BAPTISTCARE

Inquiry into Residential and Community Aged Care in Australia

A response to the terms of reference

This response is from WA Baptist Hospital & Homes Trust Inc.

November 2008

This response has been written in an attempt to provide a more equitable solution to the prevailing funding problems in residential and community aged care in Australia. This response tries to provide potential solutions to these problems so that the three main stakeholders in the aged care industry can benefit – Aged Care Recipients, The Government and Aged Care Providers.

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Introduction

Baptistcare is an organization with over 35 years experience in the aged care sector, providing residential aged care through 223 high care and 477 low care places in 12 facilities located in both metropolitan and rural locations within Western Australia. In addition to its residential places, Baptistcare operates 168 Community Aged Care Packages (CACPs), 209 Veterans' Homes Care (VHC) packages, and services other community aged care clients that are not part of the CACP and VHC programs.

Baptistcare does not have dedicated research staff and can only respond to inquiries such as this by taking staff away from their prime responsibilities, thereby impacting on the quality of service available to its clients. Baptistcare has done so in this case because it believes that aged care is under threat in Australia through a failure on the part of all governments to adequately address the needs of current and future aged care recipients throughout Australia.

Baptistcare would like to have the resources to provide the Senate with a strong objective analysis of the industry as it is now, and the needs that will arise over the next 40 years. Such a submission is beyond Baptistcare's current capacity and accordingly, this paper while providing some objective analysis will be primarily subjective in nature.

This, however, does not make this submission any less valuable to the Senate than others it will receive. After all, most analysis of the sector, carried out by the Department of Health and Ageing; the Aged Care Standards and Accreditation Agency; and the Aged Care Complaints Investigation Scheme are subjective in nature. One of the greatest deficiencies in the sector at the present time are the lack of any objective measures of quality that are agreed by all the stakeholders and utilized by all parties, thereby reducing the need for some of the subjective analysis.

The *Aged Care Act 1997* is now entering its twelfth year of operation and with the exception of the Hogan Review of 'Pricing Arrangements in Residential Aged Care', in 2004, there has been no systemic review into its operations, nor has there been any evidence based data to suggest that the quality of care has improved since its inception.

While there has been a demonstrable improvement in the quality and standard of accommodation brought about by the Certification process and policies such as the 2008 Privacy standards, there is nothing to suggest that such improvements would not have happened over the same period of time as construction occurred of new facilities to meet increased demand, consumer preference and to replace older stock which had outlived its economic life.

A comparison of the retirement village industries and the residential aged care industries over the same period since 1997 would shows a significant change in accommodation standards, if not greater, in the retirement village sector than has occurred in residential aged care, without the need for legislative direction.

In fact, the one major government initiative in determining a standard for accommodation, other than for rooms with ensuites, which would have evolved from consumer preference in any case, was the introduction of facilities, during the 1990s, that offered a 'home like environment', which translated into clusters of rooms about a joint living/dining area. This innovation was short lived, once operators found the staffing costs of providing such types of facility could not be sustained.

While the Certification process may have produced some improvements, the down side of the process was a constraint on innovation in accommodation types because of the need to comply with the BCA and to achieve an arbitrary score in the certification instrument. This led to increased costs of construction which reduced the funds available for other innovations and an accommodation product that can only be described as institutional.

While this inquiry is welcomed, if for no other reason than the lack of any substantial review of the operation of the Act, it does not address some of the features of the Act's operations that need to be addressed if Australia is to meet its aged care challenges over the next 15 to 25 years.

Much has been made of the changes in Australian demographics and the increases in the numbers of aged over the next 25 years and the reduction in the numbers of tax-paying Australians to meet the increased costs of providing that care. Much has also been made of the shortage of nurses and action has been taken to address that shortage. However, nurses are a minority of the staff involved in caring for Australia's aged in residential and community aged care. With the changes in demographics, there is not only going to be a reduction in tax payers, there is going to be a reduction in the numbers of semi-skilled staff who provide most of the labour and make up the backbone of the aged care sector. This means that the new aged care system, in whatever form, has to meet the needs of an increasing aged population with a shrinking workforce. This would suggest that the aged care sector that Australia now has is not sustainable in the longer term and requires a revision far more extensive than will occur from this inquiry.

Term (a):
Whether current funding levels are sufficient to meet the expected quality service provision outcomes.

The government now has more than adequate information to show that the current funding levels are insufficient to make the operations of most providers viable in the short to medium term. Hogan identified deficiencies in the structure of current funding and his recommendations have, in general, proven too difficult to implement.

Since providers have been supplying the Commonwealth with annual financial returns (that have been analyzed by government appointed accounting firms) there has been a steady decline in the profitability of residential aged care facilities. This has become more apparent as new construction has occurred to meet the 2008 standards, with construction costs increasing in a very competitive construction market. Increases in interest rates have also had an effect on the cost of construction.

Whether funding levels are sufficient to meet expected quality service outcomes, is an unknown. As outlined earlier, there are very few objectives measures that would help determine this. What subjective measures are available, are only valid on the day those measures are made. If this was not the case, instances of operators achieving compliance with the 44 outcomes provided for in the Act on one day and within months being unable to demonstrate compliance with many of those same outcomes, would not occur. Unfortunately, such instances occur and while occasionally they may reflect providers doing the wrong thing, in most cases they reflect the subjective nature of the system and the frailties of human beings in applying subjective judgements in an often emotionally charged environment, subject to public scrutiny.

Residents' needs can be identified as being care needs, daily living needs, and accommodation needs. It is possible to classify sources of income & expenditure based on these needs. See the figure below.

