Chapter 5

The current indexation formula

Introduction

5.1 This chapter considers the factors impacting on financial viability of the aged care sector including increasing costs such as wages, construction costs, changing consumer expectations and the adequacy of the current indexation formula and specifically Commonwealth Own Purpose Outlays and the Conditional Adjustment Payment (CAP) to address those costs.

Indexation formula

5.2 In aged care, the basic subsidy rates are adjusted annually in line with movements in the Commonwealth Own Purpose Outlays (COPO). COPO indexation arrangements came into effect in relation to residential aged care funding from 1 July 1996. COPO is weighted 75 per cent for wage costs and 25 per cent for other costs and is calculated using the following algorithm:

COPO% = (annual CPI % x 0.25) + (annual *SNA % x 0.75)

*SNA Safety Net Adjustment: SNA% = Safety Net Increase per week/average weekly.[1]

5.3 As part of the Commonwealth's initial response to the Hogan Review, from the 2004-05 financial year, a Conditional Adjustment Payment (CAP) for residential aged care was provided. CAP aims to provide 'medium term financial assistance to residential care providers to assist them to become more efficient, and more able to continue to provide high quality care to residents, by improving corporate governance and financial management practices'.[2]

5.4 The amount of CAP payable in respect of resident is calculated as a percentage of the basic subsidy amount payable in respect of a resident. In 2004–05, CAP was 1.75 per cent and then rose annually by 1.75 per cent increments. CAP was initially introduced for four years and subsequently extended for a further four years with no further annual increases so that the CAP is currently set at 8.75 per cent. According to the Australian Government, this increase will result in $2 billion in total CAP payments to the residential aged sector over the next four years to 2011–12.[3]

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1 Aged Care Association Australian, *Submission 92,* Attachment B, p. 14.

2 Australian Government, *Report on the Operation of the Aged Care Act 1997*, 1 July 2007 to 30 June 2008, p. 39.

3 Australian Government, *Report on the Operation of the Aged Care Act 1997*, 1 July 2007 to 30 June 2008, p. 40.

5.5 In the 2008–09 Budget, it was announced that a review of the CAP arrangements would be undertaken to examine the CAP's effectiveness in encouraging efficiency through improved management practices and the future need for, and level of, this type of assistance. According to Australian Government, the findings of the review will be submitted for consideration in the preparation for the 2009–10 Budget.

Adequacy of the current indexation formula

5.6 Concerns were raised by a number of witnesses regarding the current indexation formula as its adequacy in compensating providers for the provision of services impacts directly on their financial viability and their ability to provide high quality services. The Aged Care Alliance submitted to the committee, providers are constrained by static revenue flows based on subsidies and periodic adjustments by mechanisms such as COPO. Providers have limited influence over cost increases and no capacity to adjust the price of their services.[4]

5.7 Mr Martin Laverty of Catholic Health Australia commented:

> We would observe that there is not a mechanism by which the market is able to inform the setting of prices, the provision of service and the types of services that are provided, and nor is there an adequate mechanism to determine what is an adequate Commonwealth subsidy to provide services for those that do not have the capacity to meet the cost of the care themselves.[5]

5.8 The significance of indexation for providers was highlighted by Mr Gerard Mansour of Aged and Community Care Victoria:

> There is a whole range of cost drivers that impact on the industry. So it is not surprising, given that we do not control pricing, that the industry relies very heavily on indexation. It is like a slow death. If indexation is gradually declining over time at any one point of change, then the impact is marginal but the compounding impact of not meeting rising costs is most significant. As I characterised it earlier, I hear very regularly about how stretched and pushed the industry is and I have described it in a number of places as being like the taut rubber band.[6]

5.9 It was argued by many providers that the current formula does not adequately recognise the costs of the delivery of aged care services.[7] Aged and Community Services Australia (ACSA) stated, for example, that the indexation formula had

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4 Aged Care Alliance, *Submission 40*, p. 11.

