

**ISSUE** INQUIRY INTO RESIDENTIAL AND COMMUNITY AGED  
CARE IN AUSTRALIA

**Type of briefing:** FOR INFORMATION

**Reason for briefing:** Request from Minister for Health on the WA perspective with reference to Senate Inquiry Terms of Reference points and relevance to the WA Government.

**Terms of Reference**

**RESPONSE**

**(b) “ how appropriate the current indexation formula is in recognising the actual cost of pricing aged care services to meet the expected level and quality of such services”.**

The response is outlined below.

The chief difficulty is:

- the establishment of a viable capital funding stream for infrastructure development purposes. This impacts on the quality provision of services as upgrades are difficult to maintain and expansion is curtailed.

Since the introduction of the *Aged Care Act 1997*, the residential aged care sector has been troubled by the inability to establish a viable capital funding stream to finance the construction of new facilities or upgrade and maintain existing facilities in order to operate.

Concomitant to this problem is the absence of a planning and/or monetary mechanism to quickly operationalise beds leading to up to three-year time lapses between allocation and operationalisation.

Under the 1997 *Act*, capital funding is available to the industry from:

*1. Accommodation payments from residents:*

- Low care residents pay an accommodation bond

The service provider pays no interest on this bond, but uses it to offset borrowing costs incurred in the development of a facility. When the resident eventually dies or leaves, the bond is repaid, less a small retention sum not exceeding \$3,000.

- High care residents pay an accommodation charge

**The system of accommodation bonds is not available to high care providers** and has caused much difficulty in building new facilities or upgrading of existing facilities in Western Australia.

This situation has been further exacerbated by the 2008 Aged Care Act Accreditation requirements where all providers irrespective of the level of care, are required to undertake substantial capital investment to meet new privacy standards.

- Extra service status places that attract an accommodation bond

The only means by which a high care facility can attract a resident funded capital funding contribution is through the allocation of extra service places. However, the allocations of extra service places are fully controlled by regulated quotas by the Australian government.

## *2. Capital component of recurrent subsidies from the Australian Government.*

Each year the Australian Government subsidy amount is adjusted using the Commonwealth Own Purpose Outlay (COPO) index. The COPO index measures **both wage and non-wage costs**. It is a combination of the Consumer Price Index and the Safety Net Adjustment.

- Productivity Commission Review into Nursing Home Subsidies - 1999

The Productivity Commission Review into Nursing Home Subsidies released in March 1999<sup>1</sup> concluded that the use of the COPO index as a tool for indexation of the basic subsidy was not specifically linked to movements in industry costs. The review concluded that the cost basis for subsidies was also based on historic costs of provision.

The Productivity Commission recommended that a standardised input mix, less a discount for productivity should be developed, reviewed every five years and adjusted annually according to indices which clearly reflect the changes in the average standardised input mix. The basic subsidy rate should also reflect nursing wage rates and conditions applicable in the aged care sector. **Neither recommendation was implemented across the aged care sector.**

- Review of Pricing Arrangements in Residential Care – 2004

The Australian Government commissioned Professor Warren Hogan to conduct a Review of Pricing Arrangements in Residential Care<sup>2</sup>. The Review

<sup>1</sup> Page xv, Summary, Productivity Commission Review into Nursing Home Subsidies 1999  
[www.pc.gov.au/inquiry/nursehom/finalreport/nursehom.pdf](http://www.pc.gov.au/inquiry/nursehom/finalreport/nursehom.pdf)

<sup>2</sup> <http://www.health.gov.au/internet/wcms/publishing.nsf/content/health-investinginagedcare-report-index.htm>

also concluded that a more transparent costing index and the introduction of a form of resident contribution bond for high care facilities to establish a viable capital funding stream was required.

- The **residential aged care industry view** is that the COPO index does not adequately reflect the true costs of running an aged care service because:
  - wage cost factors assumes productivity gains offsets that don't apply in the residential care sector with the wage cost factor compounding over time
  - non-wage cost factor excludes items from construction, which have a major impact on cost of delivery of aged care services
- Australian Government Response to the 2004 Hogan Review of Pricing Arrangements in Residential Care

After a three-year delay, the response to the Hogan Review was the "Securing the Future" package of reforms introduced by the Australian Government in February 2007.

- There was an injection of \$412 million to create **7000 additional community care places** with nursing support in the home. This was supported by the change in planning ratio targets to a greater focus on community care.
- The politically difficult decision to introduce accommodation bonds for "normal high care" was rejected in favour of increasing the daily care fee.

The **increase in the daily care fee for high care residents** by up to \$3.50 per day (beginning March 2008) is estimated to increase recurrent funding to nearly \$1300 per resident in a year.

