COMMONWEALTH OF AUSTRALIA

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STANDING COMMITTEE ON FINANCE AND PUBLIC ADMINISTRATION

Reference: Residential and community aged care in Australia

TUESDAY, 21 APRIL 2009

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SENATE STANDING COMMITTEE ON

FINANCE AND PUBLIC ADMINISTRATION

Tuesday, 21 April 2009

Members: Senator Polley *(Chair)*, Senators Bernardi, Cameron, Jacinta Collins, Hanson-Young, Moore, Parry and Ryan

Substitute members: Senator Siewert to replace Senator Hanson-Young and Senator Humphries to replace Senator Ryan for inquiry into residential and community aged care in Australia; Senator Boyce replaced Senator Humphries on 21 April 2009

Participating members: Senators Abetz, Adams, Barnett, Bilyk, Birmingham, Mark Bishop, Boswell, Boyce, Brandis, Bob Brown, Carol Brown, Bushby, Cash, Colbeck, Coonan, Cormann, Crossin, Eggleston, Farrell, Feeney, Fielding, Fisher, Forshaw, Furner, Heffernan, Humphries, Hurley, Hutchins, Johnston, Joyce, Kroger, Ludlam, Lundy, Ian Macdonald, McEwen, McGauran, McLucas, Marshall, Mason, Milne, Minchin, Nash, O'Brien, Payne, Pratt, Ronaldson, Scullion, Siewert, Stephens, Sterle, Troeth, Trood, Williams, Wortley and Xenophon

Senators in attendance: Senators Boyce, Collins, Polley and Siewert

Terms of reference for the inquiry:

To inquire into and report on:

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.

WITNESSES

Committee met at 8.31 am

CULLEN, Dr David John, Assistant Secretary, Policy and Evaluation Branch, Ageing and Aged Care Division, Department of Health and Ageing

MURNANE, Ms Mary, Deputy Secretary, Department of Health and Ageing

SCOTT, Mr Iain, Acting First Assistant Secretary, Office of Aged Care Quality and Compliance, Department of Health and Ageing

STUART, Mr Andrew, First Assistant Secretary, Ageing and Aged Care Division, Department of Health and Ageing

CHAIR (Senator Polley)—Good morning and welcome. The committee is continuing its inquiry into residential and community aged care in Australia. I wish to inform the committee that Senator Humphries is unable to attend the meeting today and, in accordance with standing order 25(7)(e), Senator Boyce has been appointed as a substitute member for this hearing. I welcome officers from the Department of Health and Ageing. Information on parliamentary privilege and the protection of witnesses and evidence has been provided to you. As departmental officers, you will not be asked to give opinions on matters of policy, though this does not preclude questions asking for explanations of policy or factual questions about when and how policies were adopted. The committee has before it the department's submission and the supplementary submission. I now invite you to make a short opening presentation. At the conclusion of your remarks I will invite members of the committee to put questions to you.

Mr Stuart—Good morning. I have an opening statement. I propose to run through the supplementary submission, highlight the inclusions in it and also, on the way, respond to some of the testimony to the committee. In relation to the first term of reference in relation to funding levels, we have provided substantial data on capital investment, which is available to the department from the department's surveys. Capital investment has been strong recently, with building commencements having increased since 2001 and having plateaued in March 2007. In 2007-08, aged-care providers indicated that about 18,700 places were being planned for or had construction or upgrading underway. Looking at returns, returns per resident for efficient providers, defined as the top quartile, increased between 2006-07 and 2007-08, and that data is also in the supplementary submission.

Turning to building costs, we are aware that industry representatives commonly talk about a building cost of $180,000 per place or even higher, not including land. The department collects comprehensive information about building costs from the sector and has included in the supplementary submission a graph and information showing that the average cost of construction for new or rebuilt aged-care homes is $155,000 per place. This is net of land as we see land being an appreciating asset. There is a graph in the submission that shows the cost of all recent building activity in the sector. The average cost and median cost are very similar, and nearly 60 per cent of all projects are being completed for less than the $155,000 average. A number of the more expensive developments are being constructed as extra-service homes or to a design specification that is well in excess of the government's building certification standards.

At the request of the committee, we have included in the submission a comparison of the three key data sources on the viability of the sector—namely, Bentleys Chartered Accountants; Stewart, Brown and Company; and Grant Thornton. The Stewart, Brown and Company and Bentleys surveys both found there was a general improvement in the financial performance of the sector between 2007-08 and 2006-07. There was an improvement from 2006-07 to 2007-08. The general purpose financial reports that the department receives from all aged-care providers show a general improvement in financial importance to 2007-08. By contrast, the Grant Thornton survey alone shows a deterioration in the financial performance in the 2007-08 financial year, and the department again would note its concerns with the representativeness of the Grant Thornton survey sample, which we have been unable to obtain for verification despite requests.

Senator JACINTA COLLINS—What precisely have you not been able to obtain?

Mr Stuart—We have asked Grant Thornton for access to their data that they have analysed and reported to the industry, and we have been unable to obtain it.

Senator JACINTA COLLINS—Those are the raw results.

Mr Stuart—That is right. We have the data in relation to the other surveys and are able to look at the representativeness of that information. In this submission we have, for the first time—for the first time anywhere in the public arena, as a matter of fact—put pen to paper about how we view aged care in the context of the current global financial crisis, which is certainly an area of concern. But we believe, for a number of reasons, that aged-care providers are relatively, although, of course, not completely, sheltered from the effects of the global financial crisis in comparison with other sectors. That is because the income stream in aged care is largely underwritten by government—to the tune of about 70 per cent in residential care. The resident contributions are underpinned by the aged pension and to the extent that older people are able to pay less as the government pays more, so there is no need for customers to stay away from aged care on the grounds of cost.

We also believe that the demand for aged care from consumers is relatively non-discretionary. That is not to say that there is no impact in aged care from the financial crisis, and we do not want to appear sanguine. There is a reduced access to debt financing and there is also a reduced income from investments that the sector may have, including, as we have heard and read in testimony to this committee, the returns from invested bond funds, which have been raised by witnesses at the hearing. The department is continuing to monitor the sector closely in relation to that.

To turn to the second term of reference, which is about the indexation formula, the government has provided substantially increased funding for residential care in recent times. Expenditure this financial year, compared to last financial year, will increase by 10.8 per cent and by eight per cent on a per-resident basis. In the submission we break this down into its components. There has been a lot of industry commentary comparing aged-care indexation and cost to health insurance and other health funding, and we do not think they are comparing apples and apples in those comparisons. We would be happy to expand on that in answers to questions.

Turning to cost and revenue, we have developed cost and revenue indices—and they are included in the submission—for both high- and low-care providers to look at the comparison of cost to revenue for both low- and high-care homes. The revenue has been increasing faster than cost since 1998-99. I think I should explain that the main difference between what the department has been doing in this area and what the industry has been doing is that the industry has been comparing revenue to prices, in particular labour prices, on a per-unit basis, and the department has taken account of productivity improvement in looking at the relationship between revenue and cost.

The third term of reference is about regional variations, and in the submission we provide evidence that there is reduced access to capital funding in regional areas as a result of lower bond returns and also that the cost of construction in rural and remote Australia is higher than in major cities by about $6,000 a place. In order to address these regional differences the government provides capital funding of over $40 million a year and also a viability supplement. Both of those measures are described in the original submission and repeated in this submission.

The fourth term of reference is about inequity in user payment. The department and government introduced more equitable arrangements in relation to fees and charges in March 2008. Before March 2008 self-funded retirees faced higher charges as a proportion of their total income than pensioners. These differentials were removed and now all income is treated on a common basis between self-funded retirees and pensioners. They are all on the same sliding scale in relation to what they pay in relation to their income. The department has, I would have to say somewhat carefully, provided some commentary on the bond issue, which we are happy to expand on in answer to questions. Without wanting to enter the policy arena, increasingly high care is short term and results from a hospital episode. There is some data about that provided in the submission.

The fifth term of reference is about the current planning ratio. The ratios were revised in 2004 and again in 2007. What has been happening over a period of time is that the community care ratio has continually increased. Most recently, in 2007, the high-care ratio was also increased for the first time in quite a long time. The policy has been emphasising growth in community care and also more recently growth in high care.

There are very considerable strengths in the current planning arrangements. We tend to take those for granted in Australia, but I think they are very important to mention. First of all, the planning formula keeps growth in care in line with growth in the ageing population and, secondly, the planning formula directs new aged-care places to the areas of greatest need. Aged care is really one of the very few areas in public policy where growth in expenditure actually goes up in line with growth in the population. It is also one of the few areas of public policy where growth in rural provision actually matches the proportion of the population that lives in those areas. If you are thinking about policy in the area of planning and allocation, you would not want to lose those strengths that we currently have.

There has been a bit of commentary about low care and high care and whether the distinction is still appropriate. We have provided some evidence in the supplementary submission. Half of all residents entering care for the first time enter at low care, but about 70 per cent of all residents in care at any point in time are in high care. We think those two pieces of information are actually quite separate considerations. The first one is about access and wanting to make sure

that people at both low-care and high-care levels can access aged care appropriately. The second is about ageing in place. Once people are in care they are able to stay in their current place and age in place within the service. We do not think there is any contradiction here—one being about access and the other being about security of tenure.

Senator JACINTA COLLINS—How do those figures actually tell us that people are ageing in place? They do not tell us that they stay in the same place.

Mr Stuart—When half of all residents enter care in low care but 70 per cent at any point in time in care are in high care that tells you that a substantial proportion of people are moving from low care to high care while they are already in care.

Senator JACINTA COLLINS—But not necessarily in the same facility.

Mr Stuart—Not necessarily, but we certainly have data about the extent to which that is common. We can go to that in answer to questions. ACFI provides funding on the basis of care level. Taken together the planning arrangements and the funding arrangements try to secure access for a variety of people and then fund appropriately according to their care need.

I will turn to the last term of reference in terms of impact of allocation on provision. There is a common view that has been expressed to the committee that growth in community care is leading to excess vacancies in residential care. We have been unable to produce any analysis that either supports this view or denies this view. The reason for that is that there is such substantial growth in community care everywhere in Australia that it is impossible to find where there has been growth in community care in some areas and not in others. To look at the separate impact of growth in community care on residential care is not possible. However, we have been able to show that the expansion in care itself has a very considerable impact on vacancy levels. We think this is the overriding consideration at the moment.

Intuitively, of course, at some level the more you expand community care the less people will have an interest in moving into residential care, but we do not think this goes all that far because the people who enter residential care are a little different from those who enter or remain at home in community care. People with high-level needs who live alone and have no carer are at higher risk of entering residential care. That is data from the Australian Institute of Primary Care. There is only a partial overlap between the kinds of people who seek community care and those who seek residential care. Our view is that the faster the growth in places the higher the vacancy rate becomes, but that is temporary. I would be happy to expand on that further.

The department has been pleased to submit a supplementary submission, having heard many of the submissions that have been made to the inquiry since our original submission was lodged. We are very happy to answer your questions. I would like to introduce Ms Mary Murnane, a deputy secretary in the department with responsibility for aged care, who has just joined us.

CHAIR—Good morning.

Ms Murnane—Good morning. I am sorry I was a little late and will have to leave at 10 o'clock. I thought it was important to come for the time that I could.

CHAIR—Thank you very much. The committee appreciates your time. Would you care to give the department's view on the submissions thus far and the evidence to date which, from my recollection, are quite different to not only your initial submission but your supplementary submission? There seems to be still great differences on where this industry is at the moment.

Senator BOYCE—An issue I was hoping to explore.

CHAIR—I am sure you will have lots of opportunities.

Mr Stuart—We addressed a number of issues in the supplementary submission. It is difficult to answer that across the board. There has been so much testimony by witnesses to this committee. The department has provided in the submission considerable evidence about funding comparatively and over a period. I am uncertain how to pick out one issue.

