The Bethanie Group Inc

REPORT

CE: 01.01

1 December 2008

SENATE FINANCE AND PUBLIC ADMINISTRATION COMMITTEE - INQUIRY INTO RESIDENTIAL AND COMMUNITY AGED CARE IN AUSTRALIA

I write this Report in three parts:

1 Confirmation of the Terms of Reference of the Committee Inquiry;
2 Commentary on the specific questions raised by the Terms of Reference; and
3 Some final comments to the Committee on ensuring the planning and financing of the next forty years of aged care service in Australia is given due attention

I offer the following comments and observations based on my twenty six years in a range of administrative, general and executive management roles in a range of community and residential aged care services in Western Australia. I have been the Chief Executive of The Bethanie Group Inc for the past 15 years.

1 Background to, and Terms of Reference of, the Inquiry

I confirm my understanding that the background to, and Terms of Reference ("TOR") of, the Senate Finance and Public Administration Committee Inquiry into Residential and Community Aged Care in Australia ("Inquiry") are as follows:

> On 14 October 2008, the Senate referred to the Finance and Public Administration Committee for inquiry and report by the first sitting day of April 2009:
>
> *The funding, planning, allocation, capital and equity of residential and community aged care in Australia, with particular reference to:*
> *(a) whether current funding levels are sufficient to meet the expected quality service provision outcomes;*
> *(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;*
> *(c) measures that can be taken to address regional variations in the cost of service delivery and the construction of aged care facilities;*
> *(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;*
> *(e) whether the current planning ratio between community, high- and low-care places is appropriate; and*
> *(f) the impact of current and future residential places allocation and funding on the number and provision of community care places.*

2 Responses to the Terms of Reference of the Inquiry

I respond to the TOR, by addressing each of the Inquiry TOR in the following paragraphs. The alphabetical letter describing the question is in the same order as the TOR are listed in section 1 of this Report.

I have purposefully left as much detailed analytical work to either the attached papers (prepared by myself or my organisation for other "not dissimilar" purposes) or others who may be party to submissions in this Inquiry.

Can I please encourage the Committee to not so much take my responses to the individual TOR as simply responses outside an entire systems view of aged care provision in Australia, but consider these responses in light of my somewhat anecdotal comments at section 3 following. That section describes where I see aged care in Australia heading in the future, and the need we have to position our aged care system/s well for the peaking and continuing larger proportion of elderly Australians out of our total Australian population in light of a diminishing work force participation rate of non-elderly and non-child population by the years 2040 to 2050 – this oft called "dependency ratio".

So, to the initial responses to the TOR . . .

(a) Are current funding levels sufficient to meet the expected quality service provision outcomes?

I actually am of the opinion that Australia is almost blessed with having one of the best health care systems in the world, and equally, without doubt one of the best aged care systems in the world. However, in an increasing practice of economic rationalism across all of our human service sectors, what we are likely to be facing in the near future is failure of one or both of these great examples of equitable service provision to elderly Australians.

Others and I have written much on these matters over the past three or so years. We have been at pains to be inclusive of government at both Departmental (Department of Health and Ageing) and political level on the findings of continuing research.

I have personally found that the political level of commitment to understand the matters presented in the attached is to either largely ignore it because of the complexity of the material, and the time it will take to get involved to attempt positive change, or (invariably Departmental officers) immediately challenge the research by automatically considering it to be errant. This is compellingly disheartening to providers and their peak representative bodies who rightly might feel that they as "partners" in the provision of care with the Australian Government are being relegated to second or lower place in the scheme of input. I do not make this comment simply as an opportunity for lobbying, but to remind Senators and the Committee that it is the providers of services that not only choose to partner with Government in the provision of such residential and community aged care services, but to maintain the viability of their services so that their services continue from one year to the next.

Yes, some of these providers are in the industry sector for a purely for profit business model perspective – but all must remain sustainably viable to ensure business continuity of the services we all provide.

The "regard" of providers seems now to take a lower order of priority than that of consumer interest groups who seem, in my opinion, to have a more disproportionate appeal in "Canberra". This was borne out in November 1997 when the matter of Accommodation Bonds in residential aged care was discussed in federal Parliament House with the then Minister for Ageing, Warwick Smith. This meeting was held just 8 short weeks or so after the introduction of the then new Aged Care Act that, for the first time in modern Australian residential aged care legislation, permitted Accommodation Bonds to be charged for high care recipients. (Although not ways called Accommodation Bonds, this form of "refundable deposits" has been used in low care facilities – hostels – since the late 1980s.)

In November 1997 the solid view proffered by the collective consumer representative groups, including one or two major church lead provider peak bodies, convinced the then Minister, and one presumes the then Prime Minister, that Accommodation Bonds in high care were not going to be an acceptable form of capital raising in residential aged care in Australia. Unfortunately these consumer groups are not the ones directly responsible for provision of sustainable and viable services.

I observe that two main outcomes have resulted:

i In a number of reports over the past year or two there have been repeated comments that according to their financial accounts, up to 40% of residential aged care facilities are not performing at break even levels; and

ii Even some of those consumer groups that supported the revocation of Accommodation Bonds in high care services in November 1997, are in 2008 calling for their re-integration into the fabric of day to day operation of residential aged care services.

Of course, the inevitable outcome is now being experienced – with the doubling of building costs over the past five years, and the under funding of both recurrent and capital subsidies to the residential aged care sector, are combined with there being no availability of Accommodation Bonds or some other similar form of "refundable deposit" being available to providers, many providers are now rejecting the opportunity to grow their business through take up of new residential place allocation because the cost of development combined with the operational deficits detracts from any reasonable view of a sustainable and viable business model.

I find it surprisingly interesting that when the Administrators of ABC Learning advised that up to 40% of ABC Learning child care centres might be financial under performers, the current Australian Government has gone to considerable lengths to ensure continuity of service provision. Perhaps it is because most residential aged care facilities in Australia are not owned/managed by listed companies that this similarity in residential aged care has not been so quickly responded to by the Australian Government, and rather what we keep getting is political spin and shut down of relevant commentary.

I find it even more surprising that in a Media Statement from the current Prime Minister arising out of the Council of Australian Governments collective gathering on Saturday 29 November 2008 I can read a sentence that says:

> *To equip our hospitals for the future, the Government will invest in:*
> - *A new National Health Care Agreement that will deliver an extra $4.8 billion for public hospitals and a higher rate of annual indexation – 7.3 per cent into the future*

I don't believe there will be too many Australians that will object to either of the additional funding injection for hospitals around Australia or the ongoing guaranteed indexation. But this order of commitment smacks of disdain of the service type that does not only underpins the ability of the heath care system to cope with increasing utilization demand for services, but, furthermore, can actually bring expenditure savings to the health system if funded appropriately.

Residential aged care has been proposing for several years a more appropriate and equitable mix of recurrent and capital funding subsidy formulae – all to no avail in real growth terms. We are fortunate to receive something in the order of 2% per annum in recent years propped up by an ad hoc, terminating additional payment to prop up ailing financial viability, with no guarantee of appropriateness to real costs of service provision.

As I wrote to each Australian federal parliamentary Member and Senator back in May 1997 "we are accrediting an aged care system that we cannot afford". We cannot sustain the level of quality output required without an appropriate level of revenue input. Indeed, it is my view that if we were to apply the standard of quality outcomes required for residential aged care to our current supply of State based hospital services, and measured these services in the same manner that we apply to the aged care sector, we would be suddenly faced, almost without exception, the consequential failure of the State based hospital system falling into sudden sanctions on services.

I remain optimistic however that we can, and will overcome these matters.

But it is going to take a comprehensive review of the entire aged care system including its interaction with, and impact on, the wider health care system, to correct these problems.

(b) How appropriately does the current indexation formula recognise the actual cost of pricing aged care services to meet the expected level and quality of such services?

The current indexation formula fails to recognise the actual cost of pricing aged care services to meet the expected level and quality of such services.

I believe this statement is adequately supported with the attached Report – "**080811 Report - Improving Residential Aged Care Funding in Australia**" written by me in August 2008 and subsequently provided to the Minister for Ageing, and a Submission – "CAP Review Submission - 211008" prepared by my organisation in October 2008.

(c) What measures can be taken to address regional variations in the cost of service delivery and the construction of aged care facilities?

All of what I have suggested above about weaknesses is not however simply the "fault" of Governments. Whilst I do not believe the level of subsidy revenue currently meets the realistic requirement of provision of high quality residential aged care services that Australians expect today, some of the costs being outlaid by providers for their built form approaches what one might consider to be exorbitant.

Current capital subsidies and supplements indicate that the Australian Government is prepared to support the funding of approximately $109,000 per place in built form that meets appropriate building certification for the purpose of residential aged care. However the reasonable cost for such building is, in metropolitan areas, expressed as approximating $166,000 per place. This figure is from a review of capital requirements undertaken by PricewaterhouseCoopers in November 2007 and consequently may be a little out of date. My organisation's own current capital estimates for construction per place in approximately $145,000, having risen to this figure from a lower base of approximately $70,000 per place fully commissioned back in July 2004. Our July 2004 rate closely approximated the cost suggested by Dr Len Gray in a report he prepared for the Australian Department of Health and Ageing in around the year 2000.

As with "district" or "zone" allowances that are often provide for folks working in more isolated areas, a similar concept could be explored for the provision of capital subsidies. However, few opportunities may be taken up if the underlying base level of funding is not provided prior to any zone indexation. Similarly, even if there is some more appropriate level of capital contribution, the provision of recurrent salaries must be relatively increased by zone but still based on a more appropriate base level of recurrent funding that supports the quality expectations required today in service outcomes.

(d) Is there any inequity in user payments between different groups of aged care consumers and, if so, how the inequity can be addressed?

In my time involved in aged care services in (Western) Australia I have always known our aged care services to have appropriate coverage for financially disadvantaged or, more recently, concessional residents, and fees based services for those with the capacity to pay. I understand that similar arrangements apply in community based aged care, or at least can be applied in that sector.

My own view is that in Australia we strike a good balance of providing equitable access to services, and an income appropriate range of fees and charges for clients based on the capacity to pay.

An emerging concern however is the matter of those with means being able to avoid "accommodation contributions" because of a systemic aversion by regulation. The inability of residential aged care providers to not raise income from Accommodation Bonds is actually limiting the ability of the sector to grow in its provision of available places. This problem

manifests itself in two main ways:

i Providers are reimbursed through supplement for provision of the regulated proportion of care places to those people whom the Australian Government determines cannot make any user pays fee payment or Accommodation Bond contribution for their accommodation. However, although the provision of regulated proportion of places is invariably made the quantum of subsidy is inadequate to cover the cost of capital involved in providing those places

ii But those who can afford to have an Accommodation Bond paid in consideration of a high care service place are instead provided with a place for which the daily fee payable is income means tested and often the associated Accommodation Charge again does not cover the cost of capital involved in construction of the facility.

As a consequence I reject the notion that an Accommodation Bond (or any other form of "refundable deposit") is inappropriate. Such Bonds must be accessible as a matter of urgency to ensure continuity of supply of new certified facilities available to the sector. To suggest that there are inadequate prudential safeguards in place to guarantee refunds to clients is incorrect. Indeed, and this may surprise the Committee, there is already provision within "nursing homes" to charge an Accommodation Bond for some residents. An "Extra Services" facility has been approved by the Department to raise Accommodation Bonds against residents entering such an approved facility.

A further anomaly then that exists in this aged care system is how we can continue to propose that people do not pay an Accommodation Bond in high care nursing home services? But what is even more anomalous is how a provider, having company administrators in place, and that may well have as a direct result of its insolvency, been placed in a situation where it cannot repay its collected Accommodation Bonds to its residents, can have all other residential aged care providers that have a current Accommodation Bond balance, contribute a "non-refundable taxation levy" to the Department of Health and Ageing's Accommodation Bond prudential scheme so that all residents of the defaulting facility can have their Bonds reimbursed. This is made even more anomalous when one considers that the provision of Extra Services is only approved to a small proportion of providers meaning that most residential aged care providers that have collected Accommodation Bonds will have done so for low care "hostel" residents as they have no Extra Services of their own.

