

More competition in the delivery of human services, as recommended [by the Harper Inquiry](#), is likely to increase the variety of services available, reduce the price of services and may encourage innovation. However, when it comes to aged care sector, competition may not necessarily result in better care, due to market failures.

The Harper Inquiry, which was tasked with ‘kick starting’ the process of balancing competition, argued that human services should also be subject to competition. However simply restructuring the sector to create competition will not necessarily deliver efficiency or the type of service that the community requires.

Competition will only deliver these outcomes if the market is working well - when consumers and those who supply aged care are actively engaged in the market. However consumers might not be able to find the right aged care provider if their choices are limited by lack of information, a high cost of switching between suppliers or if the alternative service providers to choose from are no better.

Economists would likely describe residential aged care as “an experience good,” meaning that the exact nature of the service is not known until after purchase, and often not for some time after that.

Lacking knowledge about the quality of service, consumers make choices using indicators that may not be good proxies for quality – such as the physical appearance of the residential facility, the friendliness of the management staff, and location (relative to their former home, family and friends). If, however, residents or their families subsequently discover that service quality is unacceptable, it’s likely that they won’t shop around for a better supplier. There are several reasons for this.

Residents may lack knowledge about the quality of services provided by alternative suppliers and even if that information is available, they may lack the cognitive ability to assess it. For frail, elderly residents, the upheaval of switching may be too great both physically and mentally.

It may require considerable help from family and friends. Residents may lack the financial

resources to make a switch as often that means that their financial position will be reassessed under changed (more stringent) conditions. Furthermore, many aged care residents wish to maintain contact with relatives and friends not just for social interactions but also for help in making decisions.

In addition, service providers have often been chosen at least in part because of location advantages which may be lost with the move to an alternative supplier. This is particularly [important in rural areas](#).

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Statistics on switching are not readily available, are somewhat dated (2009) and are difficult to interpret. In 2009-10 it appears that [only 2% of all departures](#) from a given residential aged care facility were to relocate to another facility.

Whether 2% is low is hard to judge. And even if it is, it could mean that residents in general are happy with the quality of care.

The Harper Inquiry report shows that even if competition delivers efficiency gains, it may not deliver services of the desired type or quality and it may result in some groups in society being disadvantaged. The report cautioned that:

“Governments should retain a stewardship function, separating the interests of policy (including funding), regulation and service delivery,” whilst also recognising the need for “ensuring minimum standards of quality and access in human services.”

Removing barriers that would have prevented new suppliers entering the market is a classic way to increase competition and in aged care this may be helpful. However, this alone would not guarantee quality of care.

If consumers, lacking evidence on quality of care, place too high a weight on fees and the physical appearance of facilities in making their initial choice then the new entrants could

compete by providing a grand appearance to attract consumers and forcing down the quality of service to cut their costs. The system could end up with an unbalanced package of price and quality.

Labour costs are a major component of costs in residential aged care. Competition that focuses excessively on reducing the costs of running these services may lead to the employment of part time and poorly trained labour.

[Senate inquiries](#) and [government reports](#) into aged care have raised concerns that low pay means many employees work double shifts or several jobs and so they may lack commitment to ensuring high quality care. Inadequate resources may result in a lack of supervision and insufficient coordination of staff leading to residents lacking continuity of care.

If competition is ineffective in ensuring quality of care, indeed if it may have the opposite effect, are there ways to ensure that residential aged care services of appropriate quality are supplied?

There are already some regulations intended to address these issues but based on the submission to the current Senate Inquiry, it would seem either that they not enforced, are easily side-stepped or are simply inadequate.

If competition to deliver services to Australia's ageing population becomes more intense, increased regulation that is carefully targeted will be necessary to ensure quality of service. This will need to be supported by effective monitoring to ensure compliance and could be supported by an industry code of conduct with specific, easily-assessable and mandatory targets related to service quality.

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More competition may not be the answer to reforming the aged care system

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