Ms Murnane—I totally support that. Mr Stuart has in his opening address referred to some of the issues raised in submissions, but we have not yet done—nor did we think it our role to do—a total analysis of every point in every submission, given that this committee is having ongoing hearings and examination. We believe that in our submission we have addressed the main terms of reference and that particularly we have shown not only through our analysis but through the analysis of independent groups that aged-care funding is sufficient to allow homes to operate day to day in an effective way.

CHAIR—I thank you both for your comments. I have to say that, considering that your original submission was almost two months late, I think that showed a clear lack of respect for this inquiry and the committee and that the supplementary submission was required by the committee because of what we considered to be a lack of substance in the original one. In terms of whether it is possible to make comments about all of the issues, there are some main issues that I am sure my colleagues will want to drill down in some depth. How many of the residential care developments that are on the planning board actually combine dementia units with high care and low care? Can you give us a breakdown of how many planned residential care places in Australia have dementia care units and tell us whether the emphasis is on high care or low care?

Mr Stuart—The allocations of aged-care places in recent times have been split roughly 50-50 between high care and low care, and so that would be the composition of development. As to dementia units, I do not have that data with me at the hearing today. I am uncertain whether it is available in a simple and crystallised form. I think it is something which we would have to go to state and territory offices for on a development by development basis.

Ms Murnane—But I think we can certainly give you the numbers of identified dementia units that there are at the moment or we can get some information about that for you. If the examination of the department goes for three hours, we should be able to get something in that time.

CHAIR—I am sure you can give us an indication of the trends. Some of the evidence that has been provided is that because of the increase in cost—which is something else I want to investigate—there will not be the numbers of facilities for dementia residents into the future. That is a concern not only because of the cost of building but also because of staffing levels. Can you step through the figures? We always have figures and graphs thrown at us. What, exactly, is

taken into account when you cost the building of a new unit? For instance, are you taking into consideration the expense before the approval process begins? Are you looking at the interest that is charged in borrowing that money before the approval process has been finalised? Are you including furniture and fit-out?

Mr Stuart—I will ask David to talk about the data that underpins figure 2 on page 6 of the supplementary submission.

Senator BOYCE—Can you perhaps address the large discrepancy between your figure and the industry's figure?

Mr Stuart—With respect to the industry sector, what I have been reading is that that tends to be anecdotal. What we are producing here is based on a comprehensive collection of all the data in relation to every new development and rebuild in Australia over the period.

Senator BOYCE—And you do not make that available to the industry?

Dr Cullen—We do make this information available to the industry. We collect information yearly through a survey of aged-care homes on building activity in the industry. It is a compulsory survey. Each aged-care home has to identify any construction work that it has undertaken and what the total cost of that work was, and then we make a report on that data available to the industry each year.

Senator BOYCE—That is the actual construction, though, not lead-up activities or costs?

Dr Cullen—The question asked is: how much did you spend on bringing the aged-care places into existence? My understanding is that that is the total cost. There are a number of quantity surveyors who publish data on the average cost of construction in all industries including in aged care. The Rawlinsons' quantity surveyors' report estimates that the average cost of construction was $125,000, to which they would suggest that you add 10 per cent for fit-out and 10 per cent for approvals, fees, consultants et cetera, which brings it roughly to $153,000, I think, which is close to the average of our survey.

Senator SIEWERT—Are these single-room facilities?

Dr Cullen—They are—sorry. The Rawlinsons' data is based on single-room facilities. Our data is based on what people actually build. The data that we have presented is what has actually been built there in the last year.

Senator SIEWERT—So about 23 per cent of construction was between $125,000 and $150,000. How do we know whether they were single bed or multiple beds?

Dr Cullen—There are single-bed ensuite facilities in all of those ranges. It is reported there are single-bed ensuite facilities being built in the $100,000 to $125,000 range and in the $125,000 to $150,000 range.

Senator SIEWERT—Where were they built? Were they built in a city? Were they built on the outskirts of the city?

Mr Stuart—Just to flesh that out a little, the great majority of all build across the entire range is now single-bed ensuite. We can look further and pull that apart further if you wish, but I am confident that at all levels on that chart predominantly single rooms are being built. We think the differential between rural and city is about $6,000 per bed, and that is also included in our submission.

Senator SIEWERT—Sorry, I did not mean rural or regional. I understand there is a difference between construction in the inner city and on the fringe.

Mr Stuart—Yes.

Ms Murnane—Senator, I understood that you were asking what is in the more settled areas of the city and what is in fringe areas. This will depend on what the planning exercise shows in the numbers of people over 70. It is determined by a measure of need, not by any other measure. At its base, it is a mathematical measure of the numbers of people over 70 per hundred of the population.

Senator SIEWERT—Sorry, I understand that that is how you do your planning, but that is not at all consistent with what aged-care providers are telling me in my hometown, for example, where they cannot find the land to build anywhere close to the city and now places are being built more in the outer city areas. Secondly, it is not consistent with what people looking for aged-care places are telling me—that is, they cannot find aged-care places near where they used to live and they have to move many, many kilometres away from their families and from where they used to live to get access to facilities. So my question still stands: are these places being built in the inner city? Where are the places in this graphs being built?

Mr Stuart—They are all the places that are being built. I do understand your question. There is increasing development in aged care in outer city areas and outer metropolitan areas, and it is becoming difficult for aged-care providers to develop closer to the city. I do not think that cost is the only issue in association with that. There are providers that tell me that they have existing aged-care facilities which, because of the building footprint, cannot be developed sideways and must be developed upwards and they then meet planning restrictions instead of building height. The kinds of areas where there are blocks available for building in the kinds of ways that aged-care providers in Australia prefer to develop, which is horizontal rather than vertical, cannot really be accommodated on those sorts of blocks.

Senator SIEWERT—I understand all those issues. My question still stands: where are these places being built? These are average. In which cities is it more expensive? For example, I have been told it is more expensive in my home state of Western Australia than in cities in other states. That is not reflected in this graph.

Dr Cullen—Senator, can I suggest that the best way—and we could provide you with this information—and the most authoritative way to answer that question would be to look at one of the quantity surveyor reports that I spoke about. Rawlinsons publishes an estimated cost of construction in each capital city, which tells you the differences, and it also publishes a set of regional variations. It publishes an estimated cost of construction for aged-care homes in each capital city and it publishes a set of metrics which tells you the variation in cost of construction between the city and the country.

Ms COLLINS—But it does not distinguish between inner city and fringe?

Dr Cullen—I do not have the report in front of me, so I am not aware. I would have to think about whether or not it does that. But I am suggesting that we could extract something from that report for you if you would like us to.

Senator SIEWERT—That would be useful. I appreciate you have got this from the figures that people have been sending you, but the fact is that in Western Australia, for example, I think only half the beds you had out there were taken up. Overwhelmingly this committee has been told—and overwhelmingly I am sure each of us individually has been told anecdotally—that they cannot afford to build the beds.

Ms Murnane—What we can do too in relation to a town you nominate is show where the allocations have been made for, say, the last two years and—if it is Perth—where in Perth those allocations have been made. I know this does not get to the issue you raised in your last comment, but we can look at where homes are going up in Perth—that is, whether they are right out on the outskirts or whether they are in areas proportionate to need. We will be able to do that.

Senator BOYCE—That would be useful for every capital city, if possible. Would you look at doing within 10 kilometres? How would you—

Ms Murnane—Can you leave to us how we map it?

Senator BOYCE—As long as it is well defined, it will be fine.

Ms Murnane—We might end up basically mapping the city and giving you information on particular planning areas. That is a possibility. We can do it that way and show you what planning areas the allocations have been made in.

Senator SIEWERT—It is not just the allocations—

Mr Stuart—I am sorry to intrude, but we will have to think hard about whether we are giving away confidential information in doing so.

Senator SIEWERT—This is the point. I have asked for this information before.

Senator BOYCE—As long as it is not so consolidated that it is useless, that will be fine.

Senator SIEWERT—The point is that we did ask for this information previously. What we were after was where requests had come in and for which regions.

Ms Murnane—Senator, I support Mr Stuart absolutely on building costs. The allocations are public and we can help you in coming to an understanding of where they are and in actually probing the hypothesis that costs are forcing them out of the city. But what we cannot give you is individual building costs without the express permission of the owner.

Senator SIEWERT—I appreciate that. What I am particularly keen on and what came up in Victoria—and in other places—is the number of tenders that were put in for particular regions.

We were told that we could not get the data, for example, in Victoria, where the figures suggest that there was an over tender for the number of places. The point was made to us about how that is that broken down regionally. I am keen to look at which regions in, say, Victoria—and obviously in my home state also—they were allocated. But it is not just about where they were allocated; it is also about how many requests were made for beds in particular regions. It is easy to say there was an over-request for the number of beds. Are there particular regions that are under?

Ms Murnane—You want an analysis of the applications?

Senator SIEWERT—Yes.

Ms Murnane—I think we can do that. I am a little hesitant about whether we can do it before the announcement of the tender. But the tender is shut. I think we can do that.

Senator SIEWERT—You have already announced that—in January. You announced that in January.

Ms Murnane—I am talking about the next round.

CHAIR—The report has to be tabled on the 29th. We have to write the report and we have to read the report. Can I say this. In light of the contentious nature of the issue of funding new establishments, it would have been helpful if that information had been included in the original submission. Surely, in light of what I would have thought was an ongoing relationship with industry, you have already realised that for some time the view has been that it is in crisis. What concerns me in trying to put this report together is—and this has been in evidence, as well as in private meetings—the concern the industry has with the department. I want to now turn to that and ask: do you think you have a good relationship with the industry?

Ms Murnane—The relationship between a body like ours that considers applications for funding and the organisations that are applying for funding is always to some extent a complicated one. But that is not to say it cannot be an effective and a productive one. We believe that—on the issues concerning the quality of care, on providing the best possible care for people with dementia, on looking at new developments in a way that is thoughtful, on looking at the interactions of residential aged care and community care and on looking at the relationship with the health system—it is good. We believe one indication of this is the takeup of transition care, which is about discharging people from hospitals so they do not stay too long in hospital. If I look right across the department and right across the relations between the Commonwealth and the states, there are always tough issues concerned with funding. It is very hard and probably impossible to ever get complete agreement on what the right funding is. Then there is the issue of what the capacity of government is to meet that right need.

This is always going to be a problematic discussion. There is always going to be contention in it. I cannot see a way out of it. What we will always look at are all cases that are put to us about funding not being sufficient. The response to that, however, is up to the government. That has always been the case. It is usually not the case that there is a complete harmony between the need as articulated by the organisations that are seeking funding and what government provides.

CHAIR—So you stand by the evidence that was given previously, that the department does not accept that there is a crisis in the industry?

Ms Murnane—I do not think it is helpful to use words like 'crisis'.

CHAIR—Sorry, but that is the terminology that has been used by witnesses. This is the terminology that we have to digest to try to give a reasoned report on this. It is, after all, one of the most important issues facing this country in the coming decades. Surely the industry use the word 'crisis' because they believe they are in one because they do not believe there is adequate dialogue. I have been around a little while. I do understand there is conflict when you are looking for funding. You are not going to please everyone. But surely there ought to be some open dialogue and better relationships.

Mr Stuart—Senator, if I could address that particular issue. We have very regular dialogue with the aged-care sector. I chair the minister's advisory committee on ageing and aged care. I would typify the relationship between the department and aged-care providers as respectful, courteous and listening. The aged-care providers and their representatives are at liberty to express their personal views. The department does not express views in return. The department listens and the department provides confidential advice to government. That is the nature of our relationship.