Only a complete system's review will enable the Australian Government and providers alike to have a resultant system that has such anomalies removed.

(e) Is the current planning ratio between community, high- and low-care places is appropriate?

The current planning ratios have their origins from the mid 1980s. At that time there was an allocation of places that was weighted, if I recall correctly, on the basis of 60 places per 1,000 people aged 70 and over for hostel services (low care residential aged care services), and 40 places per 1,000 people aged 70 years and over for nursing home services (high care residential aged care services).

It was appropriate at the time of creation of the planning ratio to have such a planning modeling tool in place. I am not convinced that such a resource planning tool is out of order even today. The difficulty for the allocators of such resource is, I believe, that planning tools based on such a macro population base can be too slow to allow for the response to reallocate resources to changing demographics.

The Department's aim is that once allocated, residential aged care and community aged care services will be commissioned quickly. Built form, and perhaps more significant the associated planning and building approvals processes, do however take considerable time and demographic planning alone does not provide adequate consideration of econometric changes. Who thought back say in June 2008 just how much impact a stock market "correction" – even a major correction – might have in mid September 2008 and beyond?

The timeliness or lack of it in demographic modeling alone is highlighted by the recent reports suggesting that the proportion of all residents now entering residential aged care in Australia is based on now just over 70% high care entrants and just under 30% low care – more than an exact opposite from when the use of the ratios commenced some 25 years ago.

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

My own view – not necessarily shared by all aged care colleagues – is that there is not a disease process or chronic disease condition known to humanity that cannot be cared for in the comfort of one's own home. As a result I have a great fondness for community care services. However I do not necessarily believe there is adequate funding for community aged care services in Australia. This is a common concern I have with the quantum of residential aged care funding.

Whether there are adequate places is a moot point. We contemporaneously have a situation called "bed blockage" in most of our public hospital services around the nation. Much of this problem could be relieved by more appropriate use of both residential and community aged care service infrastructure. Whilst the cost of care would necessarily increase to provide such service options away from State based hospital services, provision of a greater range of sub-acute health care services away from hospitals might lead to the following outcomes:

- Fewer aged care clients needing admission to hospital services;
- Earlier discharge of hospital patients from the hospital environment leading to earlier and healthier outcomes with a focus of having people return safely to their own home;
- Reduced hospital infection and reduced return to hospital from adverse care outcomes;
- Cheaper form of constructed facilities;
- Savings in recurrent costs

Aged care, whether it has a residential service provision or community service provision focus will essentially remain a part of the broader health care system. This inter-relationship with health care is often complicated by the necessary accommodation rather than "care" issues, but inter-related nonetheless.

As our nation "ages" there will inevitably need to be a response to provide more services relative to the "aged population". I am not concerned about the relatively of residential care versus community care service provision. The people will speak on that matter and demand change as and when required. My view is both service types will remain essential and it will be up to Government in continuing partnership with providers from time to time to ensure that any assets developed are performing in their capacity to provide desired services, but be flexible enough to enable re-fitment or redevelopment to conform to changing certification and client service requirements.

What this Committee should insist on, in my view, is that there is adequate review of the entire aged care system carried out to ensure that the next 40 years of aged care services have the capacity and capability of Government to provide comfort and quality in services to elderly Australians that continue to honour the life that each individual has contributed to Australian society.

3 Service Planning For The Next Forty Years

3a Who Is in "the Game"

At the risk of offending my most important stakeholders I must ask the Committee some questions.

Have we (all Australians) really considered the nature of the "game" that is Aged Care and "Ageing" in Australia today? Do we believe these matters are important, or do they deserve the continuing role of a junior Minister who is not part of Cabinet?

Whatever the "game" is, and whoever it is that has any controlling influence must surely take time to consider that this part of the broader "Health and Ageing" portfolio now cares for approximately 170,000 residents in residential aged care at any point in time, and possibly something like a further 700,000 clients in some form of community aged care services funded through a plethora of programs receiving either sole funding via the Australian Government or joint Australian/State Government funding. In addition, there is in the order of 200,000 people employed in this human service area – a huge work force component of the overall Australian population, many doing the work that no-one else will do, for far less income than they could make elsewhere.

And for all of the funds we have spent on services to assist the health and well being of some three quarters of one million older Australians, and all those funds we keep hearing about being spent over the next 4 or 5 years, we have a record of no fewer than eight (8) Ministers of the Crown leading the Ageing portfolio since 1996. And whilst I want to be neither disrespectful, nor critical of personalities at all, I simply ask the question "What else can we expect than fractured, incremental, crisis borne policy making to such an important area of human service, when we have no long term obvious application to the political and senior Government official leadership in this vital service area and demographically challenging Ministerial portfolio?"

We must take the holistic systems review approach of "Ageing in Australia" to ensure the ongoing delivery of appropriate care services, retirement income safeguards, and superannuation and long term care insurance planning so that we can enter the next forty years with confidence.

3b The Long Term Economics of Long Term Care

At the commencement of Section 2 of this Report, and in my final comments in point 3a above, I focused the Senators' attention of the need for an entire systems review of aged care, as we know it in Australia. In addition I expressed my concern about ensuring we have adequate resources to plan the care of our frail elderly in the years 2040 to 2050. We currently are in the grip of a global financial crisis, but we will recover from this. In my view there is a larger problem looming.

By the year 2031 or so Australia will, on current projections, have between one fifth and one quarter of its population aged over 65 years. At that time we join many other western nations in the age profile we will similarly share. And whilst the growing ageing boom tapers off to some degree after that time, that profile will change little in real terms for many years to follow.

At about that same point in our future, somewhat dependant on the age profile, our dependency ratio reaches one of its highest points in our nation's history (or our work force participation ratio reaches its lowest point in our history).

This future combined effect of higher proportion of elderly in Australia and (much) lower work force participation rate than hereto experienced almost demands that a longer term systems focused review of the aged care service system occurs now so that Australian Government personnel can being its preparation for the future capability we must all enjoy in our service contribution to our elderly.

Why will this combined effect be so profound on our aged care system and services?

In further combination with these two other factors is the likelihood that the over 65 years of age cohort of our Australian population in the years 2040 to 2050 might well be more wealthy than it has in any earlier time.

So, we end up with more elderly – perhaps up to 25% of the total population. The sheer number of elderly will mean many more individuals in care than ever before, even though through continually improving health care services most elderly will continue to remain fit and well until perhaps a single trauma intrudes into their lifestyle, causing a sudden, traumatic and ultimately long term disease process of ageing. Many of these elderly will be both asset and income rich. But the number of people in the workforce dedicated to caring for the elderly will have reduced over time in real terms.

We are likely to be left with two remaining questions – questions to which no western / developed nation has yet planned a sustainable response:

i Who will be around to provide the goods and services needed for people dependent on human services infrastructure to survive; and

ii Who will "buy", or will be able to afford to buy, my assets so that I continue to have an income stream that supports my long term care service needs?

It has been said that in economic terms the ageing of the population is the most critical long term issue facing the developed world. In terms of Government and service provider responses, our planning must be not only forward thinking and deliberative bit also quite enlightened. Can we lead the world forward from the middle of this century from a position of currently being one of the youngest western nations, to a successfully thriving developed nation in which Australia still continues to care mightily about, and for, its most vulnerable in society?

It's a great challenge! But I believe it's going to be worth the effort! We need to start this planning now. We are currently a product of all that early planning of all this current in the Commonwealth Aged Persons Homes Act of 1954, and later pieces of legislation and regulation for nursing home, hostel, and a range of community care services and programs. If I didn't believe that I might think we have arrived here by chance . . .

I believe that this next round of foresight and enlightened planning and long term care policy making needs to start with this Committee through the Finance and Public Administration review role that you are charged with.

I wish you well in your deliberations. Thank you.

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The Bethanie Group Inc
Western Australia

WLB:WLB [0812]

REPORT

IMPROVING RESIDENTIAL AGED CARE FUNDING IN AUSTRALIA

Report prepared by:

Wayne L Belcher
Chief Executive
The Bethanie Group Incorporated
31 July 2008

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Acknowledgement

The Bethanie Group Incorporated acknowledges the input of PricewaterhouseCoopers (Perth Office) into this review to support the data from which Tables 1 and 2, and Charts 1,2, 3, and 4 are developed. We also thank Rod Young (Aged Care Association of Australia), Bill Bourne (Aged Care Association New South Wales) and others for the input of valuable data, other resources and time into this work.

The Bethanie Group Inc

REPORT

CE: 01.01

31 July 2008

IMPROVING RESIDENTIAL AGED CARE FUNDING IN AUSTRALIA

1 Executive Summary and Recommendations

An increasing gap in real levels of recurrent operating funding in the sector and a rapidly increasing cost of capital in which the care can be provided is causing many providers to stumble in their capability to continue operating. They are seeking sustainable alternatives to underpin their service provision.

This Report briefly aims to describe the increasing demand for services, but more so the funding limitations that constrain a world class residential aged care system. The under supply of a realistic level of Government subsidy for the day to day care of frail elders is evident, as is the inconsistency and sustainability of current capital funding methodologies – particularly in high care services. With such a rapid transition from a majority of low care residents just a decade or so ago, to now the vast majority of residents being recipients of high care services, the sector is in desperate need of a more sustainable mix of recurrent funding and capital contribution

The recommendations from this Report are as follows:

Recurrent Funding

1 That the COPO and CAP indexation methods be dropped;
2 That a replacement, labour price based index replace COPO from 1 July 2009;
3 That the replacement labour price index be sufficient in scope to reflect not only the increasing labour requirement of care and support services, but also the increasing cost of supplies such as food, energy, continence aids, and care related ancillary supplies;
4 Of essence therefore this replacement index should be greater than the rate at which the Safety Net Adjustment is applied;

5 It is understood that the CAP Review is presently underway and this Report will make these recommendations available to that Review.

Capital Contribution

6 The Commonwealth should review the Concessional Resident supplement rate based on consistency of application and the relative cost of accommodation for which the Commonwealth regulates equity of access to accommodation and service provision;

7 Closely after the completion of the CAP Review there is a similar Review effort applied to built form capacity to ensure that with a growing number of people, with advancing frailty, there is adequate resourcing available to create the built form in which frail seniors requiring admission to residential care facilities can be cared for in accommodation that meets all of the care aspects, at an appropriately affordable price;

8 With respect to Concessional Resident supplement arrangements , and subject to the Review recommended in 7 above –

- (With the exception of extra services facilities – a service type this Report has hereto avoided commenting upon), maintain the geographically applied proportional representation of Concessional Residents in each approved provider facility;
- Remove the greater than 40% Concessional Resident hurdle;
- Remove the penalty for failing to achieve that 40% hurdle; and
- Make the Concessional Resident supplement of a single, unambiguous and consistently applied value to the providers, initially at the current maximum level of $26.88 per Concessional Resident per day

9 With respect to Accommodation Charge arrangements , and subject to the Review recommended in 7 above –

- Maintain the current level of $26.88 per resident per day fee for Accommodation Charge until a major review of capital provision to the sector is completed and reported upon, such that from 1 July 2009 a revised, market realistic replacement Charge is approved for new resident entrants from 1 July 2009, indexed according to annual building cost escalation factors agreed from a representative national perspective; and
- Maintain the principle that the Accommodation Charge levied against individual residents remains constant as at the rate set at admission and based on the initial assets test for residency

10 With respect to Accommodation Bond arrangements , and subject to the Review recommended in 7 above –

- The matter of Accommodation Bonds be revisited. Any such re-consideration of the appropriateness of this form of instrument in high care service provision should be one of the terms of reference of any major review of the capital capability

We remain very optimistic about the future of Australia's aged care services – incremental improvements now, major improvements in service quality for care recipients now and into the future.