Professor Hogan in a recent paper <sup>3</sup> suggested that this sum "does not provide enough to service the costs of borrowing to fund a new bed in high care.

He estimated at that time that the average cost of providing a new bed is between \$100,000 and \$120,000 and the servicing costs of borrowings on an annual basis is between \$8,500 and \$10,000.<sup>4</sup>

The peak body Aged Care Association Australia (ACAA) reports:

- National average industry quotes are at around \$170,000 per bed

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<sup>3</sup> page 4, The Organisation of Residential Aged Care for an Ageing Population. W. Hogan Centre for Independent Studies. Policy Monograph 76. July 2007

<sup>4</sup> The paper also states that estimates vary from region to region within states, and many observers consider a range between \$110,000 and \$140,000 a more representative range, depending on type of construction and pre-fabrication. Costs are net of land costs.

- Rawlinsons CRE <sup>5</sup> conducted a recent building costs survey and reports a “build only” cost of \$140,000 per bed at January 2007.
- In WA costs of anywhere up to \$200,000 per bed are now becoming more common.<sup>6</sup>
- In fact, some WA providers are now reporting costs are up to between \$240,000 and \$260,000 a bed for single occupancy rooms with ensuites.<sup>7</sup>
- Australian Government capital calculations were estimated on a construction cost of \$105,000 per bed in the recent “*Securing the Future*” funding package in February 2007.
- “*Securing the Future*” reform package measures for funding capital contributions in residential high care will only service a borrowing of \$109,000 per bed.
- The 20% rate of increase for capital supplement contributions included in “*Securing the Future*” from the Australian Government over the period 2008 – 2011 is forecast not to be able to keep pace with building cost increases which are scheduled to increase on average 40-50% over the same period.

The impact is such that WA providers across the profit and non-for profit sectors agree that continuing with their building programs would be financially irresponsible under current economic conditions.

Aegis, the largest provider of aged care beds in WA is quoted with reporting that “the industry... (in WA) is in crisis and the government doesn’t appreciate it. The signals are very clear – beds are not being taken up and providers are handing back licences”.<sup>8</sup>

## RESPONSE

**(e) “whether the current planning ratio between community, high and low-care places is appropriate”.**

### ▪ Transparency

The planning ratios are based on historically based planning ratios that have evolved over time without a clear basis for their calculation provided to the sector.

There has always been doubt associated with the calculation of the planning ratios set in 1986 for low and high residential care for the target population.

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<sup>5</sup> Rawlinsons publishes an industry standard construction cost guide for housing, small commercial and industrial buildings and is an acknowledged reference on building costs by the aged care industry

<sup>6</sup> Page 15, National Health Care Journal, July – August 2007

<sup>7</sup> Page 40, Australasian Ageing Agenda – November – December 2008.

<sup>8</sup> Page 40, *ibid*.

A transparent explanation has never been provided by the Australian Government leading to concerns that the planning ratios have led to an inherent systemic shortfall in allocated places in general over time.

▪ **Mix of aged care places – operational places and packages**

The number of residential aged care places has increased over time, but an emphasis has now emerged that focuses on the provision of flexible community care programs to help people stay in their homes.

(See *Table One - Appendix One* indicating the relative mix of service types over the two year period, 2006 - 2008).

The relative proportions of aged care places allocated over the last two years have indicated a trend towards the downgrading of the relative importance of residential care options.

This recent trend is also born out by a long term analysis of the relative proportions of the different types of places allocated over the period 1995-2008, which also demonstrate the growing importance of community based aged care options and a declining proportion in the high care residential end of the sector.<sup>9</sup>

This trend is also reflected in the re-orientation of the planning ratio targets towards lower levels of care.

On a national basis, in terms of dependency, 69% of residents at 30 June 2006 were assessed as high care.<sup>10</sup>

- *State government response: 100% state government funded funded Care Awaiting Placement Program (CAP)*

The shortfall in supply of available residential care beds has led to the establishment of the state funded WA CAP program. The annual funding now totals approximately \$25 million of purely state government funds.

As of 30 June 2007 there were 161 CAP Residential beds/places and 100 TCP beds/places. During 2006-07, 681 patients were transferred out of acute beds to CAP beds and a further 492 patients were transferred out of acute beds to TCP beds/places.

As of November 2008, the number of CAP beds has increased to 272 places and were distributed throughout the metropolitan area.

- The average length of stay in a state funded CAP facility in the 2006-2007 financial year was 49 days.