Fig 1.1 –Current Residential Aged Care Income Sources

			Capital Sufficient	Capital or Income Sufficient	Insufficient Income & Capital	Respite
	Government Funded	Resident Funded				
Care Needs						
	ACFI Subsidies	-	Y	Y	Y	N
	Respite Subsidies	-	N	N	N	Y
	Oxygen Supplement	-	Y	Y	Y	N
	Enteral Feeding Supplement	-	Y	Y	Y	N
	Conditional Adjusted Payment	-	Y	Y	Y	N
	-	Income Tested Fees	DOI	DOI	N	N
1)	***Payroll Tax Supplement***	-	*Y*	*Y*	*Y*	*Y*
2)	***Respite Supplement***	-	*N*	*N*	*N*	*Y*
2)	***Respite Incentive Supplement***	-	*N*	*N*	*N*	*Y*
3)	***Viability Supplement***	-	*DOL*	*DOL*	*DOL*	*DOL*
4)	***Interim Accommodation Supplement***	-	*DOG*	*DOG*	*DOG*	*DOG*
Daily Living Needs						
	-	Basic Daily Care Fee	Y	Y	Y	Y
	-	Extra Services Charge	O	O	O	O
1)	***Payroll Tax Supplement***	-	*Y*	*Y*	*Y*	*Y*
3)	***Viability Supplement***	-	*DOL*	*DOL*	*DOL*	*DOL*
4)	***Interim Accommodation Supplement***	-	*DOG*	*DOG*	*DOG*	*DOG*
Accommodation Needs						
	-	Accommodation Bond.	Y	N	N	N
	-	Accommodation Charge.	N	Y	N	N
	-	Income Tested Fees.	DOI	DOI	N	N
	-	Bond Retentions	Y	N	N	N
	-	Unpaid Bond Interest	N	Y	N	N
	-	Bond Interest	Y	N	N	N
	Concessional Supplement.	-	N	DOB	Y	N
	Concessional Assisted Supplement.	-	N	DOB	Y	N
	Accommodation Supplement	-	N	DOB	Y	N
	Transitional Supplement	-	N	N	Y	N
	Pensioner Supplement	-	N	DOB	Y	N
3)	***Viability Supplement***	-	*DOL*	*DOL*	*DOL*	*DOL*
4)	***Interim Accommodation Supplement***	-	*DOG*	*DOG*	*DOG*	*DOG*

Key:			
	Y = Yes	N = No	O = Optional
	DOB = Dependent on Bond Value		DOI = Dependent on Income
	DOG = Dependent on Government		DOL = Dependent on Location

Notes:

1) Payroll tax supplement is for agency staff. These staff could be care related (eg: nursing) or daily needs related (eg: cleaners), therefore these should be split on the basis of these agency expenses.

2) Respite & Respite Incentive Supplements don't apply to accommodation, as they are all used for resident care.

3) The locality of the facility would affect increased per resident costs / decreased income in all three areas, so the Viability Supplement is assumed to be used in all areas on the basis of greatest need.

4) The general unprofitability of residential aged care would affect increased per resident costs / decreased income in all three areas, so the Interim Accommodation Supplement is assumed to be used in all areas on the basis of greatest need.

Care Needs

Resident Care Needs can result in the following costs:

Nursing & personal care wages	Physiotherapy costs
Annual leave	Medical equipment
Sick leave	Medical supplies
Long service leave	Continence aids
Podiatry costs	Depreciation of care related plant & equipment
Occupational therapy costs	Training
Workers compensation insurance	

ACFI Subsidies

Baptistcare thinks that ACFI has the potential to be a good funding instrument, in the way that it accurately estimates the care needs of the residents, dependent on a comprehensive evaluation of those needs. However, it is recommended that the ACFI capping is removed, so that Aged Care Providers can start receiving adequate funding for high-care residents. Currently the system of the ACAT classification of high or low care should be dropped. The subsidy that is paid before the ACFI score is received should be the current default high care subsidy amount.

Increased funding will help draw out aged people from the more expensive hospital system. It is important to note that potential residents with lower care needs tend to wait longer than high-care residents due to lower funding levels for low care residents. The residents who are waiting either take up more expensive hospital beds, or stay at home deteriorating at a much faster pace than if they were at an aged care facility.

Respite Subsidies

These need to be increased, to make respite residents more financially attractive to aged care providers. This is especially important to providers that have dedicated respite beds. The Government's allocation of respite days to facilities should be removed immediately, as it creates disincentives to accommodate respite residents, due to no funding provided beyond the allocated number of days.

Respite subsidies should be combined with the Respite Supplement and Respite Incentive Supplements. Baptistcare sees no reason as to why these are separate. Separation just creates further complication and administrative burden for Aged Care Providers and the Government.

Conditional Adjusted Payment

These payments should merge with ACFI, thereby increasing the ACFI funding.

Respite Supplement & Respite Incentive Supplement

This should be combined with the Respite Subsidy. See comments against "Respite Subsidies" above.

Viability Supplement

This paper addresses the Viability Supplement in “Term (c)”.

Interim Accommodation Supplement

It is recommended that other than for adjustments to supplements, any additional funding should be channeled through the other existing funding subsidies, so that its purpose can be identified. One-off payments such as those that have occurred over past years don’t provide for consistency of income and planning.

Accommodation Needs

Resident accommodation needs result in the following costs:

Building costs	Maintenance wages
Building depreciation	Annual leave
Building maintenance	Sick leave
Electrical maintenance	Long service leave
Plumbing maintenance	Superannuation
Workers compensation insurance	

Baptistcare believes that the current structure of income sources and Government funding fails to comprehensively address the need of residential aged care providers to cover the costs of financing the accommodation needs of residents. The comments that follow have been written with the hope of providing an equitable solution to those aged care providers who are reluctant to construct new aged care facilities, and to provide a solution to the Government's inadequate funding of accommodation needs.

Background

Aged care providers are reluctant to build new facilities, due to the low returns on investment offered, and the difficulty of obtaining and servicing debt that is required to build such facilities. This was demonstrated when the available aged care places in the 2007 Aged Care Approval Round were not all applied for.

This is critically important to address now, as the situation will become much worse as the baby-boomers age. If this issue is not addressed soon, it has the potential to become a national crisis in the years ahead. It is important to note the time-lag of constructing new facilities. Delayed action will result in supply not being able to match demand for a number of years, during which potential residents who are unable to obtain a place will be forced to remain in community aged care, which would be undesirable if they were classed as high-care.

Financing the Capital Cost of Facilities

It is Baptistcare's belief that residential aged care residents should pay for their own accommodation. This is consistent with the Government's "user pays" principle, applicable to the residents' daily living needs (basic daily care fees). This currently occurs, in effect, for financial low care residents who are required to pay a bond. However, the current subsidies and charges for non-bond paying residents fail to meet these costs.

The concept that residential aged care residents should pay for their own accommodation has a parallel with normal housing. A bond paying resident is equivalent to an owner-occupier, an accommodation charge paying resident is equivalent to somebody renting, while a concessional resident is similar to someone who receives the pension/Newstart/disability pension etc. with rent assistance.

The fact is, that in both the residential aged care scenario, and the housing scenario, there is a need that needs to be filled – accommodation. The way in which the three different groups obtain and use funds to gain accommodation is quite different however, yet they all achieve the same goal – accommodation for themselves.

Fig 1.2 – A comparison of aged care accommodation and normal housing.

	Residential Aged Care	Housing
Capital Sufficient	Bond	Owner-occupier
Capital or Income Sufficient	Accommodation Charge	Renting, using own funds.
	Interest only bond option	Renting, using own funds.
Insufficient Income & Capital	Concessional Supplements	Renting, but receiving rent assistance, or living in government housing.

Currently in residential aged care, bond paying residents are subsidising the other two groups. This would be totally unthinkable in normal residential housing, though it happens somewhat, in terms of the capital or income sufficient people having to pay higher taxes, which subsidises those who need government assistance.