2 Background

It should be noted that this author considers Australia to have one of the best aged care programs in the world. However, that does not mean that there is consistent opinion on that view. The system is starting to creak under the weight of a combination of service under funding and increasing regulatory compliance matters over the past decade or so that more recently seem to be having an effect on quality care outcomes in the sector. The trends are negative and need to be redressed. The impact of continuing down this trend is going to make provision of hospital services at a State level far more challenging as each year goes by.

At 30 June 2008 there will have been some 170,000 seniors in residential care across Australia. A further 300,000 or so community care clients will though June 2008 have received one or more of a broad range of home and/or community centre based services from a mix of federal and/or State based Departmental run services such as the Home and Community Care program, Community Care Packages, Extended Aged Care at Home packages, National Respite for Carers program services, Veterans Home Care services, and so on.

This Report however only comments more broadly on the financial matters pertaining to residential aged care.

The current Australian government residential aged care program has its roots in the October 1997 changed regulatory framework under The Aged Care Act (1997 – Commonwealth) and associated Principles and continuing regulatory requirements.

However, when one considers the following comparative indexation tables, it is not surprising that there was a significant under allocation of "free" places in the 2007-08 Aged Care Allocation Round ("ACAR") of the Commonwealth Department of

Health and Ageing ("DoHA"), a trend that if not corrected by improvement in recurrent and capital funding, will almost certainly continue.

The ACAR round is the annual opportunity that DoHA provides to approved aged care providers to tender for allocation of places – new licences if you prefer – that are targeted for distribution by DoHA in geographic areas of assessed need for services. There are some prescriptive conditions applied to allocation of such places, most of which relate to the achievement of development and construction timeframes around the allocation provided. Whilst these initial allocations remain "provisional" until the facility to which they have been tagged is developed, these places are not able to be transferred or sold – they remain the "property" of DoHA. But once developed, there is a welcoming market for places to be traded. It should be noted here that during the 2007 ACAR, approximately 30% of the total number of places targeted for allocation by DoHA in Western Australia were under subscribed. This lack of take up in places will have a flow on effect into the WA public hospital system – fewer aged care places – fewer empty hospital beds – longer stay in hospital – longer waiting lists, and so on.

But the data does suggest that in some part the problem does not lie entirely at the feet of Government. The cost of buildings is almost entirely within the capacity of the provider to manage. It is clear that if one is building today at (for just the cost of construction) $250,000 per place – and there are those that are doing exactly that in Perth right now – then this is not the fault of the Commonwealth. Whilst there is indeed immense pressure on increases in building costs – in WA we are all too well aware of that – there are also providers in Perth (including the Bethanie Group) who are developing fully compliant and certified Class 9c built form for approximately $140,000 to $150,000. Just how long this performance can be managed though is questionable.

3 Recurrent Funding

The base funding mechanism underpinning the residential aged care program in Australia is the COPO and CAP indexation elements.

COPO (Commonwealth Other Purpose Outlays) was introduced into the residential aged care sector in the last year or so of the Keating Labor government. This author does not pretend to fully comprehend the manner in which federal Treasury calculates this index, nor why it was applied to residential aged care other than to be a cost constrainer of this vital community service.

What is clear from the Tables and Charts that follow is that COPO is both an unreasonably low level of indexation, and bears little or no relativity to more useful labour price related indexation methods such as the Safety Net Adjustment ("SNA") or the Average Weekly (Ordinary Times) Earnings ("AWOTE") – recognised national indexations for labour price measures.

CAP (Conditional Adjustment Payment) is an additional index component which has been introduced for the 2004-05 financial year and beyond, and is added to COPO to supplement the lack of relativity of that (COPO) index to bring some reality into the funding mechanisms within the residential aged care sector. However "CAP is capped" in the sense that the CAP index (a cumulative 1.75% indexing per annum) was initially only allocated budget provision for the four financial years 2004-05, 2005-06, 2006-07, and 2007-08.

The change of federal Government in November 2007 indirectly contributed to the new federal Labor Government granting a much welcomed, one further year extension to this COPO/CAP arrangement. The combined effect of each of the five years combined COPO/CAP indexation is included in the Tables and Charts that follow. Although the combined indices are making a progressive difference, the seven years under supply of reasonable funding at a time of such significant change in the residential aged care system, and introduction of more (needed) accountability into the industry sector, has caused significant difficulty for numerous providers across Australia.

The CAP index is currently under review, a welcome sign from the new Government to be prepared to review broad stakeholder concerns. What does need very urgent review however is this staple COPO subsidy so that there might be some improvement on this subsidy index based on a more equitable labour price index for relativity of real costs of services. It is accepted that 70% or more of the total expenditure on residential aged care services is based on the full cost of labour. This has been particularly so over recent years where providers have had to maintain parity of wages and conditions with the State based hospital sector in order to maximise recruitment and retention of staff – across all parts of the total labour requirement.

Chart 1 below describes the COPO / CAP mix – the regular recurrent subsidy income collected by residential aged care providers on behalf of their clients. This is the Department of Health and Ageing's preferred indexed daily subsidy form. It has taken a change of Government to cause the first formal review of this specific index in over 12 years. This review is currently in progress.

On an annual basis, Table 1 below describes the differences between the COPO/CAP indexation rate of subsidy and the comparison indicators in tabular for as opposed to the same data reflected in Chart 1 as follows:

TABLE 1 – Comparison of Combined COPO/CAP Subsidy to SNA – Minimum Wage, and AWOTE

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

Chart 2 below shows just how this staple subsidy has slipped behind other comparators in real terms over this same 12 year period.

On an annual basis, Table 2 below describes in tabular form the cumulative ongoing difference between the COPO/CAP indexation rate of subsidy and the comparison indicators in Chart 2. This gap is based on using the 1996 value of $1 of subsidy as the baseline year:

TABLE 2 – Comparison of Cumulative Combined COPO/CAP Subsidy to SNA – Minimum Wage, and AWOTE

Year	COPO/CAP Based on escalation of $1of subsidy in 1996	COPO/CAP % Below SNA – Min Wage Base $1 in 1996	COPO/CAP % Below AWOTE Base $1 in 1996
1997	$1.02	1.04%	2.70%
1998	$1.04	3.23%	4.64%
1999	$1.05	4.76%	6.10%
2000	$1.08	6.60%	8.25%
2001	$1.10	7.59%	10.71%
2002	$1.13	9.63%	14.77%
2003	$1.15	11.50%	17.51%
2004	$1.19	12.03%	19.22%
2005	$1.24	12.02%	20.50%
2006	$1.28	14.07%	21.36%
2007	$1.33	12.17%	21.07%
2008	**$1.39**	**12.27%**	**21.72%**

4 Capital Contribution

The introduction of the new Aged Care Act back in 1997, not unreasonably at the time, saw the rapid demise in capital contribution to the combined cost of land acquisition and prospective construction cost of residential aged care services. Whilst some continuing capital contribution remains to providers, particularly in rural and regional/isolated areas, the availability of capital funds from the Commonwealth by grants to providers has until very recently been almost exhausted.

In very recent times the availability of "zero real interest loans" to providers towards the cost of capital in new projects has been introduced. Time will tell just how successfully these loans will be subscribed to, and how effective this form of funding might be, but on the surface, if one can manage their construction costs, the availability and value of these loans seem to be worthwhile.

The Accommodation Charge and the Concessional Resident supplement are the Commonwealth Department of Health and Ageing's preferred indexed daily capital resident contribution or subsidy form for high care services, with Accommodation Bonds and Concessional Resident supplement being the form of "capital contribution" in low care services.

But therein lies the problem with this matter of the cost of capital or capital contribution. The Australian Institute of Health and Welfare ("AIHW") describe Concessional Residents and the brief nature of service provision to this group of residents as follows:

> **"Concessional and Assisted Residents**
>
> Residents with relatively low levels of income and assets are given assistance to access residential aged care. For residents who meet the eligibility criteria for concessional status, a concessional supplement is paid to the service provider, and the resident pays no accommodation charge of bond.
>
> The supplement for assisted residents is lower, and, unlike a concessional resident, an assisted resident may be required to pay and accommodation bond or an accommodation charge, subject to certain conditions. All residential aged care services are required to provide care to a minimum ration or proportion of residents who are concessional or assisted. These ratios vary by aged care planning region."

and

> **"Minimum requirements to be a concessional resident at a point in time are that the resident must:**
> - be receiving an income support payment
> - not have owned a home for the past 2 years
> - have assets of less than 2.5 times the annual single basic aged pension, rounded to the nearest $500.
>
> The criteria for determining assisted resident status are the same as concessional resident status except that:
> - an assisted resident has assets of between 2.5 and 4 times the annual single basic aged pension amount, rounded to the nearest $500."
>
> AIHW, Residential aged care in Australia 2006-07: a statistical overview, page 43, and page 109

It is reiterated that "All residential aged care services are required to provide care to a minimum ratio or proportion of residents who are concessional or assisted."

So, if providers are required to meet the accommodation and care needs of this group of Concessional residents – approximately 21% of all residents in care – how does this manifest in the nature of the program and its funding capacity? Is the Commonwealth contribution sufficient and sustainable for providers to maintain this group of income and asset poor needy frail elderly people?

5 The Value of the Concessional Resident Supplement and Accommodation Charge

This part of the Report focuses on the changing trend in service provision towards an overwhelming bias to high care (nursing home) services. AIHW recently reported that in the decade 1997-98 to 2006-07, dependency of residents in residential aged care in Australia has increased from an approximate 43% : 57% high care : low care mix to an almost 70% : 30% mix. Whilst this transition is welcome – we should be providing these most high care services to those most in need – this change in mix will no doubt have an impact on the capital wherewithal of the sector.

Accommodation Bonds hereto providing the capital base for development of low care services will need to be refunded as residents "move out of the sector" and may not be replaced by incoming low care residents. This may add significantly to the liquidity management strategies in place for the sector, but for individual providers cause times of crisis as they struggle to both refund bonds from which interest is earned, and struggle to otherwise supplement ongoing recurrent operating income.

But the question remains, is there adequate value in the Concessional Resident Supplement and Accommodation Charge to bring sustainability to the sector?

Charts 3 and 4 below highlight the growth of these benefits over the twelve years of the Aged Care Act. The Accommodation Charge levied against asset testing declarations provided by the resident is an occasionally reviewed and relatively uncomplicated amount per day of care, from 20 March 2008 set at $26.88 per day. As can be seen from Charts 3 and 4 below, this daily amount will cover the cost of construction of a new facility at 1 July 2008 with a per resident (place) cost of between $115,425 and $130,820 depending on the interest rate payable on debt, if debt financing utilised, at 8.5% interest per annum and 7.5% interest per annum.

The Concessional Resident supplement is at a similar amount as from 20 March 2008, but the application of this income from DoHA is far more complex. This $26.88 subsidy income in lieu of a capital contribution per each Concessional Resident (those the Commonwealth through regulation require providers to accommodate and care for) is only applicable if, from 20 March 2008, greater than 40% of all residents admitted are classified as Concessional Residents. If fewer than 40% of all new residents admitted from 20 March 2008 are Concessional then a 25% penalty is applied to the Concessional Resident supplement for each Concessional Resident.

Prior to 20 March 2008 the practice was that every Concessional Resident attracted a specific subsidy amount, and if greater than 40% of residents in a specific facility were Concessional Residents, a higher subsidy per resident was paid on a per resident basis for all residents who made up the greater than 40% combined total of Concessional Residents.

For the purposes of the charts only I have in each instance adopted this "greater than 40%" Concessional Resident figure. It presumes that there is uniformity across all providers across the nation in the formation of the data and Charts 3 and 4 below on this matter.