Ms Murnane—Coming to the question of a crisis, I would not say that there is a current and present crisis. There are certainly some organisations, some homes, that are in difficulty, and we are dealing with those. We can give you general information on those later if you want. There are always problems about local government planning and where homes can be located. In terms of the funding that is currently provided, as I said, we believe our submission shows—not only through our own analysis but also through independent analysis—that funding is sufficient.

The claims that we are regarding very seriously indeed are the claims about capital need into the future. As Mr Stuart said, we do listen carefully to industry. We have forums where we speak with industry groups, and those forums are not acrimonious; they are respectful where there is a respectful exchange of views. I think I have made clear that as to a crisis, we would say no. There is not a present crisis. Aged care is a key policy of government. We know that the numbers of people seeking support in extreme old age are going to increase and we are of course looking at that. We are particularly examining very proactively the claims that are made about capital needs into the future.

Senator SIEWERT—Just to be clear about getting that data, we are keen to seeing the data for where you have planned for beds against demographics et cetera and where they have been allocated—which, I understand, is where you were coming from in the first place. I would also like to know applications or tenders for the licences by region, so that we can look at where there is an oversubscription. In Victoria there was apparently across the board an oversubscription. Was that across the whole of Victoria or was that for specific regions? It was put to us that it was actually for specific regions in Victoria and perhaps it was not across the board.

Mr Stuart—I do have some information. In Victoria, of the regions that were advertised, it was only in Gippsland that we did not receive enough applications to cover the number of allocations that we were planning to make. I believe, however, that for this round in Victoria as a

whole there is still likely to be an allocation equivalent to the number advertised. We just will not be able to fill all of the places advertised in Gippsland.

Senator SIEWERT—That was for the round announced in—

Mr Stuart—That is for the current round.

Senator SIEWERT—If you could provide the details for each capital city that would be useful.

CHAIR—You say that there is not a crisis. Whichever state we have held hearings in and from all the submissions, the evidence has talked about the lack of ability in taking up new bed options. In my home state of Tasmania, 95 per cent of the industry is not-for-profit. Recent surveys show that at least 50 per cent of those are operating in deficit. What plans and strategies does the department have in place to keep these homes operating? Perhaps you could inform us of the number of homes in Tasmania that have closed over the last 24 months. My understanding is that at least two or maybe three others will be closing in the very near future. What assistance is going to be available to accommodate those residents and future growth in Tasmania?

Mr Stuart—I will deal first with plans and strategies. Firstly, the Australian government provides capital funding for new building, and increasingly we have been channelling that capital funding to areas where we need applications—where otherwise we might not receive them. In the most recent round that has been announced, substantial amounts of capital funding went to Tasmania and Western Australia, reflecting the difficulty currently in attracting applications in those states. We also, as you are aware, provide a viability supplement in relation to rural and regional areas. In addition, the government is certainly always continuing to allocate community care places in those areas. In this current round, to the extent that are unable to fill residential care places, we are going to be looking very hard at the depth of applications in relation to community care, with a view to making sure that at least a form of care is provided in those areas to the level required.

Further, the government is still working through its zero-real interest loans strategy, of which half the places and loans have so far been advertised and allocated. In the next aged-care approvals round, there will again be an opportunity to apply for zero-real interest loans in conjunction with aged-care places, with loans up to a value of $150 million available in that round.

CHAIR—Of these not-for-profit organisations, half of them are already running in deficit. Earlier evidence suggested that some of the problems lay with the management of the residential care facilities as to why they are not managing their finances. In evidence in Launceston, a representative from one such residential care place in the south of Tasmania gave evidence that for 10 years she has been in the management role doing the same accounting practices and meeting the criteria set out by the department and, for the first time, this year, they are facing a deficit. In her evidence she took umbrage with the fact that the department is pointing the finger and saying, ‘You’ve got to manage better because there is plenty of money there.’

Ms Murnane—I cannot give a response to a particular situation without having all the details before me.

CHAIR—The fact is that Tasmania is facing a crisis with these not-for-profits threatening to close their doors. We do not have the facilities. We do not have hospitals to accommodate these people. That is what the evidence before us is saying. There is not a lot of comfort other than there are building funds. But they are not taking up the new bed licences, so these new facilities are not going to be built.

Dr Cullen—I think what Ms Murnane was saying is that I can give you evidence on this issue. Without knowing what facility or what the particularities of that facility are, I do not know what happened to its income. I do not know whether its issue is on the income or the expenditure side. So it is a big ask to ask me to comment on the particularities of a facility that I do not know. What we do know and what we have given in evidence here is that, for the last 10 years—and we have only gone back 10 years in our data—revenue has grown faster than cost. So, if that is the case, if revenue has grown faster than cost and if, as we have given you evidence, the average payment per resident this year is eight per cent greater than the average payment per resident of the same level of frailty last year, that would seem to indicate that the problem is not on the revenue side.

Ms Murnane—In relation to particular clients, we are certainly willing to discuss this—and we do discuss. There are a number of homes in Tasmania that we are in discussion with at the moment about their finances. We will offer them assistance so that they are able to sort things out. Of course, where we come into that particularly is when there is an impact on quality. There are a number of homes—and I certainly do not want to mention their names—that we are working with now in Tasmania and around Australia on these matters. But the general situation is as Dr Cullen describes. The government has not reduced funding. I do not know if Dr Cullen has everything in his mind or is ready to do it, but I would like to ask him at some stage this morning to go through the amounts of money that the government has put into aged care and to also talk about the investment in aged care each year for the last three years—which is very, very large. We are not resting complacently on that, though; we are saying that we do think there is a very strong case to look at capital needs into the future—and we are doing that.

CHAIR—From your evidence, are there more homes facing financial crisis than last financial year and the year before that and the year before that? And you still have not answered the question on how many homes have closed in Tasmania in the last 24 months and how many you know are facing imminent closure now.

Ms Murnane—I certainly do not have those figures with me. I do not know if any of us have.

Mr Stuart—Iain has some data with him about solvency in the sector.

Senator BOYCE—Could we have that for every state, as well as for Tasmania.

CHAIR—Yes. I have not even begun on what is happening in Queensland.

Mr Scott—So you want the data on home closures over time?

Senator BOYCE—Perhaps for the last five years.

Ms Murnane—We will have to get you that.

Senator BOYCE—Can I just follow up on a couple of things you have said, Dr Cullen. You talked about how revenues have grown faster than costs over the past five years. Are we talking actual revenues and actual costs or estimates based on surveys?

Dr Cullen—We are not talking about either, in fact. What the department does is construct revenue indices which essentially take a hypothetical—

Senator BOYCE—That is the constant frailty target index?

Dr Cullen—That is right. It is like a consumer price index, essentially. You basically—

Senator BOYCE—But it has been agreed with the industry to be adequate, has it?

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

Senator BOYCE—So you are allowing for an efficiency dividend, so to speak?

Dr Cullen—It is not a dividend; it is an evidence based analysis. There have been some major studies done of the productivity improvements made in this industry for the Hogan review. The Centre for Efficiency and Productivity Analysis of the University of Queensland, which is one of the leading bodies which study efficiency and productivity in the world, did an analysis of industry and showed that it made, on average, a two per cent productivity improvement each year. The department has recently reproduced those results and our results show that over the last four years the industry has made, on average, a 1.7 per cent improvement in productivity each year. In other words, this year it cost less than last year. Just like every other industry in the country, you get better at doing something year on year. When you take those analyses into account you see that revenue is growing faster than cost.

Senator BOYCE—Are they actual costs or, again, estimates?

Dr Cullen—That is the cost index which we have developed based on the survey results. Essentially we take the survey results of Bentleys and of Stewart, Brown and Company and we construct hypothetical facilities around those based on those survey results.

Senator BOYCE—So in neither case are we talking about real figures. Although, you do have those, don't you?

Dr Cullen—I am sorry. I do not accept the characterisation of real figures. Our cost index is the equivalent for aged care as the CPI is that the ABS constructs. We construct it through roughly the same methodology that the ABS uses to construct the CPI.

Senator BOYCE—But you also have the actual income and expenses of every aged-care facility in Australia available to you, don't you?

Dr Cullen—And all of the independent studies, except Grant Thornton, showed that—

Senator BOYCE—No. I am not asking about what that showed. I am asking about the fact that you have real figures as well as indices that you could use.

Dr Cullen—I am unaware of that. We have—

Senator BOYCE—Have you done a comparison between the—

Dr Cullen—That I do not understand the use of the term 'real' is my only concern here. I am trying to understand what you—

Senator BOYCE—You have the accounts that you have received that meet the Australian accounting standard from every aged-care facility in Australia, which presumably tell you whether they made a profit or a loss in a particular year. It tells you what all their inputs were and what all the outputs were. Is that correct? It is a financial report, is it not?

Dr Cullen—Yes.

Senator BOYCE—Does that agree with the comment you just made about how they have had revenue going up faster than costs over the past few years? Do the reports say the same thing?

Dr Cullen—You will have to understand that the—

Senator BOYCE—I am not suggesting that the figures are going to match. I am suggesting that those reports should be telling you exactly that, too. Should they not?

Dr Cullen—Yes. The difficulty is that homes have many other things happening in them, like frailty, change of residence et cetera. So the best way to answer your question is to say that average returns—

Senator BOYCE—You use indices—

Dr Cullen—May I answer your question?

Senator BOYCE—Yes.

Dr Cullen—The best way to answer your question is to say that average returns were higher in 2007-08 than they were in 2006-07, which would have to mean that revenues grew faster than expenses; otherwise, returns would not be—

Senator BOYCE—You are talking about an actual dollar figure there; you are not talking in percentage figures? How much more? Then we have to start allowing for inflation and other issues, do we not?

Dr Cullen—Return was higher as a percentage of revenue. It increased as a percentage of revenue.

Senator BOYCE—On average?

Dr Cullen—On average across the industry.

Senator BOYCE—And median?

Dr Cullen—I do not have the median in front of me, but I think I do know the answer to that. It improved in every quartile; therefore, it could only improve in every quartile if the median also improved.

Senator BOYCE—I have one technical question. I am not aware of the Rawlinsons survey that you mentioned. Is their definition of construction and construction costs exactly the same as the one being used by the industry?

Dr Cullen—Rawlinsons gives a construction cost estimate and then it gives a percentage estimate of what you would need to add for consultant costs, approval costs and fit-out. If you put those two together, you should get—

Senator BOYCE—So, in the end, you are confident that you are comparing apples with apples. When you say one is 155 and the other is 180. Is that correct?

Dr Cullen—Correct.

Senator BOYCE—I want to continue a question asked by Senator Polley. You are telling us that the profits, for want of a better word, or the surpluses of aged-care facilities have increased in the last financial year, yet the industry is telling us that they are in crisis. Nothing very much has changed in terms of the industry, apart from the mix of clients and the type of funding provided to it in the past five years. Yet, five years ago, they were not telling us that they were in crisis. Ms Murnane, perhaps you could try and tell me why, despite the fact that the industry are apparently quite profitable, they are suddenly saying that they are in crisis.

Ms Murnane—I think they were saying that they were in crisis five years ago. The previous—

Senator BOYCE—I do not remember reading the comments that we have here in terms of funding issues.

Ms Murnane—The previous government responded with a range of very large initiatives, conditional—

Senator BOYCE—Perhaps I gave the wrong time frame. Perhaps I should have said that three years ago they were claiming not to be in crisis.

Mr Stuart—When was the Hogan review, David?

Dr Cullen—I think in 2004 the then government established the Hogan review, precisely because the industry said it was in crisis.

Senator BOYCE—I should have said post-Hogan, I suppose.

Ms Murnane—Post-Hogan, the previous government provided the conditional adjustment payment. David, are you in a position now to go through the numbers in some detail? I want to be exact here. I have figures in my mind, but I want us to go through the funds made available that are particular to this government. We will also look at the response of the industry in terms of investment.

Senator BOYCE—Ms Murnane, what do you think causes the discrepancy in views between the department and the industry?