5 Mr M Laverty, Catholic Health Australia, *Committee Hansard*, 13.3.09, p. 2.

6 Mr G Mansour, Aged and Community Care Victoria, *Committee Hansard*, 20.3.09, p. 37.

7 See for example, Villa Maria, *Submission 38*, p. 2; Echuca Benevolent Society Inc, *Submission 53*, p. 3.

resulted in a 'steadily widening gap between the costs of providing a service and the subsidies provided by the Australian Government'.[8]

5.10 A major concern with the current indexation formula was that it does not adequately take into account the cost drivers for aged care providers, in particular wage increases. Some submitters commented that wages account for 70 to 80 per cent of their total costs. It was noted that annual wage increases are generally between three and four per cent per annum. Aged and Community Services SA & NT stated that the current indexation arrangement was 'inadequate' because it 'does not actually reflect the health and aged care labour market conditions'.[9] The Australian Physiotherapy Association noted that indexation had not maintained parity with salary increases in the health sector where competitive salaries are necessary to ensure that sufficient numbers of appropriately trained and qualified staff are employed in aged care to maintain quality of service.[10]

5.11 Other costs such as groceries have increased about five per cent while utilities have increased about 10 per cent per annum.[11] Tasmanian providers, for example, indicated that they expected their electricity costs to increase significantly (25 to 30 per cent) from July 2009 as they move into the retail contestible electricity market. Aged & Community Services Tasmania noted that 'considering energy costs are in the top five expenditure items for residential care facilities this has significant implications for our sector in Tasmania'.[12]

5.12 Witnesses argued that present formula was impacting adversely on provider viability and service provision. According to ACSA the indexation system and system of user charging for the costs of accommodation in particularly high care, has led to increasing numbers of residential aged care services operating at a loss with all suffering declining returns.[13] Capecare, for example, provided details of the impact of the current indexation system's failure to recognise the actual costs of aged care:

> The operating result has gone from a surplus of $7.03 per bed per day in 2005/06 to a budgeted deficit of $11.37 in 2008/09. Wages and related costs (leave provision, training, workers compensation, and superannuation) make up 75% of all operating costs. Wages and related costs have increased by 23% during these 4 years. Operating income had increased by 10% during the same period.[14]

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8 Aged and Community Services Australia, *Submission 72*, p. 4.

9 Aged and Community Services SA & NT, *Submission 90*, p. 8 and p. 2; see also UnitingCare Australia, *Submission 76*, p. 18.

10 Australia Physiotherapy Association, *Submission 23*, p. 3.

11 See for example, *Submission 21*, Baptist Community Services NSW & ACT, p. 3; *Submission 35*, Yackandandah Bush Nursing Hospital, p. 2.

12 Aged & Community Services Tasmania, *Submission 73*, p. 3.

13 Aged and Community Services Australia, *Submission 72*, p. 3.

14 Capecare, *Submission 13*, p. 3.

5.13 Villa Maria, a non-for-profit operator of residential and community-based care, commented:

> Continued pressure for wage related increases are outstripping fee increases, creating a growing area of concern about long-term financial viability. Essentially, the indexation applied to subsidies is not maintaining relativity to wages increases. [15]

5.14 The Brotherhood of St Laurence (BSL) also submitted that the inadequacy of the current indexation is demonstrated by the BSL's current Enterprise Bargaining Agreement which allowed for an annual salary increase of 4 per cent for staff and the current annual increase of most supplies in excess of 4 per cent. The CPI increase for the year to September 2008 was 5 per cent and the annual COPO increase was around 2.3 per cent. This left a gap of around 1.7 per cent which for the BSL meant a funding shortfall, in terms of indexation only, of nearly $98,500 for the 2008-09 financial year. The BSL stated that these figures take into account the CAP.[16]

5.15 Submitters argued that the impact of the shortfall in subsidies has led to service providers seeking savings in operation costs. Anglicare noted that the rationing of services impacts particularly on older people with limited means and limited alternative supports.[17]

5.16 Submitters also argued that the current indexation formula for community based services has not kept pace with costs, particularly travel costs for home-based services. For example, Bromilow Home Support Services stated that there has been a reduction in services hours provided to clients and commented that 'it is impossible for service providers to maintain consistency in the service levels provided to clients from one year to the next when subsidy levels continue to fall in real terms'.[18] Care Connect commented that the annual packaged care subsidy increase, as determined by the COPO index has fallen behind the annual rate of increase in unit costs of providing care and operating services. As a result, the amount of care that can be purchased per package has been severely eroded over the last ten years.[19]

5.17 NCOSS similarly commented that the existing indexation method is inappropriate for community care, as it does not reflect the real staffing and other costs of running services. NCOSS also noted that the indexation for Community Aged Care Packages and HACC are calculated in a slightly different way for each program resulting in different levels of compensation for similar cost increases.[20] Aged Care

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15 Villa Maria, *Submission 38*, p. 2.