Other than for purely expenditure savings to the Commonwealth one has to query why this 40% benchmark exists. The AIHW report referred to earlier in this Report shows that of all residents in residential care at 30 June 2007, just less than 35% of all residents across Australia are now classified as Concessional Residents. If these 30 June 2007 figures remain reflective of the entire sector through to June 2008 and beyond, then this new Concessional Resident penalty based hurdle will be, on average, nigh on impossible for providers to meet unless they are providing services into "Remote" and "Very Remote" areas of Australia. The remoteness of these areas might well already be unsustainable in terms of current levels of capital contribution, so for the nation as a whole additional capital should probably be applied to these areas, well and above the $26.88 and greater than 40% hurdles. But for "Major Cities", "Inner Regional" and "Outer Regional" areas as defined by AIHW, this new 40% hurdle, announced in February 2007 for implementation on 20 March 2008, is farcical.

Not including the new 20 March 2008 figure then for maximum Concessional Resident supplement and Accommodation Charge, the Charts that follow show the value of this maximum Concessional Resident supplement and Accommodation charge tracking very closely to the daily cost of interest of the built form based on the building cost escalation estimates of the WA Department of Housing and Works and the cost for The Bethanie Group in its construction over the past five years – construction that has seen 518 new residential aged care places brought on stream and an additional two adult day centres and in excess of 300 affordable independent living units at the combined capital spend on aged care service development of some $110 million.

The Bethanie Group completed construction of its first "new" aged care facility and commissioned this new building in July 2004. Building was based on a fixed price design and construct contract that commenced in June 2003. Based on a per resident

cost of $65,000 for the purpose of this Report (the actual cost was just some hundreds of dollars less per place), and applying the WA Department of Housing and Works building cost escalation rates, The Bethanie Group has until only in recent months been able to peg its construction cost at this same rate as the maximum daily Accommodation Charge and Concessional Resident rates.

With building costs in Western Australia now just starting to creep above these rates even The Bethanie Group is not confident that it can maintain this building cost achievement. The Bethanie Group is currently projecting just above this rate and based on an interest rate of 8.5% for debt financing, will be just $2.15 per resident per day short on this interest coverage cost – approximately 8% shortfall in funding on an interest rate of 8.5% per annum for the cost of construction.

Charts 3 and 4 that follow show the increasing cost of capital and comparison forms of current capital contribution subsidy from the Commonwealth. These Charts show the level to which providers must manage their cost of capital. This author does not have a fixed view about whether the cost of capital spend can be regulated – that is an almost irrelevant suggestion. But what is evident is that until just recently at least, and fully within the compliance requirements of the building certification aspects of built form for residential aged care in Australia, one can construct appropriate facilities for approximately the daily cost of interest cover that equates to the rate of Concessional Resident supplement and Accommodation Charge introduced on 20 March 2008. Therefore one must ask the question, why the huge disparity in cost of built form, and why would providers build facilities at a cost that is not financially able to be managed within the broader funding parameters provided as a guide by the regulatory framework that DoHA has in place?

However, these Charts do also lead to some significant necessary qualifications about the value of the Concessional Resident supplement and the Accommodation Charge, and the appropriate level of subsidy and fees that should be funded and permitted. For example, these subsidies and fees do not include coverage for the cost of land.

6 Inconsistencies and Complexity of the Concessional Resident Supplement

This Report has referred to the inconsistencies and lack of relativity of the Concessional Resident supplement to the real cost of construction that providers are faced with.

From a "Securing the future" funding package announced in February 2007, the offer of an increased Concessional Resident supplement to $26.88 per day per resident soured considerably with the potential penalty approach of some 25% if the Concessional Resident rate of greater than 40% was not achieved.

This now seems nigh on impossible for most facilities to come close to given that AIHW reports that for residents in care at 30 June 2007, the national average of Concessional Residents was only 34.7%.

But it is also evident that with the increasing cost of construction, this figure of $26.88 per day should be considered to be the appropriate minimum Concessional Resident supplement rate in place today. This rate is barely above the cost of interest on construction for even The Bethanie Group, one of the most aggressive managers of its capital development program and schedule. It might be assumed that it is just Western Australia that is suffering from the rapidly escalating cost of construction, and whilst there is some small merit in that assumption, this author is hearing from most parts of the nation that Western Australia is not alone in this environment.

The Commonwealth should review the Concessional Resident supplement rate based on consistency of application and the relative cost of accommodation for which the Commonwealth regulates equity of access to accommodation and service provision. One only needs to review Appendix 1 to determine the complexity of change and constant management and monitoring of legislation to agree the complexity that surrounds this matter of "who is a Concessional Resident", "what proportion of Concessional Residents do we have", "is that proportion before or after admissions post 20 March 2008", "what rate of subsidy therefore should we be expecting for which specific residents". This matter is quite confusing, complex, and yet the penalties for getting it wrong can be significant. This entire area needs to simplified, standardised, and the Commonwealth contribution truly reflective of the real cost of built form, and applied consistently to providers.

7 The Cost of Capital and Qualifications to the Assumed Cost of Construction Covered by the Accommodation Charge and Concessional Resident Supplement

This matter of building cost will no doubt be seriously debated – by the Commonwealth and industry colleagues alike. No doubt that most in the residential aged care sector will seek additional input from DoHA, either through direct subsidy

or from additional regulated fees income through the Accommodation Charge and the like.

The first principle this author believes is that over the years, irrespective of which political persuasion has held federal government office, Australia has continued to support the notion that we take care of those who are unable to afford the cost of their own aged frailty accommodation and services. This is historically even more pronounced when we discuss the broader range of social services provided throughout Australia.

It should not be surprising then that this Report continues to support the notion of regulating the provision of care for Concessional Residents, the nature of which has been discussed earlier in this Report.

What then becomes challenging is the determination of what the reasonable subsidy for providers should be when the Commonwealth regulates this provision, and so much of the building stock for residential aged care services is being reviewed as to its ability to meet the growing demands of contemporary service provision and the significantly changed resident frailty mix over the past decade.

At the risk of talking ourselves up, The Bethanie Group in the earlier part of this current decade completed some extensive modelling on its capability, its desired building and service mix, the contracting methodology that it would use to deliver its future, and finally the cost analysis, determination, and management of its construction program to deliver in excess of 500 new beds in just five years.

When The Bethanie Group commenced its development program **what was excluded from the capital cost** of each aged care facility it had planned is the cost of land, loose furnishings and window treatments, soft landscaping and boundary fences. **Items included in the cost** are five serving kitchens, one fully fitted out commercial kitchen, one fully fitted out commercial laundry, 20 or so lounge and sitting rooms, one snoezeln room, a nurse call system integrated with the company IT infrastructure, individual en-suite bathrooms to each resident room (130 rooms, 160 residents), fully reverse cycle VRV air conditioning (central management system) to all rooms, full building class 9c classification including sprinkler systems to all resident areas, car parking, residents' leisure centre and **all** consultants' fees.

The three newest facilities have all been developed around a 130 resident room building with 160 resident capacity (30 rooms are shred "double" rooms). Each of the facilities is a single level building on a cleared prepared new site. The total

finished site envelope – building, amenity space and requisite car parking, occupies almost 2 hectares, with the building itself having close enough to 8,500 square metres of roof space.

This detail is important because the availability of tracts of land enabling this type of built form is become not only scarce, but cost prohibitive. At the second facility developed the proportion of cost for the development of that site was almost $600,000 based on an 8 hectare land purchase for $2.3 million. Not included then in the cost of that second building was an approximate $3,750 cost per place for land. In 2003 that seemed rather mundane by comparison to where Perth land prices are at 1 July 2008 where perhaps an average metropolitan large size land purchase of 2 hectares might be, say, $6 million to purchase, leaving the provider with a land component of $37,500 per place added to the cost of the construction of the facility.

The Commonwealth might well take the view that the value of the land appreciates considerably over time and therefore it (the Commonwealth) should not necessarily contribute to that cost as part of the built form. That is a view that should be re-tested in light of the recent rapid increases in property purchase costs around the nation. The cost of property procurement itself is defeating many business case.

If the provider is required to develop a multi storey facility, then an additional at least 10% can be added to the cost of construction. If the provider also develops a "basement car park" under the multi storey facility in order to meet the site space constraints, yet oblige with local government planning requirements for car parking space, then perhaps up to 25% can be added to the commencement cost of construction.

And these matters are building related only. If one considers the changing trend to be required to provide single rooms only, then the commencement cost might well incur a loading of between 20% and 25% before any of the multi storey issues are debated. We must seriously consider this matter of provision of a single room per resident. This is not a building issue. Neither is it a hospital we are building where a patient's length of stay might be one or two days or so. We do not have health insurance funds paying for the accommodation component of the stay of the resident.

But the privacy and dignity issues surrounding our residents are perhaps more pressing than those of many hospital stays because inevitably for many of our clients, they are going to die in our care. A building which will have a life of say 25 to 40 years will see many changing trends in care, but none so serious that have to be met

than the impending death of a resident, the care and support that needs to be offered to the family and friends, and the related services at such times. No matter how this happens, there is an uncomfortable recognition that a shared room, unless it is a long term partner relationship of say husband and wife, is always awkward. Yet today we construct around this eventuality by business case, not by funding provision. Providers can build their facilities with Concessional Residents specifically in mind. At the cost of subsidy that is offered, providers can offer shared rooms to this group of care recipients. But somehow we rebel at the notion of such discrimination based on the ability of someone to pay. This strikes at the very core of the notion of provision of care for the frailest Australians, irrespective of their financial status.

Someone has to pay for this provision, and if it isn't the stakeholder who regulates the level of provision of such care, there must be another way. The current business case is teetering.

Based on the current level of Concessional Resident supplement, even at its highest rate for all residents over the greater than 40% benchmark, and the Accommodation Charge, this Report suggests that matters such as:

- the inability to cover the cost of land as part of the overall cost of development of new facilities;
- the cost of moving to multi storey facilities;
- the planning issues surrounding car parking requirements and other matters; and
- the non built form aspects of quality of service, privacy and dignity;

are all indicating that the business case for new developments will continue to struggle to have merit, and as a consequence we are seeing signs of under subscription in recent ACAR applications.

This whole matter of the cost and capability of capital needs to be reviewed in some significant detail. It is recommended that closely after the completion of the CAP Review there is similar Review effort applied to this matter of built form capacity to ensure that with a growing number of people, with advancing frailty, there is adequate resourcing available to create the built form in which frail seniors requiring admission to residential care facilities can be cared for in accommodation that meets all of the care aspects, at an appropriately affordable price – particularly that of a key stakeholder.

8 Some Options for "Capital Contribution" in Residential Aged Care

It would be remiss if this Report did not now make comment on the range of funding options that might still be explored to fund this relentlessly increasing cost of capital around Australia.

8.1 Concessional Resident supplement

Following from the earlier matters discussed in this Report, it is suggested that four things be done with this payment:

- (With the exception of extra services facilities – a service type this Report has hereto avoided commenting upon), maintain the geographically applied proportional representation of Concessional Residents in each approved provider facility;
- Remove the greater than 40% Concessional Resident hurdle;
- Therefore remove the penalty for failing to achieve that 40% hurdle;
- Make the Concessional Resident supplement of a single, unambiguous and consistently applied value to the providers, initially at the current maximum level of $26.88 per Concessional Resident per day.

8.2 Accommodation Charge

Following from the earlier matters discussed in this Report, it is suggested that four things be done with this payment:

- Maintain the current level of $26.88 per resident per day fee for Accommodation Charge until a major review of capital provision to the sector is completed and reported upon, such that from 1 July 2009 a revised, market realistic replacement Charge is approved for new resident entrants from 1 July 2009, indexed according to annual building cost escalation factors agreed from a representative national perspective;
- Maintain the principle that the Accommodation Charge levied against individual residents remains constant as at the rate set at admission and based on the initial assets test for residency.