Ms Murnane—I will see what I can say about that, but let us go to some numbers now.

Mr Stuart—These are round figures, Senator. I would like to come back at the end and give you the exact figures. The government's March package of last year was the first legislation put through the House by the incoming government. You might recall that this package, which was essentially the package of the former government, was then implemented by the new government. In March last year, the government did two key things in relation to funding. It introduced the new aged-care funding instrument, which brought a one-off funding increase to the sector of about $400 million over four years. It also introduced phased increases in accommodation charges to residents and in accommodation payments from the government, which yielded in the order of $750 million over four years to the industry but continuing to grow after that, such that they would be worth $300 million to the industry in a full year ongoing.

In the last budget, the government provided an additional $400 million over four years in terms of the conditional adjustment payment, which is now worth 8.75 per cent of basic subsidy levels and continues in the forward estimates at that level of 8.75 per cent of subsidy. That brings the average value of the conditional adjustment payment to over $2 billion in every four-year period. As I said, I will come back and paint those figures with precision; these are round numbers. In addition to that, the government has added $300 million in zero real interest loans into the sector. All of this is what goes up to make the eight per cent increase in funding in the sector this year on last year that we have included in our submission on a per resident basis. That does not even take account of the growth in the number of residents.

So, on the department's behalf, we are just a little puzzled as to why the industry's calls for funding are so loud and strident right now. Speaking in terms of a simple analogy, it is a bit like the teachers going on strike just after the pay rise. It is a little difficult to fathom, but I think, as Ms Murnane has outlined, the industry has been talking quite stridently about funding for a very long time.

Ms Murnane—Mr Stuart is referring to page 25 of our submission, and I might read a few sentences from the last paragraph of that page. It states:

The growth in Government funding to the residential aged care sector reflects indexation and the Conditional Adjustment Payment, population growth, increases in frailty and changes in policy. Leaving growth in numbers of residents assisted to one side, net funding growth has been 8% per resident.

I might also read into the record something else from our submission. I am using this as an indicator that, while I am sort of listening to what the industry are saying, I am sure that they are seeing a problem to come and they are talking about that. As I said, we are looking very closely at that. But, in terms of what is happening now, in a 2007-08 survey that we did on planned and completed building activity, aged-care providers indicated that 18,700 places were being planned for construction or upgrading. This is three times the number of additional residential places delivered by completed building work in 2007-08. This planned work forms a pipeline into the future. The 2007-08 survey does show a slight decline in planned work from the 2006-07 survey, but it is not a worrying decline. We are not complacent, but we are not seeing signs that there is a crisis across the industry and across the provision of aged care now. That does not mean we are complacent, but that would be our reading of the evidence.

Senator BOYCE—That nevertheless leaves the committee with two quite distinct and almost opposite views on the health of the industry, and it would be helpful, Ms Murnane, if you could perhaps comment on why you think that discrepancy exists.

Ms Murnane—I think that is hard. They might comment. I cannot really say what is in their minds. Our submission looks at the state of the industry across various groups. There are in this industry, as there are in all industries, some providers who find the going very hard indeed for a variety of reasons. But we do not believe those reasons are because of current funding levels. As we have shown, current funding levels have increased substantially. The gross amounts that are spent on aged care are very great indeed.

Senator BOYCE—Could I turn now to your comment, Mr Stuart, regarding the Grant Thornton report. As I understand it, you were saying that Grant Thornton would not make it available to the department. Is that correct?

Mr Stuart—Yes. That is correct.

Senator BOYCE—What reason did they give you for that?

Mr Stuart—My memory is that we wrote to them asking and we received a refusal. David, did they provide a reason?

Dr Cullen—I believe they may have said that they thought the data was commercial-in-confidence.

Senator BOYCE—They were paid by another organisation other than the department to produce the report, were they?

Dr Cullen—No. I am not sure whether they produced it on a subscription basis. Typically, these things are done on a subscription basis in that providers pay to take part in them. I am not sure whether that is how Grant Thornton produced theirs or whether they did it as a loss leader to drum up business.

Senator BOYCE—So did the department offer to buy it?

Dr Cullen—We would have been more than happy to buy it. We purchased the data from both Stewart, Brown and from Bentleys MRI, who have been willing to provide us with their de-identified unit record data. But Grant Thornton refused to provide the de-identified data.

Senator BOYCE—But, as I understand it, they offered you a briefing on the topic. Is that correct?

Dr Cullen—I have attended a briefing by Grant Thornton on the topic which was at a very high level. It was at a very summary level which did not allow any ability to see behind the data to see what might be driving various things.

Senator BOYCE—That is the same sort of complaint the industry makes about the consultations held by the department. So that sort of leaves us back where we started in a way, I guess.

Mr Stuart—We have the ability with Bentleys and Stewart, Brown to compare the profile of the sample they draw with the aged-care industry as a whole. We do that on the basis of de-identified data so that we do not know specifically which providers are incorporated in the survey, but we do get a line of data for each response. That enables us to then see whether there is any systematic distortion in the sample. In relation to Grant Thornton, we have not been able to do that. So the very difference in the results that they are obtaining compared to the other three key data sources suggest to us that there is something interesting about their sample which we have been unable to check.

Dr Cullen—It is also the nature of the report that they provide as well. The Stewart, Brown report is produced quarterly. It is about a 70-page report. It does a very comprehensive analysis not just of headline figures but of what is driving those headline and what is happening in different quartiles at quite a detailed level. It breaks out the analysis, as does the Bentleys report. The Grant Thornton report is about eight pages long and contains very headline numbers from which it is very difficult to draw any conclusions other than those which the author wished you to draw, because they only provide the data that they wish you to see.

Senator BOYCE—I think you, Mr Stuart, suggested at the last aged-care hearing that it was going to be very hard to ever get consensus amongst the data providers, but we appear to have achieved it in a statement from the three researchers sent out on 7 April—which you have seen?

Dr Cullen—Correct.

Senator BOYCE—We have a joint statement from Grant Thornton, James Underwood and Associates, and Stewart Brown Business Solutions which says:

We refer to recent references made in Senate Estimates and the Aged Care Senate Inquiry to our research on the financial performance of residential aged care services. Information from our respective surveys has been used in public forums to argue different points of view and the following statement is made to clarify our position:

Our research confirms that modern, single-room High Care services make very poor or negative returns on average. These returns are far below the returns achieved in older, shared-room High Care services.

In our opinion, modern, single-room High Care services – other than those with extra services approvals – are not viable under current funding and regulatory arrangements.

This was signed by representatives of Grant Thornton, James Underwood and Stewart Brown. That would seem to demonstrate some sort of a consensus, would it not?

Ms Murnane—I do not think so. What we have been saying is that, apart from the Grant Thornton data, when we looked at the Bentleys data and the Stewart Brown data, what we found was an agreement that there is an increase in revenue. They are making a different point.

Senator BOYCE—I am quite aware of the point they are making on single-room, high-care services, which is the way the industry is trending, is it not?

Ms Murnane—The thing is that that is what people are going to want into the future. That is the reality.

Senator BOYCE—I will have some more questions about that as we go along.

Ms Murnane—We can certainly look at it. We are open to it. I know that, when this first came up many years ago, I thought that this was a bridge too far, but things have changed. Many, many providers that I talk to in the industry are very supportive of single rooms now.

Senator BOYCE—Absolutely—but they are not building them for $155,000 per place, are they?

Mr Stuart—Yes, they are. The data suggests that 60 per cent of all beds built in the sector in the most recent period were built at or below $155,000 per place, and the vast majority of those—

Senator BOYCE—I am sorry; I thought $155,000 was the average.

Mr Stuart—That is the average. Sixty per cent are building for less than the average, and the vast majority of those are single rooms.

Senator BOYCE—For less than $155,000?

Mr Stuart—That is right.

Senator BOYCE—That is an interesting statistic. Again, can we have that provided?

Dr Cullen—It is in the submission. That is what the submission says.

Senator SIEWERT—We have not had the breakdown of where they all have been built et cetera.

Ms Murnane—We can see if we can index the submission more closely, if you would like, but that is there. I think that there is—

Senator BOYCE—If they are building them for $155,000, what is wrong with Grant Thornton, James Underwood and Stewart Brown for claiming that they are not viable under current funding and regulatory arrangements? We keep coming back to this one point.

Ms Murnane—Yes, but I wonder, with Grant, James and so on, if it is a little bit of nostalgia for times past. They are saying that the old way was better. It is a little bit—

Senator BOYCE—Which old way?

Ms Murnane—The way in which people built four-bed, six-bed—I have seen eight-bed and more—wards.

Senator BOYCE—I do not think they are claiming that at all. They are working for people who respond to—

Ms Murnane—No, you did quote—

CHAIR—Could we have a question and an answer? Otherwise it is a little confusing.

Ms Murnane—We will wait for your questions.

Senator BOYCE—Is the department going to rely on the information from James Underwood and from Stewart, Brown in one case and yet say that they are not reliable when they agree with the Grant Thornton report?

Ms Murnane—It is about different things.

Mr Stuart—That is right. Ms Murnane is pointing out that there are a range of different indicators used. There is cash flow, EBITDA, return on investment and long-term capital viability. I think we need to be clear what it is we are talking about. We are not incorrectly quoting the survey information that is available which shows that there are increasing returns in the most recent year compared to the previous year, and those increasing returns are completely consistent with the increased funding and increased revenue from residents that I outlined to you a few moments ago. The industry and the industry surveys are increasingly talking about the longer term capital funding of the industry and whether return on investment is sufficient to build and rebuild the sector over a period of time. As we have been pointing out, they are quoting building costs which are considerably higher than what is actually being expended. They are also making, in some submissions, assumptions about the level of risk in aged care which are incorrect. They are also—

Senator BOYCE—I am sorry. Is that financial risk, overall risk, business risk or regulatory risk? What sort of risk?

Mr Stuart—The judgment about whether there is sufficient capital funding in aged care for the long term depends on the build cost, the return, the risk rating and the overall return on investment that the provider is seeking to make.

Senator BOYCE—Does the department, in that you are assisting homes that are having problems, have a view on what constitutes an acceptable return on investment?

Mr Stuart—I think that varies in different sectors of the industry.

Senator BOYCE—So what is the one for the not-for-profit and the one for the private?

Mr Stuart—The not-for-profit providers are often very happy simply to break even.

Ms Murnane—But that would not mean that there was not a surplus there. They plan for and factor in putting it back into the operations.

Mr Stuart—For the not-for-profit sector—

Senator BOYCE—But breaking even does include a capital allocation.

Mr Stuart—it is common to want to break even. If there are additional funds available then they are spent on a chaplain, additional outings or other amenities for the residents. So the result is—

Senator BOYCE—Or even cross-subsidising, perhaps, of a facility that does not break even?

Mr Stuart—Or perhaps that. So it is not surprising that the survey data shows low surpluses in relation to that sector.

Senator BOYCE—The not-for-profit sector. What about the private sector?

Mr Stuart—Their objectives in relation to returns differ and—

Senator BOYCE—Do you have a theoretically acceptable return on investment that you would use for the private sector? You do not want them to go broke, do you?

Ms Murnane—Of course not.

Senator BOYCE—So you must have a sense of what you are going to have to do to assist them to not do that.

Mr Stuart—I think that the theoretical return on investment for the sector, as I was saying, depends to some extent on what risk rating you ascribe to it. But I do not think that the department has a particular figure in mind. I think that differs for different for-profit providers across the sector.

Senator BOYCE—But it is true, is it not, that if that return becomes too low you can expect the sorts of comments that are made in these reports to come true, that people will get out of the industry?

Dr Cullen—That is true. I would think from a theoretical point of view a purchaser would like the return from the people they are purchasing from to be as low as possible but which allows the product to continue to—

Senator BOYCE—You are talking about the customer?