16 Brotherhood of St Laurence, *Submission 12*, p. 2.

17 Anglicare, *Submission 67*, p. 3.

18 Bromilow Home Support Services, *Submission 49*, p. 5; see also Boandik Lodge Incorporated, *Submission 80*, pp 1–2.

19 Care Connect, *Submission 71*, p. 2.

20 NCOSS, *Submission 52*, p. 3.

Queensland also noted that services such as Day Therapy Centres have lower levels of COPO indexation applied, with that result that Day Therapy Centres received 2 per cent indexation and other community care programs received 2.2 per cent.[21]

5.18 Evidence was also provided to the committee concerning the long-term impact of the current indexation formula on the sector. According to the House Group of Companies, the real value of COPO has eroded 23.5 per cent over the past eight years, which means according to the group, 'a continued deterioration of our sector's viability in the long run'.[22]

5.19 Mr Peter Wright of Anglicare Aged Care South Australia commented:

> I would like to reiterate that we have experienced our costs rising faster than CAP and COPO combined. In effect, we are going backwards, because our costs are exceeding the reimbursement or the indexation method that is employed. You probably have the paper by the Aged Care Industry Council, which gave a very good summary of the shortcomings of the COPO and the CAP. It is very poignant to point out, without going through the detail of that paper, that COPO/CAP increases are actually less than the safety net adjustments and also the average weekly overtime earnings adjustments. We are well behind some key benchmarks.[23]

5.20 The Aged and Community Services Association of NSW and ACT held that whilst the CAP was not introduced for community aged care, COPO does not adequately recognise increases in wages with the result that purchasing capacity of a Community Aged Care Package (CACP) has diminished considerably since 1994:

> Between 1995/96 and 2005/06 the value of the package had increased by 27%, yet the overall increase in the ordinary time earnings of full time working adults has been 64%, more than double the increase in CACP subsidy.[24]

5.21 Alzheimer's Australia cites the Aged Care Industry Council submission to the CAP Review to demonstrate that the indexation of CACPs, EACH and HACC has been at a level below the increase in labour costs:

> …from 1996–7 to 2003–04, the Commonwealth's "COPO" indexation formula meant that the CACP subsidy increased by 21.6%. During that same period, ordinarily time earnings for full time adults increased by 47.3%.
>
> Indexation of community care subsidies needs to be based on the labour component. The Conditional Adjustment Payment should be paid immediately to community care services. Continuation of CPI indexation

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21 Aged Care Queensland, *Submission 62*, p. 6.

22 House Group of Companies, *Submission 79*, p. 2.

23 Mr P Wright, Anglicare Aged Care SA, *Committee Hansard*, 13.3.09, p. 69.

24 Aged and Community Services Association of NSW and ACT, *Submission 61*, p. 3.

> simply means fewer services being provided as increase in wage costs eat into service provision hours.[25]

5.22 According to NCOSS, the growth of the HACC program has been compromised by inadequate indexation. Citing the Aged and Community Services Association of NSW and ACT, NCOSS maintained that the indexation method does not reflect the true costs:

> …estimating that, between 1999–2000 and 2001–02, the HACC Program in NSW had been underfunded by between $17.6m and $28.5m. Indexation for the same period to HACC services in NSW was estimated at 6.36% according to the COPO method; other indices suggest a figure closer to 14% for increases in costs for this period.[26]

5.23 The Department of Health and Ageing (the department) responded to these comments and noted that the Government has provided substantial increases in funding for residential aged care. The expenditure in 2008–09 is estimated to be $6.7 billion which represents an increase of some 10.8 per cent over the expenditure of $6.0 billion in 2007–08. In 2008–09, Government funding for each day a resident spends in residential care will be about 8 per cent more than it was in 2007–08 for a resident of the same level of frailty. This growth reflects the increases in funding accompanying the implementation of the new Aged Care Funding Instrument (ACFI) and funding changes to accommodation charges and supplements introduced on 20 March 2008.