<u>The average cost of constructing a new facility</u>
If the expected cost of construction of a new facility is $176,000 per place, as the Grant Thornton Aged Care Survey 2008 suggests, then a new, modern single room residential aged care facility with 100 beds should cost around $17,600,000.

Facilities can consist of four classes of residents, classed according to their financial status (plus respites):

1) Capital Sufficient
2) Capital/Income Sufficient
3) Insufficient Income & Capital
4) Respite Residents

Each class of resident will need to finance $176,000.

Using the principle outlined above, that residents, from whatever financial background need to support their own accommodation costs, we will now analyze how the residents & Government can fund their individual places.

1) Capital Sufficient: Residents that can provide a bond of $176,000 would be regarded as supplying sufficient capital to cover the cost of their room. Any amount by which bonds exceed this amount would be applied to “Overhead Costs” (see below section).
2) Capital or Income Sufficient: These residents (by their own means) will need to cover the cost of financing the $176,000.
3) Insufficient Income & Capital: These residents (through Government subsidies) will need to cover the cost of financing the $176,000.
4) Respite Residents: These residents (by their own means and through Government subsidies) will need to cover the cost of financing the $176,000.

Calculating the daily cost of financing $176,000.

Assuming that aged care providers are able to source financing at an interest rate equal to the Reserve Bank of Australia's (RBA) targeted cash rate (for the calculations below, assumed to be 5.5%), plus 100 basis points (1%), the cost of financing is 6.5%. Calculations of what this amounts to are provided in Figure 1.3 below.

Figure 1.3 – The financing need of rooms at average new Aged Care Facilities

Days	Period	Financing Need	
365	Annually	$ 11,085.05	
91	Quarterly	$ 2,763.67	
30	Monthly	$ 911.10	
14	Fortnightly	$ 425.18	
7	Weekly	$ 212.59	
1	Daily *	$ 30.37	= $ 176,000 x (1 + 6.50%) ^ (1 / 365) - $ 176,000
	Formula		
	***	*Financing Need*	*= COARAF x (1 + IR) ^ (Y / Per) - COARAF*

Key:

COARF	Cost Of Average Room At Facility
IR	Interest Rate (RBA cash rate, plus 1%)
^	To the power of / exponent function
Y	Number of years
Per	Number of periods

* The daily financing need has been rounded to two decimal places, reflecting the custom of the Government to pay in whole cents.

** The formula reflects compounding interest on a daily basis.

The $30.37 per day is what the maximum amount that the proposed "Accommodation Subsidy" would be. This amount would be reduced, according to the formula by reducing the financing need by any bond provided to the aged care facility. As bond amounts can be any amount, the "Financing Need" could potentially be any figure between $0.00 and $30.37 for each resident.

The average bond from low care bond paying residents must at least equal the cost of construction per bed. If it is below that cost, the cost of construction would need to be paid from some other source, which is inequitable.

Do current accommodation charges cover the interest cost of the capital required to build new facilities?

The annual value of the accommodation charges can be calculated as:
$26.88 per day x 365 days per year = $9811.20
Does this meet the cost of financing the $176,000 cost of building the room for the accommodation charges? No.

There are two ways of looking at the shortfall. How much of the interest rate does it cover, and how much of the interest cost does it meet.

It does not meet the 6.5% cost of financing:

$9811.20 / $176,000 = 5.57%

6.5% - 5.57% = 0.93% short.

Or the total cost the capital required to build the room:

$9811.20 / 6.5% = $156,979.20

$176,000 - $156,979 = $19,020.80 short in total.

Or the interest repayments:

$11,000 - $9,811.20 = $1,188.80 short per year.

$30.14 - $26.88 = $3.26 short per day.

Concessional Subsidies

The current Government funding streams for concessional and assisted residents need be merged into one subsidy. For the purposes of this response, the proposed subsidy will be referred to as “Accommodation Subsidy”.

It is recommended that the government immediately abolishes the 40% concessional level required to receive the maximum subsidy amount, and it should adjust the accommodation supplement/subsidy to $30.14 per day, for all concessional residents. This funding makes sense to help support aged care facilities that have concessional residents. However, the current way that these are administered need to be changed. An alternative to the current system follows: the minimum concessional places (by region) should be removed. The 40% concessional ratio funding change level also needs to be removed. These should be replaced with a simple subsidy that is payable based on concessional resident numbers. It should be increased from what the current > 40% subsidy is. The higher subsidy will provide an adequate incentive to aged care providers, so that they don’t consistently choose financial residents over concessional ones. It could even be set at different levels for different regions, to ensure that concessional residents are not neglected by aged care providers.

Adjusting the proposed "Accommodation Subsidy" & "Accommodation Charges" for the age of facilities

A tiered system for the adjustment would be ideal, based on the age of the building (or age of major refurbishments).

Age Range in Years	Percentage of Maximum Accommodation Charge &/or Accommodation Subsidy	Accommodation Charge &/or Accommodation Subsidy Per Day	Decrease From Above Age Range (%)	Decrease From Above Age Range ($)
0.00 – 4.99	100%	30.14	-	-
5.00 – 9.99	90%	27.12	10%	3.02
10.00 – 14.99	80%	24.11	11%	3.01
15.00 – 19.99	70%	21.10	12%	3.01
20.00 – 24.99	60%	18.08	14%	3.02
25.00 – 29.99	50%	15.07	17%	3.01
30.00 – 34.99	40%	12.05	20%	3.02
35.00 – 39.99	30%	9.04	25%	3.01
40.00 – 44.99	20%	6.03	33%	3.01
45.00 – 49.99	10%	3.01	50%	3.02
50.00 +	0%	0.00	100%	3.01

The tiered system would provide for a more equitable distribution of government funds, which redistribute the proposed accommodation subsidy funding from older residential aged care facilities to newer facilities. This is equitable, as the greatest burden of depreciation for providers is when the facility is recently purchased, due to straight line depreciation for buildings not taking inflation into consideration. As the facilities become older, they will increase accommodation subsidies due to indexation, though the depreciation charge is not indexed.

Older facilities will still need funding, due to the need for repairs and maintenance of the buildings. However, the facility would be close to (or have reached) full depreciation, therefore not needing as much funding. Older facilities would not be as attractive to potential residents either, which would result in them attracting lower bonds. This would not be a problem though, due to the amount of depreciation that would have occurred.

The proposed accommodation subsidy adjustment would have the effect of reducing the large disparity between multi-bed and single-bed rooms in terms of their EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation). This disparity has been documented in the Grant Thornton Aged Care Survey 2008. The tiered system would also encourage aged care providers to replace or refurbish the dated facilities that have multiple beds in one bedroom. This is desirable, as if the same facility designs were used for aged care facilities built today; they would not meet accreditation standards.