Dr Cullen—The taxpayer. The taxpayer would like the government to pay as little as necessary for aged care.

Senator BOYCE—Yes.

Dr Cullen—To pay as much as is necessary but to pay as little as is necessary.

Senator BOYCE—To keep the industry happy.

Dr Cullen—That is why we are a little reluctant to say.

Senator BOYCE—You do have the figure, though?

Dr Cullen—As long as people are willing to enter the industry and build, then you can make a judgment that the return must be sufficient. We have provided a great deal of evidence to you to show that people are entering and building in the industry. You must be able to conclude, from the fact that all of that construction activity has occurred, that the rational beings who undertook that construction activity must have made a judgment that the return was sufficient for them to undertake that activity.

Senator BOYCE—And we also have a vast amount of evidence saying it is going to come to a grinding halt if something does not happen.

Dr Cullen—You have anecdotal evidence of that and you have factual evidence that a great many—

Senator BOYCE—No, we have submissions which have been made to a Senate inquiry. I think that is quite a lot more than anecdotal evidence. If you are talking about major not-for-profit organisations in Australia and major private companies in Australia making a submission to a Senate inquiry, with all the legal requirements of the same, it is something a little more than anecdotal evidence, I think.

Mr Stuart—I would return to the point that we are hearing this too. We are listening to the sector. We are watching aged-care place applications. We are interested in all of those indicators but we also have this data that shows increases in funding in recent years, return growing faster than cost, and eight per cent growth in funding into this current financial year, and aged-care providers have over the last decade substantially rebuilt the aged-care sector at funding levels lower than they are currently in real terms. So we have to weigh all of that; we have to put all of that together—as do you.

Senator BOYCE—Indeed.

Senator JACINTA COLLINS—I want to go back to the issue of the sample profile for the Grant Thornton research because I think from the discussion it is still a little unclear precisely what the situation is across the three main data sets. So let me check my understanding. You have access to the raw data for the other two data sets, do you?

Dr Cullen—On a de-identified basis—the de-identified raw data, yes.

Senator JACINTA COLLINS—What assurances were given to Grant Thornton about how access to such data might be utilised? Were there any assurances or offers made about de-identifying or the treatment of that data?

Dr Cullen—Absolutely. We asked them if they would be willing to make available their data set on a de-identified basis.

Senator JACINTA COLLINS—Yes. And the answer was?

Dr Cullen—No.

Senator JACINTA COLLINS—No or no answer?

Dr Cullen—The answer was no.

Senator JACINTA COLLINS—But they said, 'We will give you a broad overview of the results', which was the briefing you discussed a moment ago. Is that correct?

Dr Cullen—Correct.

Senator JACINTA COLLINS—If I recall, the concern with the sample profile that has been raised either now or on earlier occasions was that those completing the surveys were self-identified and that that self-identification was not audited in any independent fashion. Is that correct?

Dr Cullen—That would be a concern about all three. All three surveys are voluntary. People only take part in them if they want to. The principal concern we have with Grant Thornton is that we cannot verify at all its representativeness. They have published no data to allow us to say, 'I don't know what proportion of its respondents were not-for-profit.' It published a vague distribution by state but nothing by—

Senator BOYCE—Did you ask them for those figures and for that information?

Dr Cullen—We asked them to make the data available to us.

Senator BOYCE—But did you ask them for information about how many not-for-profits et cetera? I would have thought that was fairly high level information that they would have provided if they had been asked for it.

Senator SIEWERT—They said to us that they did say that they would in fact provide any requested analysis that you asked for.

Dr Cullen—They said that they had?

Senator SIEWERT—They said that they would. They said that they would not provide the de-identified data but they said they offered to provide the department any requested analysis from the survey.

Dr Cullen—I never received such a letter so I am not aware of such an offer.

Mr Stuart—Neither am I.

Senator SIEWERT—Maybe you should go back and ask them. They have told us that they are prepared to do that.

Ms Murnane—We will do that.

Senator JACINTA COLLINS—It would be helpful to get some completion on these issues associated with that data. If there was dissatisfaction with one high-level briefing but further issues were not explored as part of it, that is a little frustrating from this end.

Mr Stuart—Could I refer you, Senator, to page 22 of the supplementary submission? We have set out in a table the data available from the three surveys according to a number of different criteria—like for 'all services' and for 'top quartile'. I think that is a helpful summary of the data. It includes Grant Thornton, but I note that we do have these qualms across the survey. As you will see, two are quite consistent and one seems to be an outlier.

Senator JACINTA COLLINS—The 'not available' is here. The average—how do you say that acronym?

Mr Stuart—EBITDA, which is earnings before income tax, depreciation and amortisation. If you would like that explained, I could ask Professor Cullen to do so.

Senator JACINTA COLLINS—I would just like to know how to say it first. Say it again.

Mr Stuart—EBITDA.

Senator JACINTA COLLINS—Go on. Explain.

Dr Cullen—It is a measure which is typically used to allow you to compare different entities which have different capital financing approaches. Essentially, it is the revenue less expenses but you do not take into account interest expenses, taxation expenses or depreciation expenses—because those expenses are different for different sorts of entities. In other words, if you borrowed money to build your facility, you would have an interest bill but that would not make the overall nature of your operations different from those of someone who did not have to borrow that money. EBITDA is an accepted return as a way to look at these things. I think it would be fair to acknowledge something which was said to you in a submission. I believe Mr Toohey said to you that one advantage of the Grant Thornton data was that it was what is called a 'panel data set'. In other words, the 2006-07 data and the 2007-08 data in the Grant Thornton set are for precisely the same providers, whereas Bentleys and Stewart and Brown are done on a

survey basis each year and there is a variation of who takes part in the survey each year. There is a sense in which you need to correct that data for the fact that you might have different people taking place.

Senator BOYCE—How many people are in the Bentleys and the Stewart and Brown surveys?

Dr Cullen—I believe we have given that on page 20 of the submission. I am saying this for when you are writing the report. Stewart and Brown had 253 homes in 2006-07 and 282 in 2007-08. Bentleys had 280 and 238 in the two years. Grant Thornton had a sample size of 700.

Senator BOYCE—The size of the sample is not important?

Dr Cullen—Not statistically. Obviously, the larger the sample that you have the better, if it is representative or if you can correct for its unrepresentativeness.

Senator BOYCE—So it would be important to know how they went across the states and across the industry sectors?

Dr Cullen—Absolutely.

Senator BOYCE—You did not ask that question at the briefing?

Dr Cullen—The briefing I attended was held so long ago that I am not sure. I cannot answer that question. In our view, the sample size of the two smaller surveys is sufficient to draw conclusions because we have confidence. Objectively, a larger survey may be better if it is representative.

Senator BOYCE—It will if it is statistically—

Dr Cullen—If it is representative. We have the CAP data, which you referred to earlier, which is 100 per cent.

Senator BOYCE—Absolutely.

Dr Cullen—It is a 100 per cent sample.

Senator BOYCE—That was going to be the subject of a whole new range of questions.

Dr Cullen—Because that data tends in the same direction as the Bentleys and the Stewart and Brown—in other words, it shows increasing returns—I have serious doubts about what is happening in the Grant Thornton survey.

Senator BOYCE—Which brings me to the next question I have. Given that you have a sample size that is 100 per cent, why is that information not available in some way to the industry?

Mr Stuart—I believe that it will be made available at the conclusion of the CAP review, and we will provide advice to the minister and government about that in due course.

Senator BOYCE—How do you mean to provide advice to the government?

Mr Stuart—The release of data is a matter for the government and we will advise the government about it.

Senator BOYCE—But it was made available in the past.

Mr Stuart—That data was made available a few years ago but has not been for the last few years because we had some concerns about the methodological soundness of it. I will ask David Cullen to explain a little further.

Senator BOYCE—I would be interested in what that means.

CHAIR—At the conclusion of this question, I suggest that we take a 10-minute break. I believe Ms Murnane is due to leave. I take this opportunity to thank you for attending, Ms Murnane.

Ms Murnane—Thank you, Chair.

Dr Cullen—The CAP reporting requirements developed over time. In the first few years providers were permitted to opt out of certain accounting standards and also not to report at the residential care segment. They reported at the whole entity level rather than at their residential care operations level. We provided that data for the first two years because we had agreed to do so, but we were very unhappy with the accuracy or the ability to draw conclusions from that data because there was noncompliance with accounting standards. We then went through a process of tightening those—

Senator BOYCE—Was that at the time the standard was bring brought in?

Dr Cullen—That is right. There is no criticism there. Providers were transitioning towards compliance with the accounting standards. We chose to pause for a few years with releasing the data because we had concerns about whether adequate conclusions could be drawn from it. We are now satisfied that we have all providers reporting according to the accounting standards and reporting on their residential care segment. So this data set is one that we are confident about and on which some analysis has been done.

Senator BOYCE—It would seem to deny natural justice to suggest that the information that industry has collected through a survey is anecdotal when they have been forced into the situation of having to conduct that survey because the information that you have and are relying on apparently in some of your submissions is not available to them or to anyone else. Chair, I have a few questions in relation to Ms Murnane's comment about some homes being in difficulty, but will other witnesses be able to—

Ms Murnane—Mr Scott will be able to answer those questions.

Proceedings suspended from 10.03 am to 10.16 am

Senator BOYCE—An idea that has been raised by a number of providers is decoupling the cost of accommodation and care as a way of giving greater flexibility to the industry. What is the department's view on that topic?

Mr Stuart—We have taken some steps in that direction over a period, and I will ask David to talk about that shortly. The department is not able to talk about its policy views as such. We do not have policy views; we are advisers.

Senator BOYCE—Absolutely.

Mr Stuart—So what I would like to do to help you with that issue, rather than just say that we cannot talk about that, is to talk about what kinds of considerations there are in those issues.

Senator BOYCE—Good.

Mr Stuart—There is the idea that you would pay for care at home and care in aged care—

Senator BOYCE—And regard it as another home almost.

Mr Stuart—on a similar sort of a basis with a consistent funding tool so that you are funding care as care, and you would regard that as a health cost, and the housing costs are dealt with separately so that people, who pay for their own housing costs at home, pay for their housing costs in residential care to the extent that they are able to. That has some pluses and some potential minuses. On the plus side: it recognises that people have housing costs in their own homes, so why shouldn't they have housing costs when they are in residential care? That seems like a reasonable statement to me. But on the minus side, we would be really concerned if aged-care housing costs were completely open slather and to be borne by the resident because that would lead to the exclusion of less well-off people from care. Because residential care housing and residential care in the end come as a package people have to gain access to both the housing and the care to get residential care. So if housing costs became open slather depending on what people could afford, then you would really have to worry about access.

That is the balance of issues. There are some positives about the idea, but you would have to think really hard about how you maintain access to the housing side of residential care for people with lesser means.

CHAIR—Wouldn't there be a safety net in terms of a basic residential care standard?

Mr Stuart—We have a sort of a safety net at the moment in residential care. We do two things: firstly, we have a requirement that every aged-care provider, except for those with extra services, is required to admit a certain proportion of concessional residents and, secondly, we pay more if they admit more than 40 per cent of such residents into their aged-care home. There is not a hard and fast requirement for a percentage as high as 40 per cent. The proportion of concessional people in the population is around 50 per cent. To ensure that access, especially to high care, is very even-handed the government will pay the housing cost component for an individual if they cannot pay it.

If the industry is allowed to charge open slather on the housing cost then what does the government do for the concessional? Does it pay open slather for them too? I do not think so. I do not think that would be efficient for the taxpayer. There would have to be some thought about ramping up the regulatory requirements on access if you were to uncap accommodation costs.

I am thinking out loud here. I am not telling you what I think policy should be; I am just talking about the pros and cons that are in this mix. David, I said you were going to speak to a particular issue and now I cannot remember what it was.