8.3 Accommodation Bonds

Based on the escalating value of real estate, the cost of capital, the transition of frailty from a balance of more low care to significantly more high care residents, and the diminishing number of Concessional Residents in care, this Report is recommending that:

- The hoary chestnut of Accommodation Bonds be revisited. Any such re-consideration of the appropriateness of this form of instrument in high care service provision should be one of the terms of reference of any major review of the capital capability.

It seems odd that today we can have a non-pensioner with assets of just over $90,000 who is required to pay an Accommodation Charge of $26.88 per day. If we assume that this person was to only live for a year in a high care facility and then dies, this person will have paid $9,811 to the provider as an Accommodation Charge. Yet an Accommodation Bond equivalent of just $78,840 can deliver the same benefit as the Accommodation Charge. With just $3,504 withheld from the Accommodation Bond after that year of occupancy, the balance between the effective $9.60 per day drawdown and the Accommodation Charge of $26.88 comes directly from interest earned by the provider at say 8%. The balance of Bond Principle of $75,336 is refunded to the estate of the resident via the existing regulated prudential requirements. The Resident and his/her carers may consider themselves to be no worse off under this arrangement, and the provider is clearly no worse off. Unlike the daily Accommodation Charge, this measure of payment does not need to be capped – a benefit to the provider to assist the cost of built form development through interest free capital debt cover.

This Report suggests that it is time for review – a position echoing a voice in the wilderness from Catholic Health Australia's Francis Sullivan and Labor MP Dr Craig Emerson just a few short years ago. Let us at least review the position to see if there is still a place for the option of Accommodation Bonds in high care services to alleviate some of the personal/estate losses of real worth due to the daily fee that cannot be ameliorated because of the way the necessary Accommodation Charge is regulated.

Simply put, other than for some adjustment to quantum and consistency of the Concessional Resident supplement, and quantum only of the Accommodation Charge, the key to resolution of capital creation and contribution in residential aged care in Australia today can be found entirely within the system itself. This author believes that there is far more than adequate funds available to providers to continue

to develop this world class aged care system and develop and maintain the capital infrastructure that underpins it for years to come, provided access to inherent capital capacity is supported and granted.

9 Summary

It is for these combined reasons – an increasing gap in real levels of recurrent operating funding in the sector and a rapidly increasing cost of capital in which the care can be provided – that is causing so many providers to stumble in their capability to continue operating, and are seeking sustainable alternatives to underpin their service provision.

All of these data – whether it be validated data, anecdotal information, or opinion – summarise a system that is straining under the quality of care requirements, the increasing demand for services, the respective State's hospital systems grinding to a halt due to overcrowding, and too long a period of stay from frail elders who might be otherwise accommodate, and probably more appropriately cared for, in similar facilities to what the residential aged care sector is transitioning to, but can ill afford due to its own funding constraints.

The under supply of a realistic level of Government subsidy for the day to day care of frail elders is evident, as is the inconsistency and sustainability of current capital funding methodologies – particularly in high care services. These matters have been discussed in the relevant sections of this Report.

The Commonwealth and the respective States all need to better consider the appropriateness of the current funding levels in residential aged care, and the burgeoning "clientele" of under serviced, or inappropriately serviced frail older Australians.

However, providers of residential aged care must take more responsibility and accountability in management of costs and schedule in their own development projects. There may be some inconsistency and sustainability issues present for providers in the value of subsidies, supplements, and means tested capital contributions. However, these matters should drive providers to explore alternative resources, including government, to defray the cost of built form that providers are responsible to develop, and manage in terms of cost, schedule and contract control. This author does not believe that it is the role of government to support possible squandering of scarce resources – the capacity and responsibility

to manage the cost of built form lies within all providers, irrespective of their size and corporate orientation.

Only time will tell how appropriate current levels of "capital contributions" towards the cost of the built form remains relevant, as the expectations of the built form by individual clients, family, and providers continue to change. This matter is picked up in the recommendations that follow.

10 Recommendations

The recommendations from this Report are as follows:

10.1 Recurrent Funding

10.1.1 That the COPO and CAP indexation method be dropped;

10.1.2 That a replacement, labour price based index replace COPO and CAP from 1 July 2009;

10.1.3 That the replacement labour price index be sufficient in scope to reflect not only the increasing labour requirement of care and support services, but also the increasing cost of supplies such as food, energy, continence aids, and care related ancillary supplies;

10.1.4 Of essence therefore this replacement index should be greater than the rate at which the Safety Net Adjustment is applied;

10.1.5 It is understood that the CAP Review is presently underway and this Report will make these recommendations available to that Review.

10.2 Capital Contribution

10.2.1 The Commonwealth should review the Concessional Resident supplement rate based on consistency of application and the relative cost of accommodation for which the Commonwealth regulates equity of access to accommodation and service provision;

10.2.2 Closely after the completion of the CAP Review there is a similar Review effort applied to built form capacity to ensure that with a growing number of people, with advancing frailty, there is adequate resourcing available to create the built form in which frail seniors requiring admission to residential care facilities can be cared for in accommodation that meets all of the care aspects, at an appropriately affordable price;

10.2.3 With respect to Concessional Resident supplement arrangements , and subject to the Review recommended in 10.2.2 above –

- (With the exception of extra services facilities – a service type this Report has hereto avoided commenting upon), maintain the geographically applied proportional representation of Concessional Residents in each approved provider facility;
- Remove the greater than 40% Concessional Resident hurdle;
- Remove the penalty for failing to achieve that 40% hurdle; and
- Make the Concessional Resident supplement of a single, unambiguous and consistently applied value to the providers, initially at the current maximum level of $26.88 per Concessional Resident per day

10.2.4 With respect to Accommodation Charge arrangements , and subject to the Review recommended in 10.2.2 above –

- Maintain the current level of $26.88 per resident per day fee for Accommodation Charge until a major review of capital provision to the sector is completed and reported upon, such that from 1 July 2009 a revised, market realistic replacement Charge is approved for new resident entrants from 1 July 2009, indexed according to annual building cost escalation factors agreed from a representative national perspective; and
- Maintain the principle that the Accommodation Charge levied against individual residents remains constant as at the rate set at admission and based on the initial assets test for residency

10.2.5 With respect to Accommodation Bond arrangements , and subject to the Review recommended in 10.2.2 above –

- The matter of Accommodation Bonds be revisited. Any such re-consideration of the appropriateness of this form of instrument in high care service provision should be one of the terms of reference of any major review of the capital capability

Wayne L Belcher
Chief Executive
The Bethanie Group Incorporated

CHART 1: **% Increase in COPO, COPO + CAP, SNA - Min Wage, AWOTE, and Average Health Insurance Premium increase on a year by year basis – 1997 – 2008**

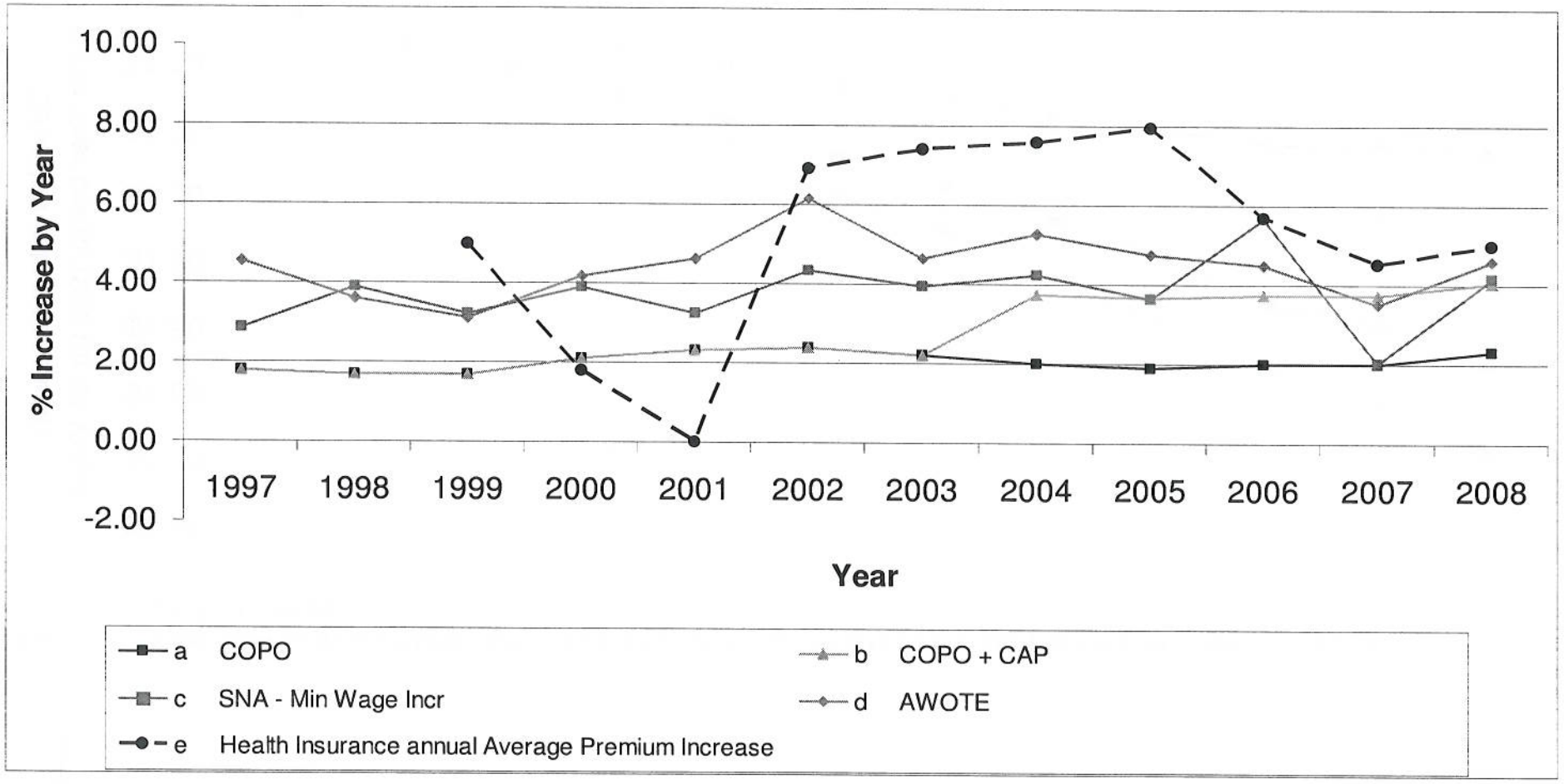
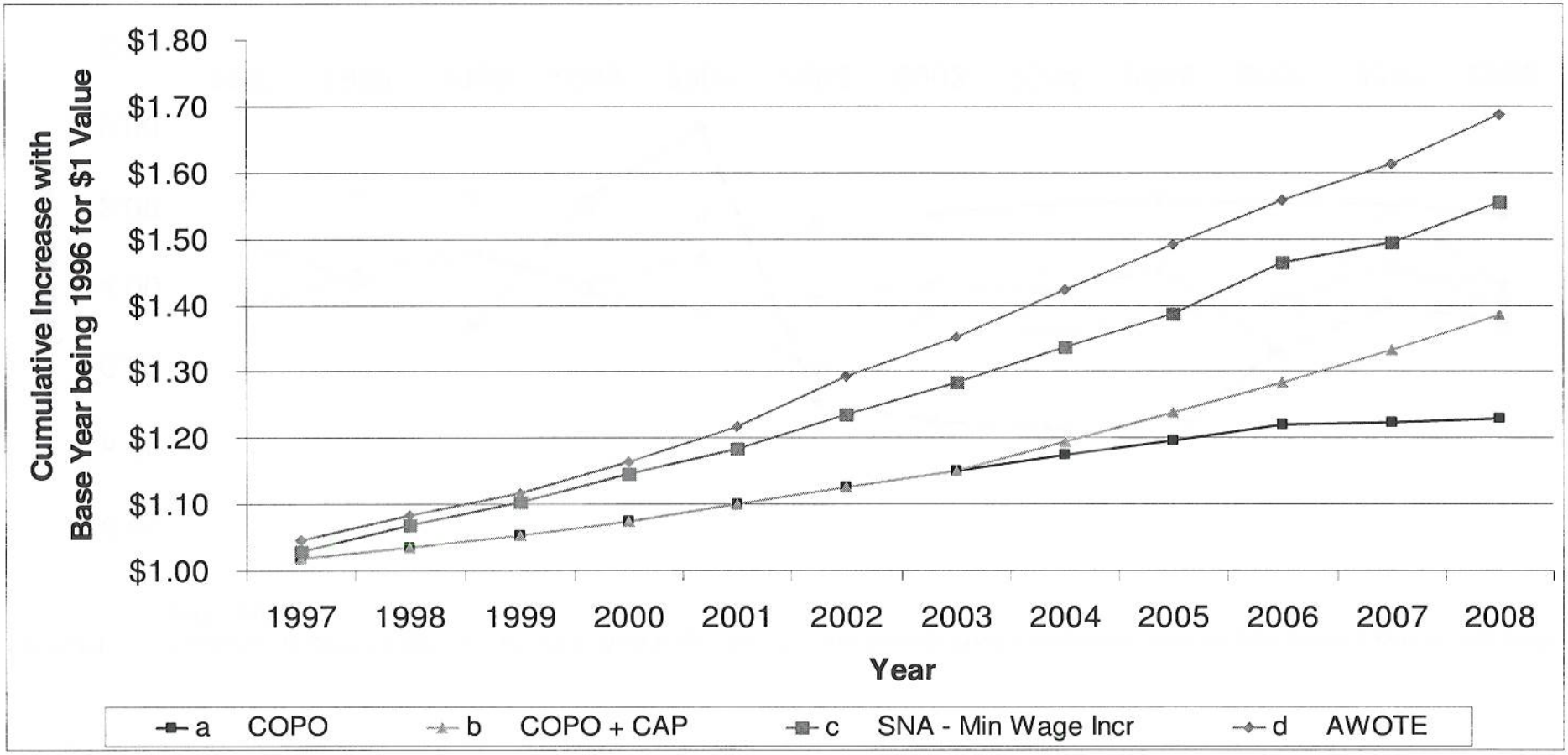