5.24 The Government made changes to enable increases in accommodation payments – both government subsidies and user contributions – particularly in high care. Overall these changes will deliver increased revenue to the residential care sector of more than $750 million over four years, including more than $480 million in increased government subsidies. In 2008–09, the changes will result in an increase from the Commonwealth of more than $267 million in residential care funding. Once fully phased in the changes will deliver more than $350 million per year in increased revenue, mostly in respect of high care residents, to support investment in high care facilities.

5.25 The growth in Government funding to the residential aged care sector reflects indexation and the Conditional Adjustment Payment, population growth, increases in frailty and changes in policy. Net funding growth has been 8 per cent per resident. The contribution of various factors to this total growth for 2008–09 is as follows:

- indexation contributed 28 per cent;
- CAP contributed 18 per cent;
- frailty growth contributed 17 per cent; and

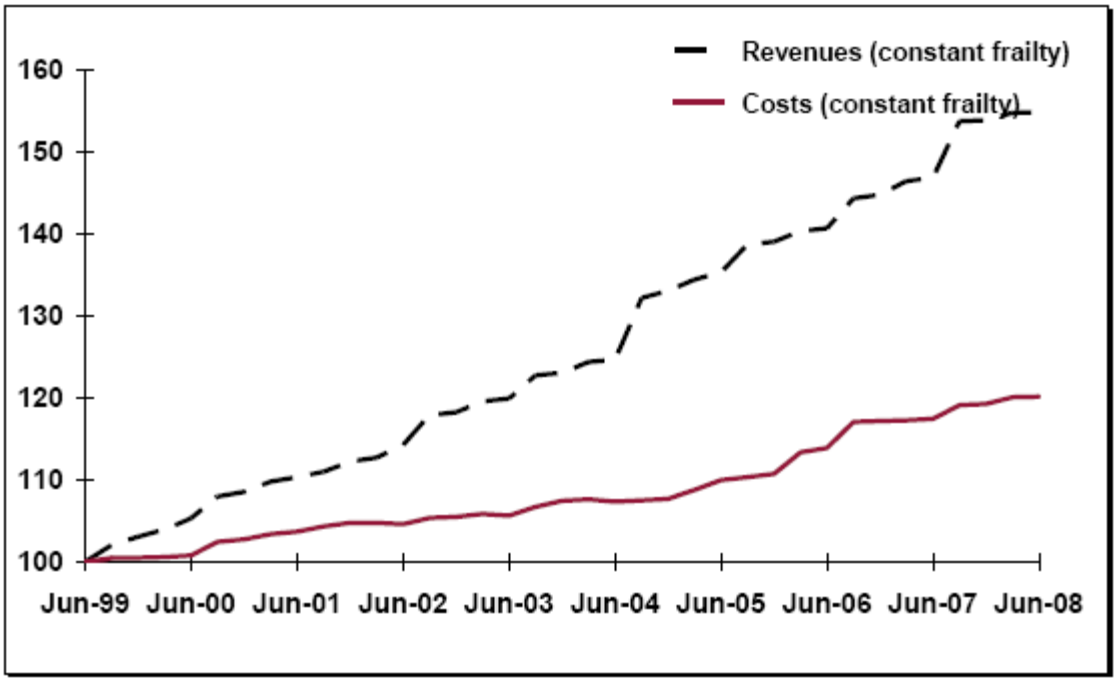
25 Alzheimer's Australia, *Submission 87*, p. 5.

26 Council of Social Services of New South Wales, *Submission 52*, p. 3.

- new policy contributed 37 per cent.[27]