Funding for land

Baptistcare believes that the government should not fund any land that a residential aged care provider may need to build a new facility, in terms of higher subsidies payable to providers, as land is able to be sold by the provider at a later date. However in rural and remote areas, and in areas where the government wants to encourage the establishment of facilities, the government should be willing to provide crown land, land granted to the aged care provider, or loans that have an interest rate equal to the Consumer Price Index (CPI), adjusted by changes to this on an annual basis. The government could also purchase required land, and retain ownership of it, but let aged care providers use the land.

High Care Bonds

With the Government's move to replace low-care places with Community Aged Care, this would result in a huge drain of cheap debt (0% interest bonds) from providers. Providers will face financial ruin if they are forced to replace this debt with debt at commercial rates of interest, and I am sure that the Government does not have the capacity to provide the required capital to providers at no interest. This is why it is essential that residential aged care providers should be able to insist on a bond from high care residents that are financially able to pay one. There is no valid reason to restrict providers from doing so.

Retentions

Retentions on bonds are very complicated to administer. The government, aged care providers and residents would benefit from them being disallowed, due to excessive expenditure and confusion in their administration. Instead, accommodation charges should be increased.

Interest only Bonds

These can be replaced with the accommodation charge, as the accommodation charge should equal the interest income available from a bond.

Respite Residents

It can be seen in Figure 1.1 that neither the Government, nor respite residents themselves provide any funding to go towards the cost of accommodation. This needs to be addressed as soon as possible, so that there are fewer disincentives to admitting respite residents into residential aged care facilities.

Other Needs

Other costs that Residential Aged Care Providers face include, but are not limited to:

Figure 1.5 – Other Residential Aged Care Provider Costs

Wages and Salaries of non-aged care facility staff
All on-costs of non-aged care facility staff
Audit
Education and Training
Repairs and Maintenance
Legal Costs
Depreciation - IT
Depreciation - Plant & Equipment
Depreciation - Motor Vehicles

All of the above costs would be faced by Residential Aged Care Providers. However, there is no obvious funding provided by the Government for these costs. Neither is income derived from residents easily attributable to these costs.

Bond Retentions

Retentions should not be allowed, due to their complexity. Residents and their families find them difficult to understand. They also only have a five year life; thereafter Providers are reluctant to give them a place at their facilities, which can make it difficult for the family to find their relative a home. Residential Aged Care Providers find them difficult to manage, due to them simultaneously providing income and reducing financing available to cover the capital cost of the facility.

Respite Residents

It can be seen from the discussions above, that both income sources for respite residents (fees and Government subsidies) are insufficient

Figure 1.6 – A proposal to cover Residential Aged Care Provider overhead costs

Overhead Costs	Government Funded	Resident Funded	Capital Sufficient	Capital or Income Sufficient	Insufficient Income & Capital	Respite
	-	* Overhead Charge	DOI&C	DOI&C	N	N
	-	* Respite Overhead Charge	DOI&C	DOI&C	N	N
	-	Bond Interest	Y	N	N	N
	*** Overhead Subsidy**	-	Y	Y	Y	N
	*** Respite Overhead Subsidy**	-	N	N	N	Y
	Viability Supplement	-	*DOL*	*DOL*	*DOL*	*DOL*
	Interim Accommodation Supplement	-	*DOG*	*DOG*	*DOG*	*DOG*

Key:
Y = Yes
N = No
O = Optional
DOB = Dependent on Bond Value
DOI&C = Dependent on Income & Capital
DOG = Dependent on Government
DOL = Dependent on Location

Notes:
* New Government subsidies and resident charges.

An extensive survey with accompanying analysis would be needed to determine what the average Residential Aged Care Provider overhead cost is per resident. That is beyond the scope of this submission, though an organization such as Grant Thornton who produced the "Aged care survey 2008" would have the ability to research this topic.

For the purposes of this submission, it would be fair to assume that overhead costs would be equivalent to the daily financing needed to support the average resident of a new facility, which is $30.37 per day. This amount could be provided for by new fees: "Overhead Charge" and "Respite Overhead Charge" levied against residents who would normally pay an Income Tested Fee. If the resident was unable to pay the full $30.37 per day themselves, the Government would need to pay the difference through new subsidies "Overhead Subsidy" and "Respite Overhead Subsidy".

The Overhead Charge and Overhead Subsidy could potentially be any figure between $0.00 and $30.37 for each resident, due to differing assets and income of residents. However, combining both should equal $30.37.

Capital Sufficient Residents who are able to provide a bond of $176,000 would be regarded as supplying sufficient capital to cover the cost of their room. Any amount by which bonds exceed this amount would be applied to "Overhead Costs", in particular, financing organization debt, due to acquisition of plant & equipment, motor vehicles, new buildings, IT etc. The Overhead Charge that would be levied on Capital Sufficient Residents could be reduced according to the value of their bond in excess of $176,000. The Overhead Charge would reduce to $0.00 when the bond reached $352,000.

Term (b):
How appropriate the current indexation formula is in recognizing the actual cost of pricing aged care services to meet the expected level and quality of such services.

This response to "term (b)" does not address the appropriateness of the current indexation method. Instead, a proposal for a new index has been made.

A more viable solution for Indexation for Care Needs
The following indexation would only need to be applied to subsidies that apply to "Care Needs": ACFI Subsidies, Respite Subsidies, Oxygen Supplement, Enteral Feeding Supplement, Respite Supplement, and Respite Incentive Supplement.

The cost of servicing the "Care Needs" of Residential Aged Care residents consists of two parts:

1) Care Related Wage Expenses (CRWE) – care staff, nurses, managers and admin etc & all on-costs such as annual leave, sick leave, long service leave, superannuation etc, and agency staff costs.
2) Care Related Non-Wage Expenses (CRNWE) - medical supplies, oxygen & enteral feeding equipment.

The indexation for the above two components of Care Need expenditure would ideally be:

- The CRWE can be indexed by the national Average Weekly Ordinary Times Earnings (AWOTE).
- The CRNWE can be indexed by the national Consumer Price Index (CPI).

The "Care Need" subsidies and supplements should be adjusted by an average of the AWOTE and the CPI. A simple average would produce an incorrect index, as the two components each make a lesser or greater impact on the cost of providing the services. This can be factored into the average by using weightings, based on the historical averages of total cost of servicing care needs caused by these components.

The new index would be applied to all "Care Need" subsidies and supplements. It could be called the Residential Aged Care Care Needs Index (RACCNI).

The recommended formula for the index is:

RACCNI = (pCRWE x AWOTE) + (pCRNWE x CPI)

Definitions:

pCRWE = Proportion of CRWE of the total cost.
pCRNWE = Proportion of CRNWE of the total cost.
CPI = Consumer Price Index
AWOTE = Average Weekly Ordinary Times Earnings (index)
RACCNI = Residential Aged Care Care Needs Index

These proportions should be reviewed annually, and adjusted when necessary.