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<sup>9</sup> Residential Aged Care in Australia 2006-2007 A statistical overview – June 2008. Australian Institute of Health and Welfare. Canberra. AIHW cat.no. AGE 56

<sup>10</sup> page 1, Residential Aged Care in Australia 2005-2006 A statistical overview – June 2007. Australian Institute of Health and Welfare. Canberra. AIHW cat.no. AGE 54

- The average length of stay in a CAP psycho-geriatric facility was 95 days between the period January – June 2007.

- The average occupancy rate across all CAP facilities was 94%.<sup>11</sup>

The Review on Pricing Arrangements in Residential Care found that the across Australia, the average wait for a high care bed was 50 days, but it could be as long as a year in some rural areas.<sup>12</sup>

#### ▪ Overall level of supply

The level of supply of beds is also limited by the artificial capping of the total number of bed licenses allocated by the Australian Government. Total bed numbers are determined by a highly regulated market controlled centrally by the Australian Government and not according to the market forces of supply and demand.

The rationale behind this approach was to “keep a lid on costs” but, as Professor Hogan argues, this system “artificially depresses supply as well as favouring existing providers at the expense of new entrants to the market, who have to pay up to \$60,000 per bed to buy licenses from existing businesses”.<sup>13</sup>

### RESPONSE

**(d) whether there is an inequity in user payments between different groups of aged care consumers and, if so, how the inequity can be addressed”**

#### ▪ Continuation of inequity of access to high care service provision

The Review of Pricing Arrangements in Residential Care<sup>14</sup> by Professor Warren Hogan pointed to the inequitable situation in which low care residents and extra service high care residents are required to pay an accommodation bond while “ordinary high care” residents are not.

The solution to increase daily subsidy rates for high care residents in the *Securing the Future* reform package did not address this issue resulting in the continuation of inequity of access to high care services.

Professor Hogan maintains that “allowing the industry to increase its user fees ...(as per *Securing the Future*<sup>15</sup>)... does not directly address this

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<sup>11</sup> unpublished data, Aged Care Policy Directorate, Department of Health, July 2007

<sup>12</sup> page vii, The Organisation of Residential Aged Care for an Ageing Population, W. Hogan Centre for Independent Studies, Policy Monograph 76, July 2007

<sup>13</sup> page vii, The Organisation of Residential Aged Care for an Ageing Population, W. Hogan Centre for Independent Studies, Policy Monograph 76, July 2007

<sup>14</sup> Hogan, W. Review of Pricing Arrangements in Residential Care, 2004.

<sup>15</sup> Australian Government funding package February 2007

problem, for it helps with the cost of recurrent rather than new capital spending.<sup>16</sup>

## RESPONSE

(f) "the impact of current and future residential places, allocation and funding on the number and provision of community care places"

- **Total volumes**

In terms of operational places at 30 June 2008, WA had;

- 17,340 residential care beds,
- 3,611 Community Aged Care Packages,
- 572 EACH packages,
- 160 Transition Care Places
- **making a total of 21,523 places.**<sup>17</sup>

A comparison between 30 June 2006 and 30 June 2008 demonstrates that although there has been an increase in total places, there has been a small decline in the number of residential care places between these two time periods in favour of increases in community based EACH/D and Transition Care Places in WA (see *Table One - Appendix One*).

- **Combined operational (service provision) ratio**

At 30 June 2006, WA had a combined service provision ratio of **104.5** places per 1000 persons for the target group. (See *Table Two – Appendix One*).

At 30 June 2007, WA had a combined service provision ratio of **103.5** places per 1000 persons for the target group. (See *Table Two – Appendix One*).

For both of these years, this ratio did not reach the planning target of 108 places for the target population.

In terms of allocated ratios:

- WA fell below the allocated combined **national average of 107** places.
- WA, along with the ACT and Tasmania had the lowest ratios of residential aged care places at 30 June 2007.
- The allocated national average has not reached the planning target of 108 places per 1000 of the target population.

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<sup>16</sup> page viii, The Organisation of Residential Aged Care for an Ageing Population. W. Hogan Centre for Independent Studies. Policy Monograph 76. July 2007

<sup>17</sup> Department of Health and Ageing planning information. 2008. In 2006, there were a total of 17,914 places.

- **Operational high care and low care residential places**

*Table Three – Appendix One* outlines the national breakdown of high and low care places.<sup>18</sup> At June 30 2007, the breakdown in WA was:

- 38 high care places per 1000 people of the target group (45.7 %) (The planning target is 40 places)
- 45.1 low care places per 1000 people of the target group (54.3 %) (The planning target is 44 places)
- The combined ratio was 83.1 places per 1000 people of the target group.