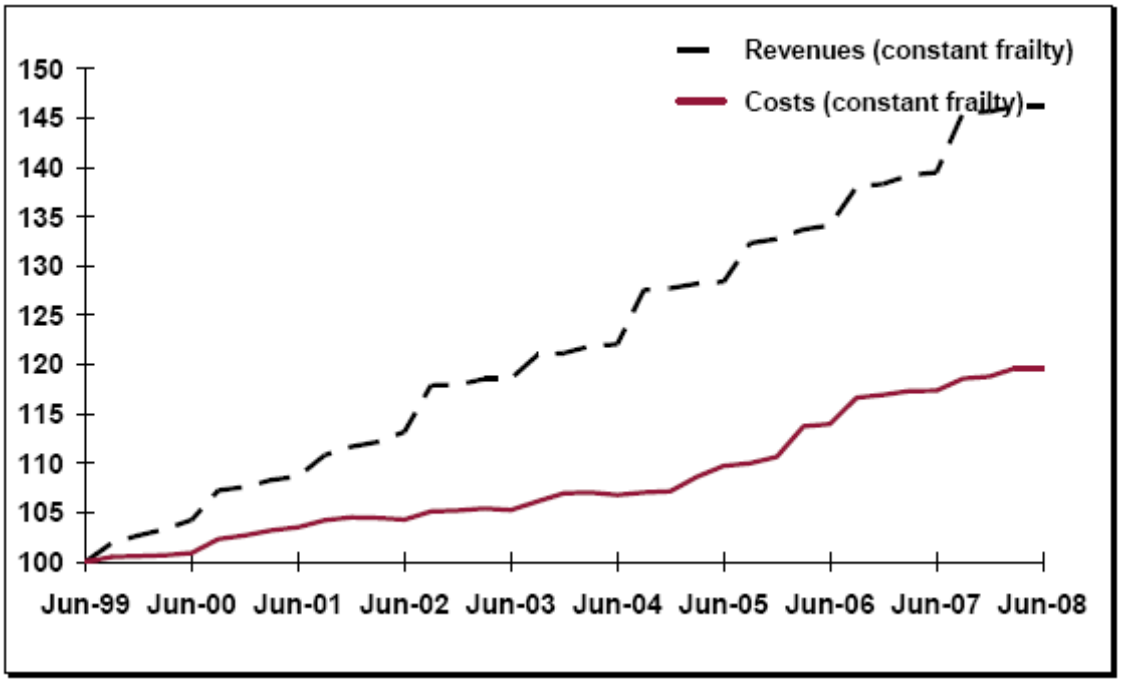
5.26 The department also noted that developed cost and revenue indices for both high- and low-care providers to look at the comparison of cost to revenue for both low- and high-care homes. Mr Stuart commented that the revenue has been increasing faster than cost since 1998–99. The department provided the following comparison of the growth of revenue indices with the growth in cost indices. The data is presented on an index basis with revenue and cost for 1998–00 set to 100.

Graph 5.1: Unit cost and revenue growth (constant frailty) – low care



27 Department of Health and Ageing, *Supplementary submission 114a*, p. 26.

Graph 5.2: Unit cost and revenue growth (constant frailty) – high care



Source: Department of Health and Ageing, *Supplementary Submission 114a*, p.26-27.

5.27 Mr Andrew Stuart from the Department of Health and Ageing commented on the difference in the department analysis and that of the sector:

> I think I should explain that the main difference between what the department has been doing in this area and what the industry has been doing is that the industry has been comparing revenue to prices, in particular labour prices, on a per-unit basis, and the department has taken account of productivity improvement in looking at the relationship between revenue and cost.[28]

5.28 Dr David Cullen, from the department also made these comments:

> What we do know and what we have given in evidence here is that, for the last 10 years—and we have only gone back 10 years in our data—revenue has grown faster than cost. So, if that is the case, if revenue has grown faster than cost and if, as we have given you evidence, the average payment per resident this year is eight per cent greater than the average payment per resident of the same level of frailty last year, that would seem to indicate that the problem is not on the revenue side.[29]

28 Mr A Stuart, Department of Health and Ageing, *Committee Hansard*, 21.4.09, p. 3.

29 Dr D Cullen, Department of Health and Ageing, *Committee Hansard*, 21.4.09, p. 12.

And further:

> The fundamental difference between the department's analysis and the industry's analysis is that the industry looks at what would be called the unit costs of inputs and says, 'How much does a unit of import go up?' We look at the unit cost of outputs. We say, 'How much does it cost to produce a day of care?' When you are producing a day of care, or in any industry, each year you make productivity improvements. It becomes cheaper to produce care one year on the next because of productivity improvements. We take that into account; they do not.[30]

