of outputs of the given quality.

Under the *Aged Care Act 1997*, all approved providers are required to meet the aged care accreditation standards. The standards cover a range of health and personal care issues through to considerations about the physical environment. Aged care providers are also responsible for ensuring that there are adequate numbers of appropriately skilled staff to meet the individual care needs of residents.

These standards establish the quality for which the efficiency analysis then determines the efficient price necessary to produce care that is not below that standard.

- f) No. The Department's analysis shows that there is no significant difference in the average resident contributions in efficient aged care homes compared to other aged care homes.
- g) As noted in the answer to (e) above, all approved providers are required to meet the aged care accreditation standards established under the *Aged Care Act 1997*.
- h) The Department is constantly monitoring the financial outcomes and standards of aged care services, which must comply with responsibilities encompassing quality of care, user rights, accountability and allocation of places. Following is a list of the significant administrative processes and information sources used to monitor the performance of aged care providers:
- annual general purpose financial reports;
 - annual survey of aged care homes;
 - annual prudential compliance statements;
 - ad hoc advice from the continual monitoring of the industry by regional offices;

- Certification reports on the building quality of aged care homes, with clear frameworks for improving safety, privacy and space standards;
- annual fire and safety surveys;
- periodic accreditation site audits;
- scheduled and unannounced review audits of aged care homes;
- scheduled and unannounced visits to aged care homes;
- mandatory reporting protecting residents' safety; and
- the Aged Care Complaints Investigation Scheme.