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Submission to the Inquiry into Residential and Community Aged Care in Australia

by

The Senate Standing Committee on Finance and Administration

1st December, 2008

Our Association represents 55 residential aged care facilities in South Australia, which operate a total 3,712 residential aged care beds, 83% of which are high care. One of our members operates 75 community care packages.

Our submission addresses several of the Inquiry's terms of reference:

Whether the current funding levels are sufficient to meet the expected quality service provision outcomes.

The current funding levels are plainly inadequate, and the evidence for this is compelling.

<u>Care funding</u> is provided by the Commonwealth in the form a subsidy for each resident which is determined by the Aged Care Funding Instrument (ACFI) plus, until June 2009, a Conditional Adjustment Payment (CAP).

Below, under the next term of reference, we have explained the inadequacy of the formula used to adjust subsidies on an annual basis, and the increasing erosion in the real value of care subsidies which has resulted.

The consequences of this erosion are clearly evident in a number of reports of the financial performance of aged care providers, the most recent being the report of the Aged Care Survey 2008, conducted by accounting firm, Grant Thornton. This report found that:

- aged care service providers' average earnings per bed per annum were $2,934 in 2008, down from $3,211 in 2007 *
- providers offering modern, single room accommodation performed worst of all, earning just $2,191 per bed per annum, or a 1.1% return on investment *
- the regulatory and pricing framework threatens the viability of the sector
- many aged care providers are incurring unsustainable losses

* the earnings quoted are before interest, taxation, depreciation and amortisation (EBITDA)

<u>Capital funding</u> is derived by an accommodation charge or supplement, currently a maximum of $26.88 per resident per day, OR, for residents entering as low care only, the retention and interest derived from a refundable accommodation bond.

The need for very significant capital investment in residential aged care accommodation is evident when one considers the expected growth in demand for places. Currently, there are 170,000 residential aged case places in Australia, and this will need to increase to 567,000 by the middle of this century.

Currently >70% of residents entering aged care require high care, and this proportion will increase. Therefore the future demand will be overwhelmingly for high care beds, yet providers offering high care accommodation are unable to receive bonds from their residents.

The cost of building aged care facilities has increased dramatically in recent years. Estimates vary across the country, however the Grant Thornton survey reported anticipated building cost for new facilities was $176,000 per bed, excluding land costs.

Given these escalating costs, the $26.88 daily accommodation payment received by high care providers can be seen as an utterly inadequate amount to provide for the cost of building new places.

Last year, for the first time, the allocation of residential bed licenses was under-subscribed in Western Australia and Tasmania. The unwillingness of providers to invest in new places is expected to be more pronounced this year, with a number of major operators around the country publicly stating they will not be making applications.

The Grant Thornton survey found that 44% of Australia's aged care facilities are more than 20 years old and that many operators have deferred or abandoned development plans because of the high level of investment needed, and the very low returns being achieved by providers who offer modern, single room accommodation.

Consumers are increasingly demanding single room accommodation, and the government's certification requirements for new building require greater space and privacy for residents.

Thus, the current funding levels are insufficient to build the type of accommodation which consumers and the government want, and for those facilities which have already been built, the returns to providers are completely inadequate and unsustainable.

<u>Recommendations</u>

Introduce a system of subsidy indexation which reflects the actual cost of delivering quality aged care.

Uncap the daily accommodation charge for high income older people and increase it for those on a medium income so it is equivalent to the average previous year's bond.

Remove the inequity between high and low care by giving real choice to those older Australians who want to pay an upfront refundable deposit for their high care accommodation.

Link government payments for concessional residents to the average cost of building a bed.

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.

The basic formula for adjusting aged care subsidy rates is the Commonwealth Own Purpose Outlays (COPO) formula. Over the past 10 years this has resulted subsidy increases averaging about 2% per annum, far below the annual increases in wages and other cost inputs which aged care providers have had to meet.

In 2004-5 the government introduced the Conditional Adjustment Payment (CAP) to supplement the inadequate COPO adjustments. CAP adds a further 1.75% per annum to the basic subsidy amount.

However, even with CAP included, subsidy increases have still been slightly below increases in the Health and Community Services Labour Price Index for the same period.

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.

Among the consequences of this erosion are the financial decline of the industry as outlined on page 2, and aged care staff receiving lower rates of pay compared to other healthcare sectors.

It must be noted that CAP is a temporary funding measure with no guarantee of continuation beyond the current financial year. Should CAP payments not continue to be increased at 1.75% in future years, subsidy increases would revert to the inadequate COPO formula.

<u>Recommendations</u>

In the short term, continue CAP indexation beyond 2008-09.

Extend CAP to community care programmes

Provide a one-off boost to aged care subsidies to allow aged care wages to catch up to their counterparts in other healthcare sectors <u>and</u> introduce a system of subsidy indexation which reflects the actual cost of delivering quality aged care.

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

Residents entering age care with high care needs do not have the choice of paying an accommodation bond. This prevents them from potentially benefitting from the exemption which applies to bond amounts for the purpose of the pension asset test.

It also means that, as a group, low care residents, who can pay a bond, contribute disproportionally to the cost of building and the accommodation costs of aged care. Therefore, the capital funds needed to build high care facilities are not available.

The inevitable result will be an insufficient number of places and therefore insufficient access to aged care for the group which currently comprises >70% of the residential aged care population.

Recommendation

Remove the inequity between high and low care, by providing real choice to those older Australians who want to pay an upfront refundable deposit for their high care accommodation.

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whether the current planning ratio between community, high and low care places is appropriate

As stated above, the residential aged care population is comprised of > 70% of high care residents. This proportion will inevitably grow as people remain in their own homes for longer, delaying entry into residential care, and therefore a greater proportion will enter at a later, frailer stage of their lives.

By comparison, the government's planning target for aged care places is for 113 places for every 1,000 people aged 70 years and older in Australia.

Of this total, 88 are residential places, 44 high care and 44 low care.

Clearly, the ratio is not appropriate, as there is a vast disconnect between actual the residential aged care population, comprising > 70% high care, and a planning ratio which aims for a 50:50 split between residential high and low care.

With the proportion of high care residents bound to increase over time, the current ratio will become increasingly inappropriate.

Recommendation

The planning ratios need to be completely redesigned. Research needs to be undertaken determine to the likely future demand for aged care services, both overall and by the different levels of care which will be required. This research needs to consider a range of factors including the numbers of elderly people in the community, and the likely levels illness, frailty and disability they will experience.

These factors will vary in different parts of Australia, therefore the planning ratios will need to incorporate regional flexibility to take this into account.

We emphasise however, that fixing the inadequacies of the planning ratios will be of no benefit unless the underlying financial impediments to operating and building aged care facilities, as described in this submission, are properly addressed.

Paul Carberry
Chief Executive Officer