Use of COPO and CAP

5.29 According to witnesses the reason for the inadequacy of indexation in the aged care sector is the use of COPO and its failure to recognise actual costs in the industry. These problems have been longstanding and the compounding impact over the last decade has resulted in increasing negative impacts on the sector. Mr Greg Mundy of Aged and Community Services Australia stated:

> In terms of…the indexation formula, that is one of two main contributors to that scenario. It has been not a sudden development but a steady development over a long period of time that the value of the Commonwealth's subsidies for care has not kept pace with the cost of providing that care. The main reason for that is that the way the government measures wage cost increases is based on what we used to call the safety net adjustment, now the Fair Pay Commission adjustment. Health staff are in relatively short supply, especially but not only nurses, and they have done better than that adjustment over a long period of time. So there has been a steadily widening gap between what it costs us to provide services and what the subsidies will cover.[31]

5.30 Many submitters voiced the same concern as Mr Mundy about the recognition of wage increases. Submitters noted that over the past 10 years the subsidy increase have averaged approximately two per cent per annum which is far below annual increase in wages and other cost inputs.[32] In addition, it was noted that the Commonwealth uses the Safety Net Adjustment rather than actual aged care sector wage increases which have occurred as a result of enterprise bargaining, to determine COPO.[33] The result of this, according to Care Connect, in a method of indexation 'insufficient to maintain pace with real increases in the costs of running businesses and providing care'.[34]

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30 Dr D Cullen, Department of Health and Ageing, *Committee Hansard*, 21.4.09, p. 13.

31 Mr G Mundy, Aged and Community Services Australia, *Committee Hansard*, 20.3.09, p. 2.

32 Aged Care Association – SA Inc, *Submission 63*, p. 4.

33 Aged and Community Services Association of NSW and ACT Inc, *Submission 61*, p. 3.

34 Care Connect, *Submission 71*, p. 2.

5.31 The concerns about the recognition of wage movements are longstanding. In its 2008 report, the Productivity Commission made the following comments on COPO:

> A longstanding concern of the aged care industry has been that the indexation of basic subsidy rates is not based on movements in industry-specific costs. Rather, subsidies are indexed using the Commonwealth Own Purpose Outlays (COPO) index, which is weighted 75 per cent for wage costs and 25 per cent for non-wage costs. The COPO is premised on the view that virtually all wage increases are productivity based. Hence, it only makes provision for safety net increases in wages and for economy-wide movements in non-wage costs. Thus, if productivity gains within the aged care sector do not keep pace with other sectors, the subsidy, as indexed, will be increasingly inadequate.[35]

Comparison of aged care indexation with other indices

5.32 Submitters provided the committee with comparisons of the current indexation compared with other indices. Aged and Community Care Australia provided the following comparison of combined COPO/CAP subsidy to SNA – Minimum Wage and AWOTE.

Table 5.1: Comparison of COPO, CAP, SNA and AWOTE

Year	COPO % Increase	CAP % Increase	COPO/CAP % Increase	SNA – Min Wage % Increase	AWOTE % Increase
1997	1.80	0.00	1.80	2.86	4.55
1998	1.70	0.00	1.70	3.90	3.62
1999	1.70	0.00	1.70	3.21	3.12
2000	2.10	0.00	2.10	3.89	4.17
2001	2.30	0.00	2.30	3.25	4.62
2002	2.40	0.00	2.40	4.35	6.16
2003	2.2	0.00	2.20	3.94	4.64
2004	2.00	1.75	3.75	4.24	5.26
2005	1.90	1.75	3.65	3.64	4.76
2006	2.00	1.75	3.75	5.65	4.49
2007	2.00	1.75	3.75	2.02	3.50
2008	2.30	1.75	4.05	4.15	4.61

Source: Aged and Community Care Australia, *Submission 92*, p. 16.