Dr Cullen—That is okay. In the March 2008 changes the government essentially did split care and accommodation funding. In residential care now the accommodation is paid for by the resident, essentially through their basic daily fee and through their accommodation payment. Where they cannot afford to pay for it, it is paid by the government through the accommodation supplement. That takes care of the accommodation side. On the care side there are the care subsidies and the resident makes a contribution through their income tested fee. So there already is a clear split between payments for accommodation and care.

One of the key structural features of the 2008 changes was that we did ensure that all residents from an accommodation point of view in high care were worth exactly the same amount to the provider. The government pays all of the accommodation supplement for the poorest residents; the richest residents pay all of the accommodation charge themselves; and in between those the government's payment is reduced at the same rate as the resident's payment is increased so that everyone is worth exactly the same. That mechanism means that you have no access equity issue. Providers have no reason to choose one client over another, so you can have a relatively loose regulatory burden as far as access is concerned.

As Andrew has said, if you were to release the price that the resident could pay but still constrain the price that the government was willing to pay for accommodation then you would have a serious access issue, which you would have to impose a regulatory burden on the industry for, make it more inefficient et cetera.

Mr Stuart—To make sure that pensioners and low-income people continue to have access to aged care.

Senator BOYCE—So you would say that something like 10 or 15 per cent of your beds must be for pensioners.

Dr Cullen—Except the number would need to be 50 per cent. Fifty per cent of residents require some level of government assistance with their accommodation costs, so you would be putting a regulatory burden on the industry not at the 10 per cent level but at the 50 per cent level.

Senator BOYCE—You spoke earlier about the fact that you have a 50-50 split between high care and low care for the allocation of places but 70 per cent of people at a point in time are in high care. I am trying to relate those two figures. It would seem to me that some of the people going into aged care are moving very quickly into high care if at a point in time 70 per cent are in high care and yet the allocation split is 50-50. What am I looking at? What am I talking about?

Mr Stuart—Exactly, a proportion of people move quite quickly from low care into high care as their care needs increase once they have access to care.

Senator BOYCE—So this brings us back to another aspect of many of the submissions we have received around funding and that is at the high-care level it is not sufficient. The fact that there is no ability to have bonds at the high-care level is an issue for providers. Can we have a comment from the department on that?

Mr Stuart—I would make three comments on the bond issue—again, carefully. This is a policy space so I am going to try and keep my comments even-handed and factual. Bonds have come into this industry through low care. Bonds were always charged in hostels. In 1997, the two systems—nursing home and hostel—were merged. Nursing homes never had a bond arrangement and hostels did. They were seen as something which was appropriate for a housing scheme. There was then, as you know, the drama in 1997-98 about whether bonds would be charged in high care, and since then no government has supported bonds in high care.

There are three sets of considerations I would refer to. One is that the population in high care is increasingly transitory and subject to high levels of health challenge.

Senator BOYCE—'Transitory' in that they would go to a hospital or die? Is this what you are talking about when you say 'transitory'?

Mr Stuart—Fifty-six per cent of people who enter high care come direct from a hospital, and 40 per cent stay less than six months. So we are talking about a population with a high level of health need that passes through aged care very quickly. I think you would have to think hard—let me put it that way—about making arrangements which required very substantial rearrangement of financial affairs for people going through a rapid health related transition of that kind.

My second comment is in relation to equity. The discussion we have just been having applies equally to bond charging, because bonds are an uncapped financial contribution. In low care, particular residents are worth more to the provider than others because an uncapped bond can be charged for some and not for others. Currently, in high care, that is not the case. In high care, we have people whose needs are more urgent and less discretionary than those in low care. So you would have to think very hard about what increased regulation you would need to put in place to ensure access for people with low assets into high care if you were going to allow an uncapped bond to be charged.

The third area is in relation to prudential requirements. The bond is by its nature essentially an unsecured loan from the resident to the aged-care provider. The aged-care provider is not a financial institution. The government has managed this risk—and you would appreciate the kind of risk we are talking about, particularly since we have been experiencing a global financial crisis—by making the industry as a whole responsible if a particular provider defaults on the bond amounts—

Senator BOYCE—Why wouldn't the same prudential requirements be satisfactory for high care as they are for low care?

Mr Stuart—I am not making a comment on whether they would or would not be satisfactory. What I am raising is the issue that the size of bond holdings would then potentially be more than double and there would be a large number of providers who would never have held bonds before. Under those circumstances, the department would be thinking very hard about prudential arrangements and potentially providing—

Senator BOYCE—There would certainly be a risk there that would need to be managed.

Mr Stuart—They are the three issues that I would raise as considerations to take into account when thinking about the appropriateness of bonds in high care.

CHAIR—When somebody is assessed and goes in as low care in residential care and then, within two months, they go into high care, isn't that a de facto high-care bond?

Mr Stuart—They are predominantly in mixed facilities that have other bond holdings from low-care residents. There are hardly any specialised low-care only facilities remaining. They have become typically ageing in place mixed facilities. There are still, however, a significant number of high-care only facilities remaining where people enter for the first time as high care and they are set up for high dependency residence, specifically with nursing and so forth. From time to time, providers do collect a bond from someone who has come from low care and the bond comes through with them, typically they do not have high bond receipts.

Senator BOYCE—We would be looking at more of those, would we not?

Dr Cullen—Senator, I want to address this question first, if I can. The situation that you outline, which is where a resident enters as low care and then soon becomes a high-care resident, can only occur if something happens to the resident after they enter. You would have to have a significant change in your care needs after entry for you to be reclassified. When the resident was entering, they were entering as low care; they were making a considered decision to enter as low care. They probably had the time that is usually available to someone who is choosing to go into low care to make those decisions and to rearrange their arrangements et cetera. Then something significant happens to them while in care—they have a stroke or something—and, yes, now they are a high-care resident. But it is a very different situation from someone who is entering high care from hospital.

Senator BOYCE—We have also had evidence that people were assessed as low care by the ACAT team; but, by the time they got into a facility, the facility took the view that they had progressed to high care.

CHAIR—You are saying that it is not possible for a family, which decides that facility X offers the best high care, to approach that facility to go in as low care and pay a bond in order to secure a high-care place I the facility of their choice. Are you giving evidence that that does not occur?

Dr Cullen—I do not believe that is what I said.

CHAIR—I am asking you whether you believe that those instances have occurred or are occurring in the industry. Is that possible?

Dr Cullen—I believe that ACAT makes an independent assessment as to whether a person needs high or low care, and the provider must make an assessment according to the regulation as to the actual care needs of the resident. That would be my answer.

CHAIR—But is it possible that that avenue is available?

Mr Stuart—Can you repeat the avenue? I was not following it completely.

CHAIR—A family's choice is to go into facility X—because it is closer to the family, it is a better facility and it is nice and new—but the only way that they can get into that facility is through low care—paying a bond. Then they can be reassessed for the high care that they need. I am asking whether or not the department is aware of any instances of that. Is that possible under the current legislation?

Mr Stuart—The simple answer is that it is contrary to the guidelines that the department provides to aged-care assessment teams. We are working hard on having adherence and consistency in relation to the operation of those guidelines.

CHAIR—So, in fact, it can happen.

Mr Stuart—I cannot rule it out, but we have laws and we have police and crime happens too.

CHAIR—That is right. We do.

Senator JACINTA COLLINS—But we have knowledge that this is occurring. Is it a policy issue that you are addressing?

Mr Stuart—We are continuing to work on consistency and timeliness of aged-care assessments through aged-care assessment teams. But—

Senator JACINTA COLLINS—The aged-care assessment process is very easily affected by a family's attitude to a situation. They are often the ones answering questions about things such as incontinence and a range of other factors about the circumstances, for instance, of someone who has been ageing at home. If a family wants a low-care assessment as opposed to a high-care assessment, it is not hard to achieve that with the instrument as it currently stands.

Mr Stuart—I am not sure that I do agree with you. We have professionals in aged-care assessment teams, and they do not just listen to the family. They are respectful of the family, but they look at and spend considerable time with the person who is going to be the care recipient and they exercise professional judgment.

Senator JACINTA COLLINS—I am also a professional and I have also been part of a family that has gone through the process, so I understand how it operates. It is not as clinical or as precise as we might like it to be, and it possibly never can be. But the question that Senator Polley asks is: is the capacity to, in a sense, work the system an issue that you do understand and that you are seeking measures to deal with?

Mr Stuart—Yes.

Senator BOYCE—Do you have a percentage for the number of people who remain in high care for more than two years—people who are long-term high care? If not, can you provide one?

Mr Stuart—High care is interesting. The average length of stay in high care is still nearly three years, but as we have said, 40 per cent leave within six months. As a statistician, the survival curve descends very fast and then has a long tail. The proportion over three years, from memory, is 20 per cent, but I do not have the number over two years in my head.

Senator SIEWERT—I go back to the issue of making decisions about going into high care. The issue that has been put to us, both in the committee and in other conversations that I am sure we have all had, is that it is acknowledged that more and more people are staying in the community—in community care—before they go into high care. The position that has been put to us is that during that time people can make a decision and be fully prepared for when they go into high care, so it is not a question of making an emergency decision when people are in hospital and then all of a sudden have to go into high care. The fact is they are staying much longer before they go in. I thought that negated your argument a bit, at least the point where people are being rushed into making decisions about high care at the last minute, when they are in hospital.

Mr Stuart—I provided a piece of data, which is that 56 per cent of everyone who enters high care comes direct from a hospital.

Senator SIEWERT—The point is they are going into hospital out of community care, and they could have planned, if they sat down with their family, the same way as you were talking about when they planned going into low care. All they are doing is skipping low care and going straight into high care. They can still plan very well when they are in community care before they go into hospital.

Mr Stuart—Not everyone who goes into residential care has previously been in community care. All our survey information from older people shows that they are very resistant to thinking about residential aged care as a future option for themselves. In fact, one of the difficulties we have in cutting through to the community with information about aged care is that everyone is in denial and nobody expects that as a part of their own future.

Senator SIEWERT—Given the feedback we are starting to have, I suspect that that situation is changing.

Mr Stuart—I desperately hope so.

Senator SIEWERT—I also want to follow up on the issue of the ratio of low care to high care. We have had a lot of evidence that people are not going into low care—in fact, the ACFI assessment now discourages people from going into low care—yet the ratio of the percentage of places that are allocated for low-care, high-care and community places remains the same. Have you thought about changing the ratio?

Dr Cullen—Last year, 49.7 per cent of first admissions were to low care. The percentages line up exactly. Half of people who enter care need low care when they first enter, and that is condition that we have placed on—

Senator SIEWERT—How recent are those figures?

Dr Cullen—Last year.

Senator SIEWERT—2007-08?

Dr Cullen—That would be correct.

Mr Stuart—Nevertheless, the most recent adjustment to the residential care ratio was to move more towards high care.

Dr Cullen—Forty-eight low-care places and 40 high-care places were what was in existence, and we have now moved to 44 and 44, or a fifty-fifty split. One of the reasons for making that split was that it was in line with what actually was happening with admissions. It is still the case that half of the people who enter care enter for low care.

Senator SIEWERT—But their ACFI assessment rates them fairly low.

Dr Cullen—No, that is not correct. Low-care rates vary from $0 up to—I am sorry; I do not have it in front of me—$60 or so. The vast majority of people who enter for low care are at the higher end of that spectrum. It is certainly true that there are some residents who are now assessed under the ACFI and who receive an assessment for $0 or $60, but there were also some residents assessed under the RCS who received $0. There were also some residents who were assessed under the previous hostel care instrument who received $0.

It is certainly true that, as a matter of policy, successive governments have sought to encourage community care so that residents who require very low levels of care have received over years—and this goes way back before 1997—lower and lower levels of subsidy so as to encourage them to remain in the community. At the same time, community care was uplifted so that there would be something there for them. But the vast majority of residents who enter at low care are funded towards the upper end of that spectrum of funding.