An example of the formula in use follows:

Given these variables:

pCRWE = 80%
pCRNWE = 20%

CPI = 4% per year
AWOTE = 7% per year

RACCNI = (pCRWE x AWOTE) + (pCRNWE x CPI)

RACCNI = (0.8 x 0.07) + (0.2 x 0.04)

RACCNI = 0.056 + 0.008

RACCNI = 0.064

RACCNI = 6.4%

The influence of the component weightings combined with their index is:

pCRWE & AWOTE: 0.056 / 0.064 = 87.5%
pCRNWE & CPI: 0.008 / 0.064 = 12.5%

Checking that the influences add up to 100%:

1.0 = 0.875 + 0.125

If the RACCNI was not weighted, instead using a simple average, in the above example it would become:

RACCNI = (0.25 x AWOTE) + (0.25 x CPI)

RACCNI = (0.5 x 0.07) + (0.5 x 0.04)

RACCNI = 0.035 + 0.02

RACCNI = 0.055

RACCNI = 5.5%

The influence of the component weightings combined with their index is:

0.5 & AWOTE: 0.035 / 0.055 = 63.64%
0.5 & CPI: 0.02 / 0.055 = 36.36%

Checking that the influences add up to 100%:

1.0 = 0.6364 + 0.3636

Comparing the influences of the weighted average method and the simple average method:

Component	Simple Average	Weighted Average	Difference
CRWE	63.64%	87.5%	(23.86%)
CRNWE	36.36%	12.5%	23.86
Total	100%	100%	0%

Note that the simple average's under allocation of CRWE by 23.86% has resulted in and is equal to the over allocation in the CRNWE allocations.

Though the RACCNI is only 0.9% understated by using the simple average instead of the weighted average, it can be seen that the weighted average is a superior methodology in calculating the true increase in the total cost of care related service provision.

The RACCNI should be applied to the following Government subsidies and supplements:

- ACFI subsidies
- Respite subsidies
- Oxygen supplements
- Enteral feeding supplements
- Respite supplements
- Respite incentive supplements
- Viability supplements

Indexation for Accommodation Needs

The accommodation subsidies should be adjusted according to changes in the national construction index, on a quarterly basis, and changes in interest rates, whenever the Reserve Bank of Australia changes them. The above formula would need to be used to calculate the increase needed. The supplement should also be reviewed every three years, to make sure that the funding amount does not become out of line with the cost of new facility construction.

Indexation for Community Aged Care funding

More than 70% of community aged care expenses are wage related. Due to this, Baptistcare believes that the RACCNI would not be an appropriate index for community aged care. Instead, community aged care funding should be adjust according to changes in the AWOTE (Average Weekly Ordinary Times Earnings) applicable nationally.

Term (c):
Measures that can be taken to address regional variations in the cost of service delivery and the construction of aged care facilities.

Regional variations were recognised and addressed in the structure of payments made prior to the current Act. This was changed by the process implemented during the 1997-2000 period.

From a staffing point of view, which accounts for at least 60% of all operating costs, irrespective of the type of residential care facility, there is no such thing as a competitive advantage held by any area of Australia over any other area. Australia's industrial relations system tends to remove any short term competitive advantage that might exist.

From a construction perspective, regional variations exist because of price differentials in the construction industry as a whole. These change as construction activity changes. Over the past few years, construction costs have increased in some parts of Australia at a rate far in excess of the CPI. To develop a system to monitor and adjust subsidies to account for such wide variation would be administratively cumbersome. A far simpler way to address this issue is to provide interest subsidies on actual costs incurred in construction. This can be carried out in conjunction with regional capital subsidies that currently exist.

The Viability Supplement

This response assumes that if the existing viability supplement is overhauled in terms of eligibility criteria, subsidy levels and indexation, that Residential Aged Care providers of facilities in regional areas will receive a more reasonable level of viability supplement to help cover the higher operating costs of those facilities.

The viability supplement should be available to remote providers, regardless of the number of beds they have.

The purpose of the viability supplement should be to off-set the increased cost of operating aged care facilities in remote areas. These costs would include:

- Higher costs of construction,
- Staffing shortages. Advertising for essential staff, such as facility managers & nurses, care assistants, cleaners etc.
- Higher transportation costs, with flow-on increased costs of food, medical equipment, petrol, consumables etc.
- Higher wage costs to retain staff, such as managers and nurses.
- Higher training costs, due to the need of trainers travelling to the facility.
- Higher telephone costs, due to STD phone calls being needed to communicate with the aged care provider's non-local head office.

The viability supplement should also go some way to offset the difficulty in replacing vacated residents, due to the small potential resident demand base of regional areas.

The name of the viability supplement should be changed too. It should be called the "Regional Supplement" so that it better reflects the cause of the problem (a regional location), rather than the symptom (unviable operations).

The existing viability supplement goes some way to address the higher cost of service provision of residential aged care services; however it needs to be overhauled.

The following situation currently exists at one of Baptistcare's residential aged care facility sites in the town of Manjimup in the South West region of Western Australia:

Baptistcare owns and operates a facility called Moonya. The site consists of a hostel and a nursing home that are located directly next to each other, on the same piece of land, yet they have separate RACS IDs.

Moonya Hostel – 30 low care places.
Moonya Nursing Home – 35 high care places.

Due to being in an isolated country town and having two RACS IDs, Baptistcare receives viability supplements for both the hostel and the nursing home. If Baptistcare combines the two RACS IDs into one, no viability supplements will be received. This is inequitable, as Baptistcare is burdened with the same high regional operating costs whether it has two RACS IDs or one.

Baptistcare wants to combine the two RACS IDs, as it will result in the following benefits: reduced overhead costs associated with providing accounting services, purchasing services, asset management services, accounts payable, accounts receivable, human resources, payroll etc. for two facilities instead of one. All of these extra expenses come from the need to report to the Government based by the RACS IDs. To provide a single report would be insufficient.

All of these benefits would enable Moonya to be more financially viable; however the benefits are off-set by the Government taking away the viability supplements.

The above scenario shows that the Government's criteria for eligibility of receiving the viability supplement has created considerable disincentives to improve the financial performance of Moonya by consolidating the two RACS IDs. Due to this, Baptistcare will continue to operate the facility under two RACS IDs, until the Government changes the eligibility criteria of the viability supplement.

Term (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.

Daily Care Needs

Daily care needs encompass the following expenses:

Cleaning wages	Superannuation
Food Preparation wages	Food
Gardening wages	Catering costs
Annual leave	Laundry costs
Sick leave	Toiletries
Long service leave	

Baptistcare believes that the Government's support of a "user pays" basis is appropriate. The basic daily care fee adequately covers the costs associated with providing daily care needs.