5.33 Blue Care provided the following analysis of HACC indexation.[36]

35 Productivity Commission, *Trends in Aged Care Services: some implications*, Research Paper, September 2008, p. 99.

36 Blue Care, *Submission 18*, p. 26.

Table 5.2: Comparison of HACC indexation with other cost indices and Blue Care's input cost increases

	2005-06	2006-07	2007-08
HACC indexation	**2.20%**	**2.10%**	**2.30%**
Contrasts with:			
Other indices:			
Consumer price index (CPI)	4.00%	2.10%	4.50%
LPI *	4.70%	4.10%	3.80%
Blue Care's estimated cost increases:			
Wages and salaries under EBAs			
Personal Care	4.10%	4.05%	4.00%
Allied Health	4.00%	4.00%	7.00%
Nursing	3.25%	4.75%	8.50%
75% EBA + 25% CPI:			
Personal Care	4.08%	3.56%	4.13%
Allied Health	4.00%	3.53%	6.38%
Nursing	3.44%	4.09%	7.50%

*LPI – Labour Price Index; Financial Year Index ; Total hourly rates of pay excluding bonuses ; Australia ; Health and community services ; Private ; All occupations

Source: Blue Care and Australian Bureau of Statistics

5.34 Witnesses also noted that the Department of Veterans' Affairs is understood to have abandoned the COPO index for its Veterans' Home Care program.[37] The BSL commented:

> It is clear that the current COPO indexation is inappropriate for the Aged Care industry. The Veterans' Home Care program does not use the COPO index and private health insurance premiums have had much higher increases authorised by successive Ministers for Health, which have actually fuelled wage growth.[38]

The Conditional Adjustment Payment

5.35 The committee was provided with evidence on the importance of CAP to the aged care sector. It was noted by Catholic Health Australia that CAP was a significant factor in maintaining subsidy levels close to the CPI:

> Most notably, increases in both High care subsidy rates (average 3.5% per annum) and Low care rates (average of 3.7% per annum) only kept pace

37 Aged and Community Services Association of NSW and ACT Inc, *Submission 61*; Aged and Community Services Australia, *Submission 72*.

38 Brotherhood of St Laurence, *Submission 12*, p. 2.

> with CPI growth and, indeed, slightly exceeded it when topped up by the CAP payment set at 1.75%.[39]

5.36 Witnesses noted that the CAP was intended as a temporary measure but for many providers CAP was required to maintain their viability. The Aged Care Alliance noted that 'the effects of external costs, the inadequacy of COPO and workforce issues have created high dependence on its [CAP's] continuation'.[40] UnitingCare Australia, which provides residential aged care to approximately 6,900 elderly people representing approximately four per cent of funded residential aged care beds, noted that without the temporary CAP:

> …losses may have already resulted in UnitingCare withdrawing from the provision of residential aged care services. In the absence of substantive positive funding reform this will occur.[41]

5.37 Indeed, UnitingCare Australia maintained that had the CAP not existed, its agencies would have lost $36.5 million from the time of the introduction of the CAP to the end of the 2008–09 financial year. Consequences of removing the CAP for UnitingCare Australia agencies may include:

- withdrawal from the provision of residential aged care (closure of existing facilities);
- deferral/abandonment of new investment (*already happening*);
- refurbishment of run-down facilities rather than replacement (*already happening*);
- relinquishment of provisional allocations of residential care places and not proceeding with new capital investment (already happening).[42]

5.38 Concerns were raised in a number of submissions that the CAP is now effectively frozen for the next four years with no annual 1.75 per cent increase. According to Management Consultant and Technology Services and Baptcare, without the annual increase adjustment, the aged care industry cannot further stretch COPO funding increases, which are already less than costs, and have been eroded 23.5 per cent over the past eight years.[43] They maintain that this freeze will result in a drop of funding of $750 per resident per annum. The Aged Care Association Australia – SA commented that 'at best, CAP has prevented further erosion in the real value of subsidies, but has gone no way to offsetting the significant erosion which accumulated during the years before the introduction of CAP'.[44]

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39 Catholic Health Australia, *Submission 75*, p. 9.