Chart 2: **Cumulative Increase in COPO, COPO + CAP, SNA - Min Wage, AWOTE on a year by year basis 1997 - 2008, base year of 1996, per $1 of Subsidy**



Summary of Charts 1 and 2

a COPO

COPO is the "Commonwealth Other Purposes Outlays" indexation rate applied to the residential aged care sector (and to a wider range of Commonwealth Government funding programs and instrumentalities). This income level is for the basic daily subsidy to the provider for ensuring that the range of services meets the regulated quality, care, and administrative outcomes of the Australian Government.

b COPO and CAP

CAP (Conditional Adjustment Payment) is an added indexation figure of 1.75% per annum. Initially introduced in the 2004-05 financial year, this additional index was added as an outcome of the Hogan Pricing Review of residential aged care. The CAP was intended to conclude at 30 June 2008 but has been extended for one further year (this new current financial year). When added to COPO the combined effect of COPO and CAP is a more reasonable subsidy index. The damage for many providers has already occurred though in the first eight years of the Aged Care Act's implementation when many providers have had no option but to delve into reserves to meet the ever increasing cost of appropriate labour in order to provide these needed residential aged care services.

c SNA – Min Wage Incr

The SNA – Min Wage Incr figures shown are the regulated Safety Net Adjustment to the Australian Minimum Wage position over the twelve years so far of the Aged Care Act. The obvious conclusion to providers is that with a regulated income stream for day to day provision of services being, until recent years with the addition of CAP to COPO, perhaps one half or less than the effectively regulated or broader industry benchmark wages outgoings (in total approximately 70% to 75% of all residential aged care costs), the Australian Government has not kept its basic funding at a sustainable level to providers. This is somewhat confirmed with the consistent slipping in financial performance of the sector over the past few years. Grant Thornton Accountants have the view that there is some 40% of the residential aged care sector that is operating in deficit, largely due to the inability to meet the rising cost of labour and service regulatory expectations with dwindling regulated income.

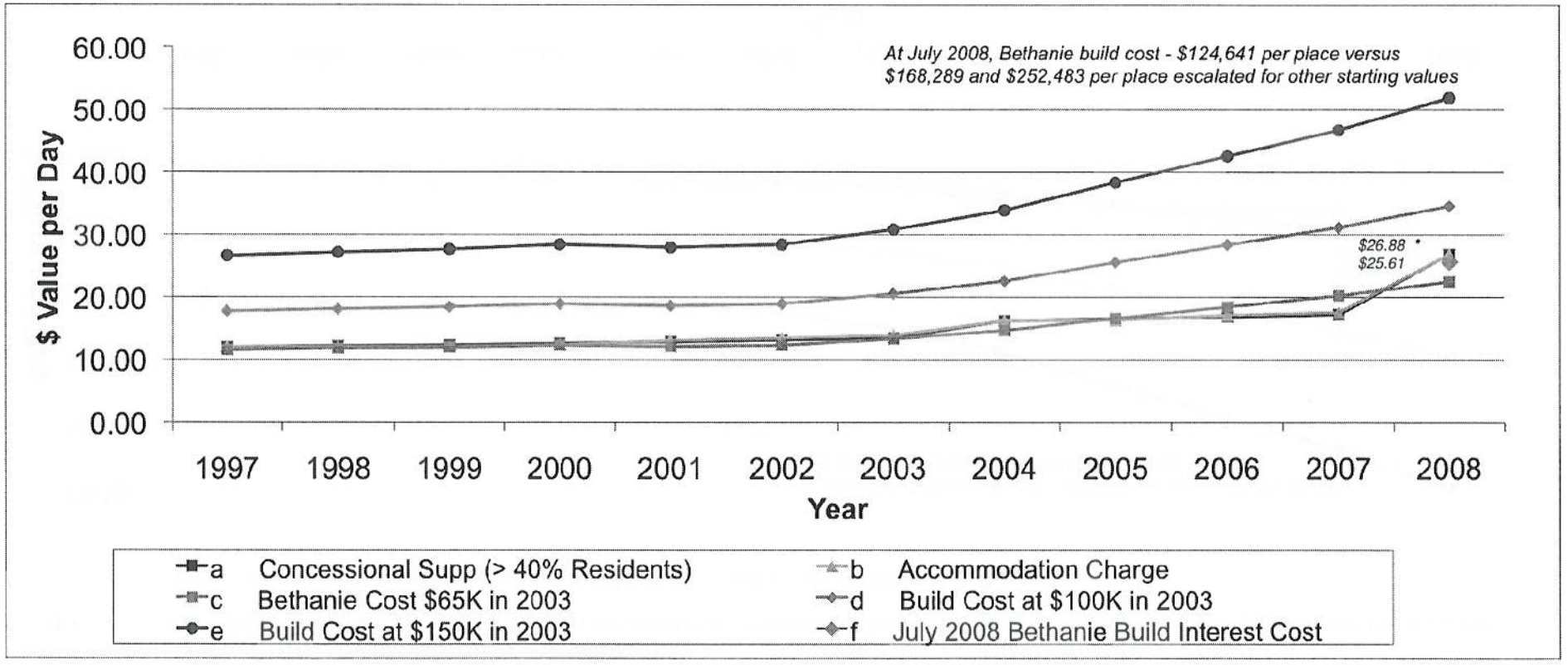
d AWOTE

This is a simple comparative indicator – the Average Weekly (Ordinary Times) Earnings. It clearly outstrips the indexation rate of COPO, COPO + Cap, and even Safety Net Adjustment. The latter is not surprising – it is based on the minimum wage around which so much of the aged care workforce is pegged. Strange really as if providers were to exit the residential aged care sector at this time, the pressure on availability of empty beds in the public hospital sector would significantly increase.

e Health Insurance annual Average Premium Increase

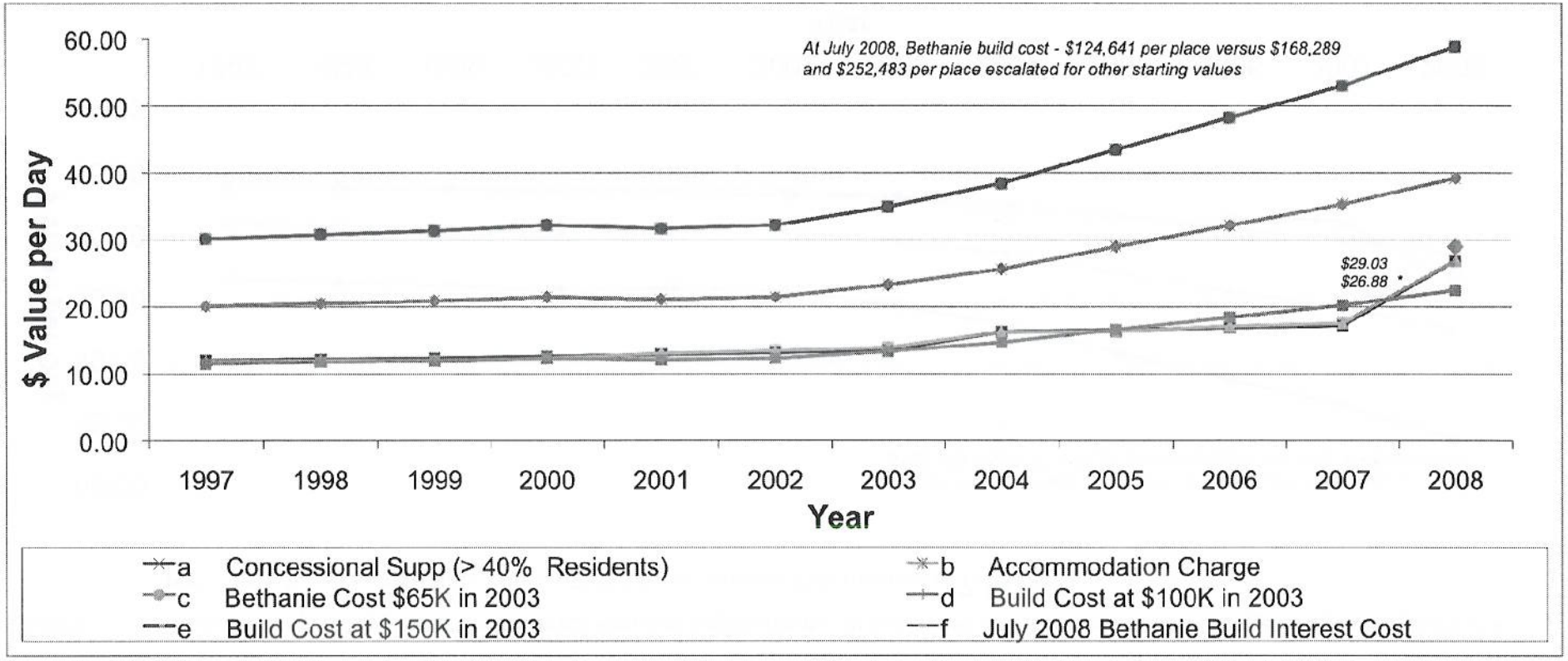
The most useful point to note here is that although private health and hospital services and aged care are so different in matters of acuity of service and so on, the federal Department that recommends the annual premium increase/s for health insurance funds to pass on to their fund members is the same Department that approves the changes in daily basic subsidy rates for residential aged care services around the nation. It is quite clear that aged care remains very much the poor cousin of broader health care in Australia.