Senator SIEWERT—I have some questions about the supplementary submission, but not in this area.

CHAIR—To talk about ACFI for a moment, the evidence has been that, although the industry were welcoming of the changes, it has not met the expectations. Because there are certain levels that are capped, some residents and facilities are losing money. For instance, if you were assessed at the frailest level, the funding level is $171.43, but my information is that the policy is then capped and the provider then only receives $138.11. There is a gap of $33.32.

Dr Cullen—Under the previous arrangement—under the RCS—the maximum funding level was $128. The government's policy is to increase that maximum funding level over four years to $171. This year the maximum funding level is $138. Next year it will be $148. The year after, it will be $158. Funding for the most frail residents is higher than it has ever been.

CHAIR—That may well be the case—

Dr Cullen—It is the case.

CHAIR—but there is still a differential there that is not being met.

Dr Cullen—I am unaware of that. The government has—

CHAIR—If the costs to look after that patient in residential care are higher but the government funding level is less than that cost, which is the evidence that has been provided to us, there is a shortfall. Are you suggesting that there is not a shortfall, that that is just mismanagement?

Dr Cullen—I am suggesting that the government has recognised that the previous funding instrument was not funding the most frail residents at an appropriate level and that the government has introduced a four-year, phased program whereby it is lifting the maximum level of funding that it provides for those most frail residents. The issue has been recognised and is being rectified.

CHAIR—It is being rectified, but the industry is saying that they are suffering those losses now.

Dr Cullen—I do not quite understand the loss. Let me put it to you in another way: if they are suffering a loss now, the loss they are suffering now is less than the loss that they were suffering last year.

CHAIR—So it is a lesser evil, then. Being evil is not so bad, but—

Senator JACINTA COLLINS—They are better off than they were!

Senator BOYCE—Less worse off, perhaps!

Mr Stuart—To add a little broader context: the government, in introducing the ACFI, had several objectives, one of which was a radical reduction in paperwork and nurse time. We are getting a lot of feedback to the effect that that is certainly being experienced. It was also to fund people in high care substantially better and, over time, that is being phased in. That can be portrayed in different ways, but it is true that the amount of funding for the most frail residents in aged care is going from $128 to $171 over a period of four years. A part of the reason for that is that, in introducing the ACFI, the government was grandparenting existing residents who are in aged care on the RCS if the provider would be better off as a result of that grandparenting. That grandparenting comes at a very considerable cost because what you are saying on the introduction of ACFI is, 'We will only allow providers to win; we won't allow them to lose.' The impact of that is a considerable net cost to government. As a partially offsetting cost reduction, the government has chosen to phase up the maximum fee for the most frail residents. That is the best that I can explain the policy.

CHAIR—Can you step us through the funding criteria under the ACFI? Are there three criteria that are funded?

Dr Cullen—Correct. There are three domains, each of which is funded separately: complex health care, behaviour and assistance with daily living.

CHAIR—What is the third?

Dr Cullen—Assistance with daily living is one, behaviour is the second and complex health care is the third.

CHAIR—And dementia?

Dr Cullen—That is behaviour.

CHAIR—If I am in a home and suffering all three of those—especially the dementia—is there a cap? Do I as a resident receive three highest-level funding or—

Dr Cullen—No.

CHAIR—are there parts of that that are capped? So, if I am the resident in care and I am suffering with behavioural problems, there is a cap there? So, even though I meet the three criteria, the funding is capped; whereas, Senator Collins, who probably only has dementia—

Senator JACINTA COLLINS—I have got complex behaviours.

CHAIR—will get the full funding of furniture?

Dr Cullen—The way the system works, because there is a cap on the maximum payment, is that we work out what the payment is in each domain, we add it together and then there is a cap placed upon that. It is not possible to say which of the domains is being capped; it is the overall rate that is being capped. If you had medium care last year, the provider would have been receiving $128 to care for you. This year, the provider is receiving $138 to care for you.

CHAIR—And we welcome that.

Dr Cullen—Just to be clear: those dollars are all in the same year's prices. There is no inflation or anything like that in there.

CHAIR—The evidence from the industry is that when that happens and those funding levels are capped, even though you meet the three criteria, they are losing money because they still have to provide the same level of staffing to look after that person but you are only paying them for a proportion of their time.

Mr Stuart—The ACFI is an instrument that is designed to give an overall return to an aged-care home. We do not expect to pay through the ACFI for a particular staff member to stand by a particular bed. Because there is an increased flow of funding to the sector because of the grandparenting cost to government, the government has chosen to put a cap on the growing increase in care funding as well. I am simply explaining government policy to you.

Dr Cullen—The obverse of what you were saying is that, because of grandparenting, there are some residents in the facility who are currently being funded more than what the funding instrument says they should receive. Therefore, as a facility as a whole, those two effects tend to offset.

CHAIR—That is not the evidence that has come before us.

Senator SIEWERT—I have some questions on the information that you have provided us in your supplementary submission and the information just circulated in terms of the building costs. I would like an explanation of the actual graph. It is not clear—though I must admit that I was looking at the colour version on the screen and it did not help that much. Your first table has a dotted line that says 'Building Activity commenced' and then there is a solid line that says '4 per. Mov. Avg. (Building Activity commenced)'.

Dr Cullen—The solid line is the trend. The dotted line is what happened in each quarter, and that tends to be somewhat volatile. The trend basically takes the average of the previous four quarters So it is the yearly average of how much happened in each quarter—and that is moving upwards.

Senator SIEWERT—Thank you. You talk about 18,700 places were planned for construction or upgrading and—if I interpret that correctly—some of those are not necessarily for new beds; they are upgrading old beds.

Dr Cullen—That is correct.

Senator SIEWERT—Can you tell us which percentages are old beds? When you say 'planned for construction' is that based on what providers have actually told you, or is it the bed that they hold the licence for?

Dr Cullen—No. That answer comes from the survey of aged-care homes, in which we asked: 'What did you spend last year on construction? Do you have any construction in planning? Of the construction that you have planned, how many places would it cover?' That is where that comes from. It is actual plans that people have.

Senator JACINTA COLLINS—But it does not distinguish between existing places and new places?

Dr Cullen—I will take advice on that and get the information for you soon. I think it may but I am not sure.

Senator SIEWERT—Can you tell us which are replacing existing beds and which are new? Also, is it for the 2008-09 financial year?

Dr Cullen—It is 2007-08. It is what they were planning as at 30 June 2008. The survey was done on the 2007-08 year and the question about planning—

Senator SIEWERT—For that year?

Dr Cullen—No, the question was: 'On the last day of that year, did you have any plans?'

Senator SIEWERT—I understand that, but what I am getting at is: is it for the next financial year or is it for the future?

Dr Cullen—It is for the future.

Senator SIEWERT—That is what I wanted to know. The point that has been made to the committee a number of times is that, while providers had plans to build beds, they have dropped those plans or they have put them off again.

Dr Cullen—I would refer you to page 15 of the submission, where I talk about building approvals. These are actual providers who have actually gone to their council and gone through a process of saying, 'I intend to do something; I am going to invest some money now in getting a building approval et cetera.' So these are people who are progressed a little bit further than having a plan to do something. This is trending upwards as well. This is higher than it has ever been. These figures go all the way up until the September quarter and therefore the effect of the global crisis is not in here. Until then, there was a higher level of providers going to councils through the approval process than there had been previously. I would like to table some data which breaks things down by states for the 2007-08 year—again from the ABS—just to give you a sense of the volume of work out there. The most interesting figure in this table—and we will get copies to you soon—is that, at the end of the 2007-08 year, there was over $2 billion worth of construction activity underway. In other words, there were buildings which, when they were—

Senator JACINTA COLLINS—And that was activity in relation to—

Dr Cullen—In aged care.

Senator JACINTA COLLINS—But I understand that they do not separate retirement villages and residential aged care.

Dr Cullen—That is not correct. The evidence that was given to you was incorrect. The ABS data clearly does not include retirement villages. It states it very clearly in their publications and we have confirmed that with the ABS.

Senator SIEWERT—What about independent living units?

Dr Cullen—It covers services that support the provision of aged care. I believe it is almost identical to residential aged care. The reason for that is that we can track the ABS data on construction activity with the data that we collect independently on our aged-care home survey. Those numbers are within a few per cent of each other. It is our firm belief, our firm evidence to you, that the ABS data is residential aged care. It does not include retirement villages. The ABS is absolutely clear on that.

Senator BOYCE—So it includes facilities that provide low- and high-care residential care?

Dr Cullen—Correct.

Senator BOYCE—And only those?

Dr Cullen—And only those.

Senator JACINTA COLLINS—What is the most recent data available from the ABS on that measure—the January issue?

Dr Cullen—The most recent data available is the December quarter, but the first release is always preliminary and is always corrected—and always is corrected upwards. So you cannot—

Senator JACINTA COLLINS—Is it the preliminary one that was telling us that construction was continuing at $100 million per month?

Dr Cullen—No, it was the completed one—the September quarter, which is the second last one. The December quarter does not contradict this, but it is a slight downwards but that is because it is always revised upwards. I will refresh my mind on this later, but they make their estimate of the December quarter in November—on the data that they received by November. For aged-care homes, at the end of 2007-08, there was over $7 billion worth of buildings being built—that is, buildings which, when they are finished, will be worth $7 billion. That is the level of construction activity currently underway in the industry.

Senator JACINTA COLLINS—Is that the 18,000 places you referred to earlier?

Dr Cullen—No, the 18,000 workers planned. This is actually past the planning stage; this has actually happened.

Senator BOYCE—How many places are we talking about?

Dr Cullen—The ABS does not collect that number but if you divide $7 billion by 150,000—and I will get to you in a moment on that—

Senator BOYCE—There you are! The industry would want you to divide by 180,000, Dr Cullen.

Mr Stuart—We do not do maths with anecdotes.

Dr Cullen—I shall do both.

Senator SIEWERT—Can I take you to the photocopies of the Rawlinsons data that you circulated and the bit that you have highlighted around residential. Is it in square metres?

Dr Cullen—No. Below that you will see that there is a unit cost which for Adelaide, for example, says 99,000 to 106,000.

Senator SIEWERT—So that is per unit. That is then converted from the square-metre cost to the unit cost?

Dr Cullen—Correct.

Senator SIEWERT—And a unit is a bed?

Dr Cullen—A unit is a bed here, because these facilities are single-storey, self-care, air-conditioned et cetera. These are standard.

Senator SIEWERT—It says single-storey, self-care and central care units. Does that mean all the care facilities?

Dr Cullen—That is right, yes. You are building the entire care. So the costs which go with the kitchen et cetera are built into the per-bed cost. This is the base construction cost. Rawlinsons will say to you, 'You have to add 10 per cent for approval processes. You have to add 10 per cent for fit-out,' but this is the base construction cost. Essentially the way in which quantity surveyors do this is that they have a large database of what has actually happened out there and they construct their—

Senator BOYCE—This comes out monthly, presumably, does it?

Dr Cullen—No. This comes out yearly. This is for 2009. They produce an index quarterly that basically tells you how that number—

Senator BOYCE—moves?

Dr Cullen—Across the whole industry.

Senator BOYCE—I would hate to be quoting an annual survey. Ms Murnane mentioned earlier that some homes were in difficulty. I think she said, Mr Scott, that you were going to talk about that some more. Can you tell us how many aged-care organisations became insolvent last year?

Mr Scott—Financial year or calendar year?

Senator BOYCE—Whichever you have. Perhaps either or both—where the data becomes most meaningful.

Mr Scott—In terms of actual insolvencies, my recollection is that we have had only—

CHAIR—Can you clarify your terminology.