40 The Aged Care Alliance, *Submission 40*, p. 11.

41 UnitingCare Australia, *Submission 76*, Attachment, p. 1.

42 UnitingCare Australia, *Submission 76*, Attachment, p. 3.

43 Management Consultant and Technology Services, *Submission 42*; Baptcare, *Submission 59*.

44 Aged Care Association Australia – SA, *Submission 63*, p. 4

5.39 Aged Care Association Australia WA and Aged and Community Services WA also noted that the reporting requirements for the CAP were considerable whilst the industry had not been provided with any certainty that the payments will continue in coming years.[45]

5.40 Alzheimer's Australia maintained that the 'biggest anomaly' of the indexation system was in relation to community aged care:

> Community care has a very high proportion of its costs as labour costs, but the indexation of CACPS, EACH and HACC ahs been at a level well become the increase in labour costs. The additional funding that flowed to residential care as a result of the Conditional Adjustment payment (CAP) did not flow to community care, despite its higher labour costs.[46]

5.41 COTA Over 50s also noted that the CAP has not been applied to the community care program despite the cost pressures which it maintains are similar to that in residential care.[47] The Aged and Community Services Association of NSW and ACT held a similar view, stating that the CAP should be extended to community care programs from 2009.[48]

Calls for an improved indexation formula

5.42 Witnesses argued that there was a need for a new indexation formula which adequately addresses the sector's needs. The BSL for example, commented that:

> A new long term indexation formula needs to be introduced which accurately captures all the cost drivers such as wage increase, consumer items, building costs and energy and water prices.[49]

5.43 Mr Stephen Teulan, UnitingCare Australia, commented:

> Unless indexation of subsidies improves in terms of the way that it is calculated or in the meantime if the conditional adjustment payment does not continue there is going to be a huge hole in the budgets of every residential aged care provider in Australia.[50]

5.44 The committee received a number of suggestions as to how the indexation formula could be improved. CHA recommended the introduction of a new benchmark weighted at 75 per cent for wage growth and 25 per cent for non-wage growth, using

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45 Aged Care Association Australia WA and Aged and Community Services WA, *Submission 84*, p. 2.

46 Alzheimer's Australia, *Submission 87*, p. 5.

47 COTA Over 50s, *Submission 93*, p. 2.

48 Aged and Community Services Association of NSW and ACT Inc, *Submission 61*, p. 4.

49 Brotherhood of St Laurence, *Submission 12*, p. 2.

50 Mr S Teulan, UnitingCare Australia, *Committee Hansard*, 13.3.09, p. 29.

the Labour Price Index (Health and Community Services) for the wage element and the CPI for general prices.[51]

5.45 Blue Care submitted that future indexation formulae should:

- reflect aged care providers' input cost increases as measured by industry specific indices; and
- recognise regional input costs disparities such as staff costs imposts present in mining areas.[52]

5.46 An industry specific indices, or an 'Aged Care index', was also supported by other submitters.[53] According to Baptcare, a long term 'aged care index' which properly recognises all cost drivers, wage growth, consumer items, building costs and increased energy and water prices is required.[54] Similarly, the Aged and Community Services Association of NSW and ACT held that a specific residential aged and community care index should be developed and applied annually in order that movements in the average cost of care are covered each year. According to the association:

> This could be administered by an independent body, analogous to the Fair Pay Commission, to ensure transparency and to avoid conflicts of interest.[55]

5.47 Submitters also supported the extension of CAP to community care services.[56]

Conclusion

5.48 Witnesses raised grave concerns about the adequacy of the indexation formula used by the Commonwealth for both residential and community aged care, particularly in relation to addressing wage increases. The committee considers, on the balance of the evidence before it, that the current indexation formula may no longer be appropriate for the aged care sector. The committee therefore considers that the formula needs to be reviewed and modified if required. The suggested review of the benchmark of care costs, as detailed in Chapter 3, should inform this review.

Recommendation 14

5.49 The committee recommends that the taskforce undertake a review of the indexation formula used for the aged care sector in order to identify its adequacy in relation to costs faced by the sector and to identify modifications to the formula if required.

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51 Catholic Health Australia, *Submission 75*, p. 9.

52 Blue Care, *Submission 18*, p. 24.

53 See for example, Melaleuca Home for the Aged, *Submission 39*, p. 2.

54 Baptcare, *Submission 59*, p. 1.

55 Aged and Community Services Association of NSW & ACT, *Submission 61*, p. 4.

56 Baptist Community Services NSW & ACT, *Submission 21*, p. 3.

5.50 The committee further recommends that consideration be given to an independent mechanism to continually assess the indexation formula.

5.51 The committee also acknowledges that a review of CAP is presently being undertaken. The committee strongly urges the Commonwealth to consider the continuation of CAP whilst the recommended all-encompassing review is being undertaken.