Chart 3: **Interest Cost per Day versus Concessional Resident Supplement (>40 Residents) and Accommodation Charge on a year by year basis 1997 – 2008, based on 2003 Base Year for Build Costs - Interest Rate constant at 7.5% pa**



* The $26.88 figure is the Concessional Resident Supplement and Accommodation charge for new clients only from 20 March 2008 - for maximum Concessional Supplement there must be > 40% new Concessional Residents, and for the Accommodation Charge this rate is only payable from 20 March 2008. For less than 40% a penalty is applied (lower Concessional Resident Supplement value per Concessional Resident)

Chart 4: **Interest Cost per Day versus Concessional Resident Supplement (>40 Residents) and Accommodation Charge on a year by year basis 1997 – 2008, based on 2003 Base Year for Build Costs - Interest Rate constant at 8.5% pa**



* The $26.88 figure is the Concessional Resident Supplement and Accommodation charge for new clients only from 20 March 2008 - for maximum Concessional Supplement there must be > 40% new Concessional Residents, and for the Accommodation Charge this rate is only payable from 20 March 2008. For less than 40% a penalty is applied (lower Concessional Resident Supplement value per Concessional Resident)

Charts 3 and 4 Summary

a Concessional Resident Supplement (> 40% Residents)

The Concessional Resident Supplement is that amount the Commonwealth Government pays to residential aged care providers for accommodating the regulated number of Concessional residents. A Concessional resident is one who has income only at the scale of pensioner level, and insufficient assets to pass the asset test prescribed under the regulations – if you like, income poor, asset poor. This supplement is paid according to the proportion of Concessional residents out of the total number of residents. And there is a penalty applied – if the facility fails to achieve over 40% percent of all residents as Concessional, then the full daily amount per resident is reduced, by approximately 25%. Added to the Accommodation Charge it invariably means that for regular high care services there might never be 100% of all residents who effectively pay a contribution towards the capital expense of the facility in which they reside.

b Accommodation Charge

The Accommodation Charge is a form of contribution to the capital cost of an aged care facility, payable as an additional daily charge to residents, based on the means tested ability of the resident to pay such a fee. This form of charge is in lieu of any accommodation bond income that has been prohibited by regulation from being levied against the assets or income of any resident in most high care (nursing home) residential aged care services.

c Bethanie Cost $65K in 2003

This index follows the WA Department of Housing and Works Building Cost Index escalation for a $65,000 cost per place in a residential aged care facility constructed in July 2003. At 1 July 2008 this cost has escalated to almost $109,000 per place – a cost at which almost every residential aged care provider in Western Australia, probably the whole of Australia, could not build to day and meet all of the built form regulatory compliance requirements. However, The Bethanie Group did develop its initial new form Aged care facility in Eaton for this price per place, with construction commencing in July 2003 at just a matter of $130 per place lower than the charted $65,000 per place.

d Build Cost at $100K in 2003

This index follows the WA Department of Housing and Works Building Cost Index escalation for a $100,000 cost per place in a residential aged care facility constructed in July 2003. At 1 July 2008 this cost has escalated to almost $170,000 per place – a cost at which several residential aged care providers in Western Australia are currently paying. What seems to be clear from all the data is that if one builds at this cost then there is no possibility under the current payment parameters that this build cost is going to be quite difficult to be profitably managed.

e Build Cost at $150K in 2003

This index follows the WA Department of Housing and Works Building Cost Index escalation for a $150,000 cost per place in a residential aged care facility constructed in July 2003. At 1 July 2008 this cost has escalated to almost $250,000 per place – a cost at which some residential aged care providers in Western Australia are currently paying. What seems to be clear from all the data is that if one builds at this cost then there is no possibility under the current payment parameters that this build cost can ever be profitably managed.

f July 2008 Bethanie Build Interest Cost

The figure advises the daily cost of interest cover for each interest rate of 7.5% and 8.5% respectively. It is close to the regulated Concessional Resident Supplement and the daily accommodation charge. But this daily interest cost has been achieved because of the focus of the Bethanie Group on contract management and cost and schedule control in its major building projects. In residential aged care this equates to building at a July 2008 cost of just $125,000 per place in a 160 place, single level facility, yet fully compliant with BCA classification 9c under the building certification requirements of the Aged Care Act.

APPENDIX 1

The attached Information Sheet is provided courtesy of ACAA New South Wales (ACAA = Aged Care Association of Australia).

This document highlights the complexity and inconsistency of the amount of Concessional Resident supplement that is payable to providers on behalf of Concessional Residents for the accommodation – the built form – that is provided for all residents in an aged care facility. It should be remembered that the group of residents known as Concessional Residents are those residents for whom the Commonwealth regulates and requires of each facility around the nation the proportion of their total number of care recipients for whom this accommodation service must be provided. Payment by the Commonwealth for this accommodation and care is reimbursed at the Commonwealth regulated subsidy rate – a rate that is inconsistent at best, and due to its inconsistency in application, almost certainly does not cover the cost of capital in built form. That is, for those providers who have actually built over the past handful of years.

Information Sheet

How the 40% rule works from 20 March 2008.

Prepared by Bill Bourne, ACAA
Distributed Wednesday 19 March 2008

From 20 March 2008 there will be a more convoluted method of calculating the Concessional/Supported payments.

Existing Residents – Pre 20 March 2008

Currently if, on any day, the number of concessional residents is greater than 40% of the residents in the facility who entered post 1 October 1997 (or the date of certification whichever is the later day), the payment for each concessional resident per day is $17.23. If, on any day, the number of concessional residents are not greater than 40% of the residents who entered post 1 October 1997 (and remain in the facility) the payment for each concessional resident per day is $11.27.

From 20 March 2008, the number of concessional residents, who entered the facility prior to 20 March 2008, will be calculated as a percentage of the total number of residents in the facility, on any day, who entered the facility between 1 October 1997 and 19 March 2008 inclusive. If the result proves to be greater than 40%, then all concessional residents will be paid at the higher tiered concessional rate. If the result proves to be equal to, or less than 40%, then all concessional residents will be paid at the lower tiered concessional rate. ***Therefore payment depends on the number of concessional residents as a percentage of the pre 20.3.08 residents.***

New Residents From 20 March 2008

From 20 March 2008 new residents who do not have the asset base to allow the full payment of the accommodation charge ($26.88 per day) will be "topped up" to the $26.88 level by the government. These residents will be called **Supported Residents** and the amount that the government will pay could vary from $0.01 to $26.88.

Where:

1. On any day, the number of Supported residents is greater than 40% of the residents who entered on or after 20 March 2008 the payment for each supported resident per day is at 100% of $26.88 less any amount payable by the resident.
2. If, on any day, the number of Supported residents is not greater than 40% of the residents who entered on or after 20 March 2008 the payment for each Supported resident will be the amount calculated in 1 above reduced by 25%.

However, if scenario 2 is the case, the supported residents may still be paid at the non-reduced rate if the overall percentage of concessional residents and supported residents is greater than 40%. ***Therefore, payment depends on the number of supported residents as a percentage the number of residents entering on or after 20.3.08 OR the addition of the concessional residents and the supported residents as a percentage of the total number of residents, whichever is the greater.***

An example of the above is as follows:

Size of facility	-	100 places
Number of concessional residents	-	40
Number of pre 1 October 1997 residents	-	0

Residents LEAVING post 19 March 2008:

21 March 2008	-	1 non-concessional resident
25 March 2008	-	1 non-concessional resident
29 March 2008	-	1 non- concessional resident
31 March 2008	-	1 concessional resident

Residents ENTERING post 19 March 2008:

21 March 2008	-	1 fully supported resident
25 March 2008	-	1 NON-supported resident
29 March 2008	-	1 NON-supported resident
31 March 2008	-	1 Part supported resident at $10.00

Concessional/Supported Payments for the Rest of March:

20 March 2008

Pre 20 March 2008 Residents			On or After 20 March 2008 Residents		
Concessionals	**Pre 20.3 Residents**	**%**	**Supported**	**Post 20.3 Residents**	**%**
40	100	40	0	0	0
Overall: $\frac{\text{(Concessionals + Supported)}}{100} \times \frac{100}{1} = \frac{(40+0)}{100} \times \frac{100}{1} = 40\%$					

The pre 20.3.08 residents remain at 40% and therefore will be paid at the lower tier of $11.27 because it is not greater than 40%. There were no new residents. The overall percentage remains at 40%. The payment for the day is:

40 X $11.27 = $450.80

21 March 2008

Pre 20 March 2008 Residents			On or After 20 March 2008 Residents		
Concessionals	**Pre 20.3 Residents**	**%**	**Supported**	**Post 20.3 Residents**	**%**
40	99	40.4	1	1	100
Overall: $\frac{\text{(Concessionals + Supported)}}{100} \times \frac{100}{1} = \frac{(40+1)}{100} \times \frac{100}{1} = 41\%$					

The pre 20.3.08 residents are now 40.4% and will be paid at the higher tier of $17.23. The post 20.3.08 residents are one and that person is a supported resident. The overall percentage is now 41%. The payment for the day is:

(40 X $17.23) + (1 X $26.88) = $716.08

22 March 2008

Pre 20 March 2008 Residents			On or After 20 March 2008 Residents		
Concessionals	**Pre 20.3 Residents**	**%**	**Supported**	**Post 20.3 Residents**	**%**
40	99	40.4	1	1	100
Overall: (Concessionals + Supported) X 100 = (40 + 1) X 100 = 41%					
100 1 100 1					

The pre 20.3.08 residents are now 40.4% and will be paid at the higher tier of $17.23. The post 20.3.08 residents are one and that person is a supported resident. The overall percentage is now 41%. The payment for the day is:

(40 X $17.23) + (1 X $26.88) = $716.08

23 March 2008

Pre 20 March 2008 Residents			On or After 20 March 2008 Residents		
Concessionals	**Pre 20.3 Residents**	**%**	**Supported**	**Post 20.3 Residents**	**%**
40	99	40.4	1	1	100
Overall: (Concessionals + Supported) X 100 = (40 + 1) X 100 = 41%					
100 1 100 1					

The pre 20.3.08 residents are now 40.4% and will be paid at the higher tier of $17.23. The post 20.3.08 residents are one and that person is a supported resident. The overall percentage is now 41%. The payment for the day is:

(40 X $17.23) + (1 X $26.88) = $716.08

24 March 2008

Pre 20 March 2008 Residents			On or After 20 March 2008 Residents		
Concessionals	**Pre 20.3 Residents**	**%**	**Supported**	**Post 20.3 Residents**	**%**
40	99	40.4	1	1	100
Overall: (Concessionals + Supported) X 100 = (40 + 1) X 100 = 41%					
100 1 100 1					

The pre 20.3.08 residents are now 40.4% and will be paid at the higher tier of $17.23. The post 20.3.08 residents are one and that person is a supported resident. The overall percentage is now 41%. The payment for the day is:

(40 X $17.23) + (1 X $26.88) = $716.08

25 March 2008

Pre 20 March 2008 Residents			On or After 20 March 2008 Residents		
Concessionals	**Pre 20.3 Residents**	**%**	**Supported**	**Post 20.3 Residents**	**%**
40	98	40.82	1	2	50
Overall: (Concessionals + Supported) X 100 = (40 + 1) X 100 = 41%					
100 1 100 1					

The pre 20.3.08 residents are now 40.82% and will continue to be paid at the higher tier of $17.23. The post 20.3.08 residents are now two with 1 supported resident. The overall percentage remains at 41%. The payment for the day is:

(40 X $17.23) + (1 X $26.88) = $716.08

26 March 2008

Pre 20 March 2008 Residents			On or After 20 March 2008 Residents		
Concessionals	**Pre 20.3 Residents**	**%**	**Supported**	**Post 20.3 Residents**	**%**
40	98	40.82	1	2	50
Overall: (Concessionals + Supported) / 100 X 100 / 1 = (40 + 1) / 100 X 100 / 1 = 41%					