Accommodation Needs

This section is the same as what appears in the section "Term (a)", due to Baptistcare's proposal simultaneously effecting government subsidies and user payments, dependent on the financial capacity of the resident.

The needs of the resident in relation to their accommodation include:

Building costs	Maintenance wages
Building depreciation	Annual leave
Building maintenance	Sick leave
Electrical maintenance	Long service leave
Plumbing maintenance	Superannuation

Baptistcare believes that the current structure of income sources and Government funding fails to comprehensively address the need of residential aged care providers to cover the costs of financing the accommodation needs of residents. The comments that follow have been written with the hope of providing an equitable solution to those aged care providers who are reluctant to construct new aged care facilities, and to provide a solution to the Government's inadequate funding of accommodation needs.

Background

Aged care providers are reluctant to build new facilities, due to the low returns on investment offered, and the difficulty of obtaining and servicing debt that is required to build such facilities. This can be seen when the available aged care places in the 2007 Aged Care Approval Round were not all applied for.

This is critically important to address now, as the situation will become much worse as the baby-boomers age. If this issue is not addressed soon, it will become a national crisis in the years ahead. It is important to note the time-lag of constructing new facilities. Delayed action will result in supply not being able to match demand for a number of years, during which potential residents who are unable to obtain a place will be forced to remain in community aged care, which would be undesirable if they were classed as high-care.

Financing the Capital Cost of Facilities

It is Baptistcare's belief that residential aged care residents should pay for their own accommodation. This is consistent with the Government's "user pays" principle, applicable to the residents' daily needs (see "Daily Needs" section above). This currently occurs, in effect, for financial low care residents who are required to pay a bond. However, the current subsidies and charges for non-bond paying residents fail to meet these costs.

The concept that residential aged care residents should pay for their own accommodation has a parallel with normal housing. A bond paying resident is equivalent to an owner-occupier, an accommodation charge paying resident is

equivalent to somebody renting, while a concessional resident is similar to someone who receives the pension/Newstart/disability pension etc. with rent assistance.

The fact is, that in both the residential aged care scenario, and the housing scenario, there is a need that needs to be filled – accommodation. The way in which the three different groups obtain and use funds to gain accommodation is quite different however, yet they all achieve the same goal – accommodation for themselves.

Fig 1.2 – A comparison of aged care accommodation and normal housing.

	Residential Aged Care	Housing
Capital Sufficient	Bond	Owner-occupier
Capital or Income Sufficient	Accommodation Charge	Renting, using own funds.
	Interest only bond option	Renting, using own funds.
	Accommodation Charge	Renting, using own funds.
Insufficient Income & Capital	Concessional Supplements	Renting, but receiving rent assistance, or living in government housing.

Currently in residential aged care, bond paying residents are subsidising the other two groups. This would be totally unthinkable in normal residential housing, though it happens somewhat, in terms of the capital or income sufficient people having to pay higher taxes, which subsidises those who need government assistance.

<u>The average cost of constructing a new facility</u>
If the expected cost of construction of a new facility is $176,000 per place, as the Grant Thornton Aged Care Survey 2008 suggests, then a new, modern single room 100 bed residential aged care facility should cost around $17,600,000.

Facilities can consist of four classes of residents, classed according to their financial status (plus respites):

5) Capital Sufficient
6) Capital or Income Sufficient
7) Insufficient Income & Capital
8) Respite Residents

Each class of resident will need to finance $176,000.

Using the principle outlined above, that residents, from whatever financial background need to support their own accommodation costs, we will now analyze how the residents & Government can fund their individual places.

5) Capital Sufficient: Residents that can provide a bond of $176,000 would be regarded as supplying sufficient capital to cover the cost of their room. Any amount by which bonds exceed this amount would be applied to “Overhead Costs” (see below section).
6) Capital or Income Sufficient: These residents (by their own means) will need to cover the cost of financing the $176,000.

7) Insufficient Income & Capital: These residents (through Government subsidies) will need to cover the cost of financing the $176,000.
8) Respite Residents: These residents (by their own means and through Government subsidies) will need to cover the cost of financing the $176,000.

Calculating the daily cost of financing $176,000.
Assuming that aged care providers are able to source financing at an interest rate equal to the Reserve Bank of Australia's (RBA) targeted cash rate (for the calculations below, assumed to be 5.5%), plus 100 basis points (1%), the cost of financing is 6.5%. Calculations of what this amounts to are provided in Figure 1.3 below.

Figure 1.3 – The financing need of rooms at average new Aged Care Facilities

Days	Period	Financing Need															
365	Annually	$ 11,085.05															
91	Quarterly	$ 2,763.67															
30	Monthly	$ 911.10															
14	Fortnightly	$ 425.18															
7	Weekly	$ 212.59															
1	Daily *	$ 30.37	=	$ 176,000	x	(	1	+	6.50%	)	^	(	1	/	365	)	- $ 176,000
	Formula																
	***	*Financing Need*	=	*COARAF*	*x*	*(*	*1*	*+*	*IR*	*)*	*^*	*(*	*Y*	*/*	*Per*	*)*	*- COARAF*
	Key:																
		COARF	Cost Of Average Room At Facility														
		IR	Interest Rate (RBA cash rate, plus 1%)														
		^	To the power of / exponent function														
		Y	Number of years														
		Per	Number of periods														
	*	The daily financing need has been rounded to two decimal places, reflecting the custom of the Government to pay in whole cents.															
	**	The formula reflects compounding interest on a daily basis.															

The $30.37 per day is what the maximum amount that the proposed "Accommodation Subsidy" would be. This amount would be reduced, according to the formula by reducing the financing need by any bond provided to the aged care facility. As bond amounts can be any amount, the "Financing Need" could potentially be any figure between $0.00 and $30.37 for each resident.

The average bond from low care bond paying residents must at least equal the cost of construction per bed. If it is below that cost, the cost of construction would need to be paid from some other source, which is inequitable.

Do current accommodation charges cover the interest cost of the capital required to build new facilities?
The annual value of the accommodation charges can be calculated as:
$26.88 per day x 365 days per year = $9811.20

Does this meet the cost of financing the $176,000 cost of building the room for the accommodation charges? No.

There are two ways of looking at the shortfall. How much of the interest rate does it cover, and how much of the interest cost does it meet.

It does not meet the 6.5% cost of financing:
$9811.20 / $176,000 = 5.57%
6.5% - 5.57% = 0.93% short.

Or the total cost the capital required to build the room:
$9811.20 / 6.5% = $156,979.20
$176,000 - $156,979 = $19,020.80 short in total.

Or the interest repayments:
$11,000 - $9,811.20 = $1,188.80 short per year.
$30.14 - $26.88 = $3.26 short per day.