In terms of operational residential places:

1. WA did not reach the May 2004 planning target allocations for both forms of residential care which is set at a combined 88 residential care places per 1000 people for the target group.
2. **WA has the lowest service provision ratio**, apart from the ACT in terms of **high care** service provision in Australia and falls below the national average. This position was repeated in 2006.
3. WA has the second lowest combined residential care service provision ratio after the ACT.
4. WA fell below the national average of 85.5 places per 1000 for the target group with 83.1 places at 30 June 2007.

**WA fell further behind** in the operational residential ratio from 84.61 places as at 30 June 2006 to 83.1 places at 30 June 2007.

- **Current Utilisation of Aged Care Services in WA**

*- Home and Community Care Program*

Despite an increase in absolute values of funding for each year over the last 12 years in WA, only 33.89% or 65,095 people of the target population of 192,098 received services in 2007-2008.

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<sup>18</sup> table 13.6 Report on Government Services 2008 Volume 2: Health, Community Services, Housing> Steering Committee for the Review of Government Service Provision, Productivity Commission Canberra.



*- Annual demand for Community Aged Care Packages and Extended Care at Home Packages (CACP- EACH)*

In WA, It is clear that demand outstrips supply in the provision of more intensive forms of care in the community.<sup>19</sup>

In 2006/2007 WA had **3152** CACPs available. The Aged Assessment Program Data Evaluation Unit has indicated that recommendations for care by ACAT teams showed an **annual demand for 4044 CACPs** for people living in the community and requiring support.

In 2007/2008 WA had **3611** CACPs available. The Aged Assessment Program Data Evaluation Unit has indicated that recommendations for care by ACAT teams showed an **annual demand for 4202 CACPs** for people living in the community and requiring support.

In 2006/2007 WA had **254** EACH packages available. The Aged Assessment Program Data Evaluation Unit has indicated that recommendations for care by ACAT teams showed an **annual demand for 1110 EACH packages** for people living in the community and requiring support.

In 2007/2008 WA had **572** combined EACH/D packages available. The Aged Assessment Program Data Evaluation Unit has indicated that recommendations for care by ACAT teams showed an **annual demand for 787 EACH packages** for people living in the community and requiring support.

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<sup>19</sup>Aged Care Assessment Program. WA Evaluation Unit. University of WA. 2008. Information used to compile Annual Report Information. Annual Reports 2006-2007 and 2007-2008.

## Appendix One: Supporting Statistical Information

Table One: Total numbers of places according to care types<sup>20</sup>

Type of care	30 June 2006	30 June 2008	% change
Residential places	14,467 – 80.75%	17,340 – 80.56%	decrease
CACP places	3094 – 17.27%	3611 – 16.77%	decrease
EACH places (including Dementia)	253 – 1.4%	572 – 2.65%	increase
Transition Care Places	100 - .57%	160 - .74%	increase

Table Two: Operational ratios by state of combined aged care places per 1000 persons aged 70+ and Indigenous population aged 50-69.<sup>21</sup>

State	Residential	CACP	EACH /D	TCP	Total
NSW	84.5	18.4	2.2	.8	105.9
Vic	87	19.3	2.4	.9	109.6
Qld	83.4	18.2	2.1	.7	104.4
WA	81.9	19	2.0	.6	103.5
SA	91.8	18.6	2.2	.8	113.4
Tas	81.8	18.4	2.1	1.2	103.4
ACT	72.6	21.8	5.1	1.5	100.1
NT	47.2	56.7	7.8	.7	112.4
Australia average	84.9	19	2.3	.8	107

Table Three: Operational high care and low care residential places 30 June, 2007<sup>22</sup>

State	High Care	Low Care	% High Care	% Low Care	Total
NSW	43.9	40.5	52	48	84.5
Vic	39.7	46.5	46.1	53.9	86.2
Qld	39.4	45.8	46.2	53.8	85.2
WA	38	45.1	45.7	54.3	83.1
SA	46	46.3	49.8	50.2	92.3
Tas	44.5	41.3	51.9	48.1	85.7
NT	60	44	57.7	42.3	104
ACT	29	42	40.8	59.2	71
Aust average	41.6	44	48.6	51.4	85.5

<sup>20</sup> page 4, Residential Aged Care in Australia 2005-2006 A statistical overview – June 2007. Australian Institute of Health and Welfare. Canberra. AIHW cat.no. AGE 54 and material from Department of Health and Ageing 2008.

<sup>21</sup> Table 1.3, pages 10-11, Residential Aged Care in Australia 2006-2007 A statistical overview – June 2008. Australian Institute of Health and Welfare. Canberra. AIHW cat.no. AGE 56

<sup>22</sup> table 13.6 Report on Government Services 2008 Volume 2: Health, Community Services, Housing> Steering Committee for the Review of Government Service Provision. Productivity Commission Canberra.