The pre 20.3.08 residents are now 40.82% and will continue to be paid at the higher tier of $17.23. The post 20.3.08 residents are now two with 1 supported resident. The overall percentage remains at 41%. The payment for the day is:
(40 X $17.23) + (1 X $26.88) = $716.08

27 March 2008

Pre 20 March 2008 Residents			On or After 20 March 2008 Residents		
Concessionals	**Pre 20.3 Residents**	**%**	**Supported**	**Post 20.3 Residents**	**%**
40	98	40.82	1	2	50
Overall: (Concessionals + Supported) / 100 X 100 / 1 = (40 + 1) / 100 X 100 / 1 = 41%					

The pre 20.3.08 residents are now 40.82% and will continue to be paid at the higher tier of $17.23. The post 20.3.08 residents are now two with 1 supported resident. The overall percentage remains at 41%. The payment for the day is:
(40 X $17.23) + (1 X $26.88) = $716.08

28 March 2008

Pre 20 March 2008 Residents			On or After 20 March 2008 Residents		
Concessionals	**Pre 20.3 Residents**	**%**	**Supported**	**Post 20.3 Residents**	**%**
40	98	40.82	1	2	50
Overall: (Concessionals + Supported) / 100 X 100 / 1 = (40 + 1) / 100 X 100 / 1 = 41%					

The pre 20.3.08 residents are now 40.82% and will continue to be paid at the higher tier of $17.23. The post 20.3.08 residents are now two with 1 supported resident. The overall percentage remains at 41%. The payment for the day is:
(40 X $17.23) + (1 X $26.88) = $716.08

29 March 2008

Pre 20 March 2008 Residents			On or After 20 March 2008 Residents		
Concessionals	**Pre 20.3 Residents**	**%**	**Supported**	**Post 20.3 Residents**	**%**
40	97	41.23	1	3	33.33
Overall: (Concessionals + Supported) / 100 X 100 / 1 = (40 + 1) / 100 X 100 / 1 = 41%					

The pre 20.3.08 residents are now 41.23% and will continue to be paid at the higher tier of $17.23. The post 20.3.08 residents are now three with 1 supported resident making the percentage of supported residents 33.33%. However, as the overall percentage remains at 41% the supported resident's payment will not be reduced. The payment for the day is:
(40 X $17.23) + (1 X $26.88) = $716.08

30 March 2008

Pre 20 March 2008 Residents			On or After 20 March 2008 Residents		
Concessionals	**Pre 20.3 Residents**	**%**	**Supported**	**Post 20.3 Residents**	**%**
40	97	41.23	1	3	33.33
Overall: (Concessionals + Supported) / 100 X 100 / 1 = (40 + 1) / 100 X 100 / 1 = 41%					

The pre 20.3.08 residents are now 41.23% and will continue to be paid at the higher tier of $17.23. The post 20.3.08 residents are now three with 1 supported resident making the percentage of supported residents 33.33%. However, as the overall percentage remains at 41% the supported residents' payment will not be reduced. The payment for the day is:
(40 X $17.23) + (1 X $26.88) = $716.08

31 March 2008

Pre 20 March 2008 Residents			On or After 20 March 2008 Residents		
Concessionals	**Pre 20.3 Residents**	**%**	**Supported**	**Post 20.3 Residents**	**%**
39	96	40.62	2	4	50
Overall: (Concessionals + Supported) / 100 X 100 / 1 = (39 + 2) / 100 X 100 / 1 = 41%					

The pre 20.3.08 residents are now 40.62% and will continue to be paid at the higher tier of $17.23. The post 20.3.08 residents are now four with 2 supported residents making the percentage of supported residents 50%. The overall percentage remains at 41%. The payment for the day is:
(39 X $17.23) + (1 X $26.88) + (1 X $10.00) = $708.85

It should be noted that if:

1. The number of concessional residents as a percentage of the number of pre 20.3.08 admissions **is not** greater than 40%; and
2. The number of supported residents as a percentage of the number of residents admitted on or after 20.3.08 **is** greater than 40%;and
3. The overall number of concessional residents and supported residents as a percentage of the total number of residents **is not** greater than 40%; then:

a) The concessional residents are paid at the lower tier of $11.27 per day.
b) The supported residents are paid at the full accommodation subsidy rate payable for that resident.
c) The fact that the overall percentage is not greater than 40% does not affect the payment for new supported residents.

REVIEW OF THE

Conditional Adjustment Payment (CAP)

Submission on behalf of

The Bethanie Group Inc

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The Bethanie Group Inc

To Nurture, Serve and Care

Executive Summary

Bethanie Group Inc welcomes the opportunity to provide the following comments on the Conditional Adjustment Payment (CAP) in accordance with the terms of reference. Our Group trusts that the submission will be considered carefully and inform the deliberations and subsequent recommendations of the review.

An increasing gap in real levels of recurrent operating funding in the aged care sector and a rapidly increasing cost of capital in which the care can be provided is causing many providers to stumble in their capability to continue operating.

This submission highlights the inability of the Commonwealth Other Purposes Outlays (COPO) and the CAP indexation methods to keep pace with the real costs of provision of aged care in today's environment, and identifies a number of considered recommendations to improve the recurrent funding processes. The recommendations include:

1. That the COPO and CAP indexation methods cease.
2. That a replacement, labour price based index replace COPO from 1 July 2009.
3. That the replacement labour price index be sufficient in scope to reflect not only the increasing labour requirement of care and support services, but also to increasing cost of supplies such as food, energy, continence aids, and care related ancillary supplies.
4. This replacement index should be greater than the rate at which the Safety Net Adjustment is applied.
5. That any funding indexation should apply across both residential and community care areas of the aged care sector.

While this review is specific to the CAP, our Group strenuously notes that any review of recurrent funding methods must also take into consideration the total funding sources and revenue of the aged care sector, and specifically the capital contribution process.

The content and recommendations for this submission are based on the report *"Improving Residential Aged Care Funding in Australia"* authored by Wayne L Belcher, Chief Executive, Bethanie Group Inc, July 2008.

Bethanie Group Inc

1. The Bethanie Group Inc (formally Churches of Christ Homes and Community Services Incorporated) is one of the leading aged care providers in Western Australia. Established in 1954, The Bethanie Group Inc is Western Australia's largest provider of residential aged care places (hostels and nursing homes) and a significant contributor of both community services and the provision of retirement villages.

2. The Bethanie Group Inc currently provides care for over 1,000 people in residential care services, over 2,000 people in community care programs and 650 retirement village residents. Our workforce of 1,600 provides care throughout the Perth metropolitan, south west and mid west regions of Western Australia.

Conditional Adjustment Payment (CAP)

3. The base funding mechanism underpinning the residential aged care program in Australia is the COPO and CAP indexation elements.

4. COPO is the *Commonwealth Other Purposes Outlays* indexation rate applied to the residential aged care sector (and to a wider range of Commonwealth Government funding programs and instrumentalities). This income level is for the basic daily subsidy to the provider for ensuring that the range of services meets the regulated quality, care, and administrative outcomes of the Australian Government.

5. A review of COPO has identified that it is both an unreasonably low level of indexation, and bears little or no relativity to more useful labour price related indexation methods such as Safety Net Adjustment (SNA) or the Average Weekly (Ordinary Times) Earnings (AWOTE), recognised national indexations for labour price measures.

6. CAP (Conditional Adjustment Payment) is an additional index component that was introduced as part of the Australian Government's initial response to the Report of Professor Warren Hogan's Review of Pricing Arrangements in Residential Aged Care. The CAP was intended to provide medium term financial assistance to providers with a requirement to become more efficient through improved management practices.

7. The CAP is added to COPO to supplement the lack of relativity of that (COPO) index to bring some reality into the funding mechanisms within the residential aged care sector.

8. The amount of CAP payable in respect of a resident is calculated as a percentage of the basic subsidy amount payable in respect of a resident. In 2004-05, the year of its

introduction, this percentage was 1.75%. It then rose annually in 1.75% increments, to 3.5% in 2005-06; 5.25% in 2006-07 and 7.0% in 2007-08.

9. While the Bethanie Group Inc welcomes the current review of CAP payments, an urgent review is also required for the COPO subsidy so that there might be some improvement on this subsidy index based on a more equitable labour price index for relativity of real costs of services. It is generally accepted that 70% or more of the total expenditure on residential aged care services is based on the full cost of labour. This has been particularly so over recent years where aged care providers have had to maintain parity of wages and conditions with the State based hospital sector in order to maximise recruitment and retention of staff. Therefore any indexation methodology applied must be aligned to wages growth with consideration for local and/or State economic conditions.

10. The following table demonstrates the differences between the COPO/CAP indexation rate of subsidy and the comparison indicators and an annual basis.

Table 1 – Comparison of Combined COPO/CAP Subsidy to SNA-Minimum Wage and AWOTE

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

11. The following table demonstrates the cumulative ongoing difference between the COPO/CAP indexation rate of subsidy and the comparison indicators. This gap is based on using the 1996 value of $1 of subsidy as the baseline year.

Table 2 – Comparison of cumulative Combined COPO/CAP Subsidy to SNA-Minimum Wage and AWOTE

Year	COPO/CAP Based on escalation of $1 subsidy in 1996	COPO/CAP % Below SNA-Min Wage Based on $1 in 1996	COPO/CAP % Below AWOTE Based on $1 in 1996
1997	$1.02	1.04%	2.70%
1998	$1.04	3.23%	4.64%
1999	$1.05	4.76%	6.10%
2000	$1.08	6.60%	8.25%
2001	$1.10	7.59%	10.71%
2002	$1.13	9.63%	14.77%
2003	$1.15	11.50%	17.51%
2004	$1.19	12.03%	19.22%
2005	$1.24	12.02%	20.05%
2006	$1.28	14.07%	21.36%
2007	$1.33	12.17%	21.07%
2008	$1.39	12.27%	21.72%

12. The increasing gap in real levels of recurrent operating funding in the sector and a rapidly increasing cost of capital in which the care can be provided is causing many providers to stumble in their capability to continue operating.

13. It is the Bethanie Group Inc's view that the COPO/CAP indexation should be ceased and replaced with a labour price index sufficient in scope to reflect the increasing labour requirement of care and support services, and the increasing cost of supplies such as food, energy, continence aids, and care related ancillary supplies.

14. This replacement index should be greater than the rate at which the Safety Net Adjustment is applied.

15. It is the Bethanie Group Inc's view that any review of COPO/CAP and recurrent funding should take into consideration the total funding sources and revenue of the aged care sector, and specifically the capital contribution processes.

16. The Bethanie Group Inc recognises that in the provision of aged care, employee wages are the major expense for aged care providers. In the current format, the COPO/CAP applies only to the provision of residential care services. With the increasing provision of community care it is logical to assume that the same cost pressures exist in this area and it is the Bethanie Group Inc's view that any indexation applied to residential care should also be implemented across community care services.

Aged care providers requirements to receive further indexation funding

17. The Bethanie Group Inc acknowledges that the introduction of the CAP was designed to provide medium term financial assistance with a requirement that aged care providers undertake an improvement of management practices and in particular financial reporting processes and workforce development.

18. However, it should be noted that in addition to the substantial costs incurred to undertake the above processes, the aged care sector has also been required to meet a growing number of regulatory requirements that have not had additional financial supplements to support the compliance costs. For example, the costs of introducing mandatory police checks for all employees, increasing costs related to mandatory reporting and investigation processes for complaints, costs associated with the introduction of the new Aged Care Funding Instrument (ACFI) and managing dual reporting systems for the Residential Classification Scale (RCS) and ACFI over the introduction period, and costs associated with increased validation and compliance visits.

19. The ever increasing regulatory requirements continue to place a large financial burden on aged care providers and it is the Bethanie Group Inc's view that no further regulatory requirements should be expected to be undertaken by aged care providers in order to received CAP or a replacement index funding.