Recommendations

The current Government funding streams for concessional and assisted residents need be merged into one subsidy. For the purposes of this response, the proposed subsidy will be referred to as “Accommodation Subsidy”.

It is recommended that the government immediately abolishes the 40% concessional level required to receive the maximum subsidy amount, and it should adjust the accommodation supplement to $30.14 per day, for all concessional residents.

Interest only Bonds

These can be replaced with the accommodation charge, as the accommodation charge should equal the interest income available from a bond.

Respite Residents

It can be seen in Figure 1.1 that neither the Government, nor respite residents themselves provide any funding to go towards the cost of accommodation. This needs to be addressed as soon as possible, so that there are fewer disincentives to admitting respite residents into residential aged care facilities.

Concessional Subsidies

This funding makes sense to help support aged care facilities that have concessional residents. However, the current way that these are administered need to be changed. An alternative to the current system follows: the minimum concessional places (by region) should be removed. The 40% concessional ratio funding change level also needs to be removed. These should be replaced with a simple subsidy that is payable based on concessional resident numbers. It should be increased from what the current > 40% subsidy is. The higher subsidy will provide an adequate incentive to aged care providers, so that they don’t consistently choose financial residents over concessional ones. It could even be set at different levels for different regions, to ensure that concessional residents are not neglected by aged care providers.

Adjusting the proposed "Accommodation Subsidy" & "Accommodation Charges" for the age of facilities

A tiered system for the adjustment would be ideal, based on the age of the building (or age of major refurbishments).

Facility Age Range in Years	Percentage of Maximum Accommodation Charge &/or Accommodation Subsidy	Accommodation Charge &/or Accommodation Subsidy Per Day	Decrease From Above Age Range (%)	Decrease From Above Age Range ($)
0.00 – 4.99	100%	30.14	-	-
5.00 – 9.99	90%	27.12	10%	3.02
10.00 – 14.99	80%	24.11	11%	3.01
15.00 – 19.99	70%	21.10	12%	3.01
20.00 – 24.99	60%	18.08	14%	3.02
25.00 – 29.99	50%	15.07	17%	3.01
30.00 – 34.99	40%	12.05	20%	3.02
35.00 – 39.99	30%	9.04	25%	3.01
40.00 – 44.99	20%	6.03	33%	3.01
45.00 – 49.99	10%	3.01	50%	3.02
50.00 +	0%	0.00	100%	3.01

The tiered system would provide for a more equitable distribution of government funds, which redistribute the proposed accommodation subsidy funding from older residential aged care facilities to newer facilities. This is equitable, as the greatest burden of depreciation for providers is when the facility is recently purchased, due to straight line depreciation for buildings not taking inflation into consideration. As the facilities become older, they will increase accommodation subsidies due to indexation, though the depreciation charge is not indexed.

Older facilities will still need funding, due to the need for repairs and maintenance of the buildings. However, the facility would be close to (or have reached) full depreciation, therefore not needing as much funding. Older facilities would not be as attractive to potential residents either, which would result in them attracting lower bonds. This would not be a problem though, due to the amount of depreciation that would have occurred.

The proposed accommodation subsidy adjustment would have the effect of reducing the large disparity between multi-bed and single-bed rooms in terms of their EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation). This disparity has been documented in the Grant Thornton Aged Care Survey 2008. The tiered system would also encourage aged care providers to replace or refurbish the dated facilities that have multiple beds in one bedroom. This is desirable, as if the same facility designs were used for aged care facilities built today; they would not meet accreditation standards.

Funding for land

Baptistcare believes that the government should not fund any land that a residential aged care provider may need to build a new facility, in terms of higher subsidies payable to providers, as land is able to be sold by the provider at a later date. However, the government should be willing to provide crown land, land granted to the aged care provider, or loans that have an interest rate equal to the Consumer Price Index (CPI), adjusted by changes to this on an annual basis. The government could also purchase required land, and retain ownership of it, but let aged care providers use the land.

High Care Bonds

With the Government's move to replace low-care places with Community Aged Care, this would result in a huge drain of cheap debt (0% interest bonds) from providers. Providers will face financial ruin if they are forced to replace this debt with debt at commercial rates of interest, and I am sure that the Government does not have the capacity to provide the required capital to providers at no interest. This is why it is essential that residential aged care providers should be able to insist on a bond from high care residents that are financially able to pay one. There is no valid reason to restrict providers from doing so.

Retentions

Retentions on bonds are very complicated to administer. The government, aged care providers and residents would benefit from them being disallowed, due to excessive expenditure and confusion in their administration. Instead, accommodation charges should be increased.

Other Needs

This section is the same as what appears in the section "Term (a)", due to Baptistcare's proposal simultaneously effecting government subsidies and user payments, dependent on the financial capacity of the resident.

Other costs that Residential Aged Care Providers face include, but are not limited to:

Figure 1.5 – Other Residential Aged Care Provider Costs

Wages and Salaries of non-aged care facility staff
All on-costs of non-aged care facility staff
Audit
Education and Training
Repairs and Maintenance
Legal Costs
Depreciation - IT
Depreciation - Plant & Equipment
Depreciation - Motor Vehicles

All of the above costs would be faced by Residential Aged Care Providers. However, there is no obvious funding provided by the Government for these costs. Neither is income derived from residents easily attributable to these costs.

Bond Retentions

Retentions should not be allowed, due to their complexity. Residents and their families find them difficult to understand. They also only have a five year life, thereafter Providers are reluctant to give them a place at their facilities, which can make it difficult for the family to find their relative a home. Residential Aged Care Providers find them difficult to manage, due to them simultaneously providing income and reducing financing available to cover the capital cost of the facility.

Respite Residents

It can be seen from the discussions above, that both income sources for respite residents (fees and Government subsidies) are insufficient

Figure 1.6 – A proposal to cover Residential Aged Care Provider overhead costs

	Government Funded	Resident Funded	Capital Sufficient	Capital or Income Sufficient	Insufficient Income & Capital	Respite
Overhead Costs						
	-	* Overhead Charge	DOI&C	DOI&C	N	N
	-	* Respite Overhead Charge	DOI&C	DOI&C	N	N
	-	Bond Interest	Y	N	N	N
	*** Overhead Subsidy**	-	Y	Y	Y	N
	*** Respite Overhead Subsidy**	-	N	N	N	Y
	Viability Supplement	-	*DOL*	*DOL*	*DOL*	*DOL*
	Interim Accommodation Supplement	-	*DOG*	*DOG*	*DOG*	*DOG*

Key:			
	Y = Yes	N = No	O = Optional
	DOB = Dependent on Bond Value		DOI&C = Dependent on Income & Capital
	DOG = Dependent on Government		DOL = Dependent on Location

Notes:

* New Government subsidies and resident charges.

