

## **Room for Improvement – Potential Efficiency Gains in Aged Care**

The Australian Health Care System: The Potential for Efficiency Gains (A Review of Literature) was released on June 4, 2009 by the National Health and Hospital Reform Commission. This paper presented a comprehensive review of international and national literature that discussed issues on the efficiency of the Australian health care system and the areas for potential efficiency gains.

The review indicated that the Australian health care system was at par with its international counterparts in terms of efficiency measures. Several areas for improvement were also put forward including some possible efficiency gains in the aged care sector.

The Australian aged care sector was shown to be performing well, with average efficiency ranging from 0.8 to 0.9 (with 1 being the efficiency frontier). The paper also identified the following key findings relating to the aged care sector:

- The majority of the best performing aged care facility in Australia were in the private sector. This was also observed in a US study, where for-profit providers were found to be more efficient than not-for-profit providers;
- Average efficiency varied across the states, with NSW and Victoria having higher efficiency levels;
- Rural and remote facilities have lower average efficiency scores;
- With the aged care sector performing at a high efficiency level, there is limited scope of productivity gains in the consolidation of small providers;
- The aged care industry is operating with slightly increasing-returns-to-scale (where an extra one percent of inputs produces just over one percent of outputs);
- Health care allocative efficiency can be improved by providing residential age care, when appropriate and more cost effective than hospital acute care, for the elderly; and
- In a survey of Australian public hospitals, it was shown that residential aged care was deemed the most appropriate type of treatment in two-thirds (66.4%) of cases.

An important issue raised by the review was on the Commonwealth-state financial arrangements in health care. This arrangement has created certain incentives which have allowed for allocative inefficiencies to be prevalent in the delivery of services. The paper cited the following example that affected the aged care sector:

- The Commonwealth is fully responsible for aged care;
- It can limit access to aged care facilities to minimise its cost, as the elderly are able to stay in hospital facilities which are funded by state government.

Operational inefficiency of the health care system ensues when a decision is made to prolong the hospital stay of an elderly patient, even if the most appropriate action is admission to an aged care facility. The current arrangement has made patient care driven by funding instead of best practice. It was suggested that this can be addressed by clarifying the roles of the Commonwealth and the state and territories, with the

Commonwealth involved in priority setting, management and purchasing of services and the state and territories acting as service providers.

The review also cited areas identified by the Productivity Commission (2008) where regulations affected operational efficiency of the aged care industry. These included:

- Constraints on the supply of aged care services;
- Duplication of building certification requirements;
- Inconsistency in the application of accommodation bonds across service types; and
- Administrative inefficiencies with contract management in community care.

The paper also listed areas for productivity improvements identified through anecdotal evidence from aged care providers. Suggestions included:

- Adopting advances in information technology;
- Increased use of assistive technologies;
- Improving work practices and flexibility through enterprise bargaining; and
- Restructuring operations (outsourcing; adjusting capital/labour mix).

Although the aged care sector is performing at a relatively high efficiency level in Australia, further improvements can be achieved across the industry. Further efficiency gains can be achieved by strengthening the coordination and management of aged care services. Operational efficiency can also significantly benefit from adopting the use of electronic patient health records, better use of human services and developing better facility design and infrastructure.

The full report is available for download from the [\*National Health and Hospital Reform Commission\*](#) website.