An extensive survey with accompanying analysis would be needed to determine what the average Residential Aged Care Provider overhead cost is per resident. That is beyond the scope of this submission, though an organization such as Grant Thornton who produced the "Aged care survey 2008" would have the ability to research this topic.

For the purposes of this submission, it would be fair to assume that overhead costs would be equivalent to the daily financing needed to support the average resident of a new facility, which is $30.37 per day. This amount could be provided for by new fees: "Overhead Charge" and "Respite Overhead Charge" levied against residents who would normally pay an Income Tested Fee. If the resident was unable to pay the full $30.37 per day themselves, the Government would need to pay the difference through new subsidies "Overhead Subsidy" and "Respite Overhead Subsidy".

The Overhead Charge and Overhead Subsidy could potentially be any figure between $0.00 and $30.37 for each resident, due to differing assets and income of residents. However, combining both should equal $30.37.

Capital Sufficient Residents who are able to provide a bond of $176,000 would be regarded as supplying sufficient capital to cover the cost of their room. Any amount by which bonds exceed this amount would be applied to "Overhead Costs", in particular, financing organization debt, due to acquisition of plant & equipment, motor vehicles, new buildings, IT etc. The Overhead Charge that would be levied on Capital Sufficient Residents could be reduced according to the value of their bond in excess of $176,000. The Overhead Charge would reduce to $0.00 when the bond reached $352,000.

Term (e):
Whether the current planning ratio between community, high and low-care places is appropriate.

Residential Aged Care Places

The Government currently has two rationing mechanisms for access to aged care. The first is the planning ratio system and the second, the aged care assessment.

The planning ratio system is unnecessary. It considers the numbers of aged people in a region and based on those figures attempts to identify future need. It ignores changes that have occurred in family relationships over recent decades and does not recognize that people entering residential aged care are likely going to prefer residing at a facility close to where their children live, rather than close to where they previously lived.

The decision as to where to construct residential aged care places should be left to the market and only if the market fails to provide sufficient places should the Government intervene.

Baptistcare believes that the Government could still restrict recurrent funding only to 'Approved Providers' should it wish to retain such a control, however would like to suggest that the process of the annual assessment round be reviewed. Instead of the Government determining the number of packages available, we recommend that the packages be determined by the provider's ability to service the packages. Part of the submission would require the demonstration that infrastructure is in place to be able to service the number of packages requested. In this way suitable supply can meet the demand for packages, and should reduce the risk that, with the expected increase in the ageing population, there be insufficient supply response to meet increasing demand. The rationing of places could and should occur only within the ACAT application process. Such a system is immediately responsive to both the need for access and availability of access, whereas the planning ratios have a time lag of years.

The Governments targeted ratio of low-care, high-care and community care places is excessively regulatory. There should be a market approach, which will come to equilibrium between the three types of places through the laws of supply and demand.

The Government's excessive regulation of available low-care, high-care and community care places will result in the restriction of aged care services to needy, aged Australians. This can't be sustained, as in the near future, the growing numbers of people needing aged care services will overwhelm the current rationing system. The Government needs to provide for as many low-care, high-care and community care places that are demanded. Aged care providers of should only be able to accept residents and clients that they can service, and that are financially viable. The Government could also restrict the numbers of people that receive places and packages by increasing the ACAT criteria required for the potential provider to receive funding.

Currently, not all potential residents are able to gain access to residential aged care places. While this is reasonable for the lower range of low-care places, it is not reasonable for the other higher need potential residents.

In summary, considering that the number of Australian residents needing aged care is expected to increase significantly in coming years, to meet this expected demand, supply needs to be loosened up now.

Increasing the supply of high and low-care residential aged care places

While residential aged care providers are eager to develop new facilities for future residents, they can't do so due to the economic infeasibility of doing so. This is the result of inadequate Government funding, and inefficient policies such as not allowing residential aged care providers to insist on high-care residents paying a bond. The Government needs to alleviate this problem by making the construction and operation of new RACFs economically feasible. See comments in relation to "term (a)" and "term (d)" for recommendations on how to address this issue.

Due to the low profitability of running residential aged care facilities, the providers of such facilities already self-ration the number of residents they service. They do this by limiting the number of places that they apply for.

Community Aged Care Places

Baptistcare thinks that the Governments approach to community aged care funding should be re-adjusted. The approach should first ask:

How many people that have an ACAT need community aged care services?

This figure should be multiplied by the average community aged care place funding need, to arrive at the total required funding need. This figure should be compared to the amount of money that has been budgeted for community aged care, and if the amount budgeted is inadequate; money should be used from Government surpluses, and/or the minimum criteria for meeting ACAT requirements needs to be increased.

This can be showed diagrammatically:

Suggested CAC Funding Model	Current CAC Funding Model
People desiring community aged care.	People desiring community aged care.
Restricted by the need to have an ACAT.	Restricted by the number of community aged care places, and the need to have an ACAT.
People given a community aged care place.	People given a community aged care place.
Multiplied by	Multiplied by
Average subsidy need for the community aged care recipients.	Average subsidy that the government has budgeted to spend on the community aged care recipients.
True cost of providing community aged care subsidies to all people that need community aged care.	Budgeted cost of providing a budgeted level of community aged care subsidies.

It is true that the current residential places allocation and funding that the Government is administering will have an impact on the provision of community aged care places.

This can be seen in the unwillingness of residential aged care providers allocating places to the lower care-need range of potential low-care residents, due to insufficient ACFI funding for very low care residents. These potential residents would instead need to receive community aged care, which of course requires a community aged care place, allocated by the government.

The Government's capping of the number of available community aged care places should be removed. Community aged care providers would limit the number of clients that they could service, based on the providers ability to adequately service that client base at a level that is financially viable.

Instead of capping the number of available community aged care places, all people that have an ACAT should be able to receive services from community aged care providers that are willing to service them.

This would effectively remove the need for the capping, and handing out of places, with all of the other costs of managing and administering this system for both the Government and community aged care providers.

The criteria that the government can use to set the minimum need level of potential community aged care recipients can be adjusted as needed, effectively limiting the number of community aged care places that will need to be funded.

Community aged care providers will naturally respond to growing demand for community care places. This will occur provided that it is financially viable for the provider to do so. The Government needs to make sure that community aged care funding is adequate to make sure that supply will meet demand in the future.

Term (f):
The impact of current and future residential places allocation and funding on the number and provision of community care places.

Any suggestion of expanding community aged are places at the expense of residential places, needs to be considered very carefully. While community aged care is inexpensive in terms of capital, it is the least productive because of the time spent travelling between differing locations, offers the lowest quality because of the absence of immediate supervision, and can only hope to be cost effective when it provides low care services.