Mr Scott—Yes, of course. There are a range of forms of external administration. You can have a receiver manager, which is usually appointed by the secured creditor, usually the financier. You can have a voluntary administrator, which is usually appointed by the board of directors or the company executive. Then insolvency usually follows one of those stages where the company is found to be insolvent and is being wound up. In terms of insolvencies, in 2008—

Senator BOYCE—We are talking calendar year?

Mr Scott—Yes. In calendar year 2008 there was one residential aged-care approved provider, Vitality Care Commissioning, that was wound up in liquidation. I also understand that there was one community care provider that was wound up in liquidation.

Senator BOYCE—Do you also have the figures for those that went into administration? Can you give us those as well?

Mr Scott—Yes. In calendar year 2008 four approved providers went into some form of external administration. I think it is important to understand that it is not unusual for businesses to go into administration. In 2008 in the broader Australian economy around three-quarters of one per cent of all companies went into some form of external administration.

Senator BOYCE—Not all of them have vast amounts of government funds being poured into them, though. Those are the ones that interest us.

Mr Scott—But the comparable figure—

Senator JACINTA COLLINS—Yes, can you please give us the comparable figure.

Mr Scott—The comparable figure in the aged-care sector is around 0.3 per cent for 2008.

Senator BOYCE—Could we have the figures for 2006-07? What were the figures like then?

Mr Scott—In 2007 we had three approved providers go into some form of external administration. They were two residential aged-care providers and one community care provider.

Senator BOYCE—There were none in liquidation that year, 2007?

Mr Scott—No. Well, the services operated by the companies in 2007 are continuing to operate now. I am not sure what happened to the companies subsequently.

Senator BOYCE—Might you be double counting there too? I mean in the sense that they were in administration in 2007 but they went into liquidation in 2008.

Mr Scott—No.

Senator BOYCE—I mean your system.

Mr Scott—We will track a single case from external administration to liquidation, so I would not be double counting. The main thing from our perspective is subsequently what happens to the service. I do not have the information here about what happened to the company if the service subsequently transferred on and continued to operate.

Senator BOYCE—What would your view be on the level of financial difficulties and 'insolvencies' in the sector and on the trends there?

Mr Scott—It is quite difficult to draw definitive conclusions about what some of these situations tell us. Obviously, in the current environment, with the economic conditions and the global financial crisis, it is difficult to say whether what we are seeing here is coming from the influences of the current economic problems. One important point we have seen from the administrators that have been appointed more recently is that a number of situations have arisen where there has been poor financial management and poor corporate governance. The administrator's report, for example, for Vitality Care Commissioning—which is the one that subsequently went into insolvency—identified significant problems with lack of financial records and poor financial management and the likelihood of breaches of the Corporations Act for their financial record keeping.

Senator JACINTA COLLINS—What about the one in today's press, Kendalle nursing homes? Is that another example?

Mr Scott—Again, the work of the administrator to date suggests very poor record keeping and very poor management and corporate governance on the financial side. But it is also important to be aware that, in a number of the cases, while the approved provider gets into financial difficulty, the services are often sold off onto new providers.

Senator BOYCE—The company is wound up but the facility remains.

Mr Scott—That does suggest that the services themselves, with proper management, can be viable—that is, that it is in fact the company itself that is the source of the problems.

Senator BOYCE—How many cases would there be where the facilities have closed?

Mr Scott—The two that I am aware of most recently—so in the last couple of years—are these. Vitality Care Commissioning had 102 allocated places.

Senator BOYCE—When you say 'allocated places', do you mean functioning beds or potential beds?

Mr Scott—I think it was not quite at 100 per cent occupancy; I think it was in the high nineties.

Mr Stuart—They were all established, built beds. They were not approvals for further construction.

Mr Scott—No. They were operational places. On the residential aged-care side, that is the only approved provider in the last couple of years that has closed down. The beds did not move on. The other one I will just mention for completeness was Rosden Private Nursing Home, again in Victoria. That was closed.

Senator BOYCE—That was earlier, though, wasn't it?

Mr Scott—No. That was in September 2008.

Senator BOYCE—Okay.

Mr Scott—But the sequence of events there was identification of immediate and severe risk to the health and wellbeing of residents, sanctions imposed to close the facility and the approved provider subsequently going into administration. They were operating a second service, which continues to operate under the receiver manager. I think the expectation is that that will be moved on to a new approved provider.

Senator BOYCE—I presume Ms Murnane raised the issue of some homes and the difficulties in risk management that the department is currently undertaking. Would you like to just briefly tell us what you are doing?

Mr Scott—How do you mean, Senator?

Senator BOYCE—I assume that, as you said, in the current financial situation some companies or some operators are potentially more likely to have problems. Clearly that would not be in anyone's interest, so what is happening there?

Mr Scott—There are a couple of things. One, pointing back to the department's submission, is that one of the supporting factors in the current environment is the continued demand for aged care and the important role of government funding in the sector, which is assisting with reducing the risk of knock-on effects from the global financial crisis. The other aspect is that the department adopt a risk based approach to compliance monitoring. We use a range of information sources, like complaints data, prudential returns and information coming in from other sources—media even—to identify where there may be emerging compliance risks.

We also, in looking at that, try to identify whether there might be emerging financial risks. Similarly, we have been engaging more closely with the financial sector—the major banks—to talk to them about emerging developments in the sector and their attitudes to financing. At any point in time we will have at least a few approved providers about whom we may have concerns of varying degrees. There are currently one or two approved providers whom we are in discussions with on their financial position and we are providing some assistance to via consultancy services and the like to look at their operations with a view to identifying strategies to improve their situation.

Senator BOYCE—There is presumably some sort of benchmark where your monitoring makes you think you should go and talk to that particular provider. If you are not satisfied with that conversation then you offer them consultancy assistance. Is that how it works?

Mr Scott—No. We will use the available information coming into us to identify if we have concerns of emerging compliance or financial risks with an approved provider. That may be an increase in the number of complaints or complaints relating to late bond refunds. There may be some noncompliance identified through the annual prudential compliance statement. There is a range of different information that will go into the mix. If we form the judgment that, 'Okay, there's a potential issue here,' we will usually contact the approved provider. In most cases it is a productive, constructive and cooperative discussion. Sometimes we will have approved providers who will come to us and say, 'We've got concerns about our longer-term viability.' Then we will have a look at their situation, work with them and possibly bring in external consultants to assist them.

Senator JACINTA COLLINS—Mr Scott, would this process pick up the loan of $2½ million to the soccer club?

Mr Scott—Which process?

Senator JACINTA COLLINS—Would the process you are talking about identify circumstances like that or would we wait until today's reports? Then the department is responding to prudential concerns.

Mr Scott—Where we have concerns of that nature, there will be detailed investigations.

Senator JACINTA COLLINS—Were you aware of this particular case before today's reporting of it?

Mr Scott—Yes, we were.

Senator JACINTA COLLINS—Just to flesh out an example of this process, can you tell us what has happened in this particular case?

Mr Scott—In the Kendalle case, we identified a little while ago some emerging concerns around compliance. We received information about the possibility of unpaid employee entitlements—principally around superannuation. There were also complaints around the quality of care. My recollection is that we asked the Aged Care Standards and Accreditation Agency to conduct review audits across the three services, given the level of concern that we had with the approved provider. They subsequently found immediate and severe risk at one of the services—Grandview Gardens—and a range of noncompliances at the other two services.

It was around that time that we also sought more information about their financial situation. That was when—when we started asking questions in that area—they appointed a voluntary administrator. Since then, we have been working with the voluntary administrator to assist them to undertake the investigations they are required to undertake under that Corporations Act. In the first instance, it is the voluntary administrator, under the Corporations Act, that needs to have a look at the affairs of the company, including how companies have discharged their obligations under the Corporations Act. But we obviously have a very keen interest specifically around what has happened with the bond funds. The initial investigations identified significant problems with their financial record keeping. So it has taken a bit of time for the administrator to try to reconstruct what has been going on with the flow of funds. But we are aware from discussions with the administrator that there would appear to be some anomalies regarding how the bond funds have been used.

Mr Stuart—Chair, we have a couple of answers to earlier questions. I know that we are coming close to the end of the hearing, so I just wanted to let you know that we have two or three supplementary answers to earlier questions. So if you could leave a little time—

CHAIR—That is fine.

Senator JACINTA COLLINS—I want to refer to earlier evidence where I think Dr Cullen raised the point that some financial headquarters for nursing care operators were now

establishing on Norfolk Island. Following the discussion about this particular case, I am wondering about the risk of operators fleeing when they are left in the situation that has happened with Kendalle.

Mr Scott—Fleeing the country?

Senator JACINTA COLLINS—Yes. If their financial headquarters are on Norfolk Island—

Mr Scott—Would that constitute fleeing the country?

Senator JACINTA COLLINS—It could for ATO purposes, I suspect.

Mr Scott—I am not aware that we have had issues in the past in the aged-care sector with directors departing the country.

Mr Stuart—We have had one. I have a memory of a provider in this sector absconding and just leaving the residents. The penalties for the provider in doing that are very considerable. This goes back a number of years. Aged-care providers have a fair amount of money wrapped up in the value of the bed licences, which they usually hope to sell. The department has absolutely no sympathy for such providers and removes their approved provider status and the value of the beds is lost to them.

Mr Scott—In the Kendalle case, we did in fact work with the Australian Taxation Office and alert them to our concerns with what had gone on at Kendalle. They have the power under the Tax Administration Act—if memory serves me correctly—to put in place what is basically a departure prevention order. Given the very stringent secrecy provisions under the tax acts they were not able to inform us whether they actually took that step. But, given the possibility, we did explore the avenues that we had available to us to head off that risk.

Senator JACINTA COLLINS—Sorry, I did not hear that well. They would not inform you if they had taken that action?

Mr Scott—No, they could not inform us because of the secrecy provisions of the tax act. What they would have had to do is, based on the information we released to them under the Aged Care Act, form a determination about (a) whether there were tax obligations over which they had concerns about Kendalle and (b) whether there was sufficient evidence of flight risk.

Senator JACINTA COLLINS—Dr Cullen, just on that point about the financial headquarters on Norfolk Island, why is this occurring? What is your understanding about why this is happening?

Mr Stuart—There are particular advantages. There are some structures in the industry—that is not the only example, but it is the only example we are aware of on Norfolk Island, and I say ‘aware’ because we have limited information. You could imagine a structure in which the domestically taxpaying entities make a loss and the foreign based body makes substantial profits because of the fees paid to it by the domestic entity. Under those circumstances, headquarters can make a decent living and less tax can be paid.

Senator JACINTA COLLINS—Who are we referring to here? Which operator is this?

Mr Stuart—No, I am talking in the general. If we want to talk about—

Senator JACINTA COLLINS—Yes, but Dr Cullen was talking about it, I think, in the specific previously.

Dr Cullen—But I certainly was not making any accusation about the specific provider—

Senator JACINTA COLLINS—No, I understand that.

Dr Cullen—that they had arranged their affairs in such a way as to bring that about. But it is certainly the case that there are six TriCare companies which are approved providers and they are all subsidiaries. They are Australian registered companies but they are all subsidiaries of the TriCare Group Pty Ltd which is registered in Norfolk Island.

Senator JACINTA COLLINS—Okay. Thank you.

Senator BOYCE—Is there anything irregular with the way they are conducting their financial report?

CHAIR—Sorry, we will have to cut it off there. Senator Siewert has been waiting for 10 minutes.

Senator BOYCE—But that is a fairly strong statement to make.

Dr Cullen—Sorry, I made it quite clear in my evidence that I was not in any way making a comment with respect to what Mr Stuart had said in the generality. I was simply giving a factual statement as to where those companies were registered.

Senator SIEWERT—I want to go to this issue of beds for which licences have been given but which have not been built yet. As I understand it, there are a number that organisations and providers are holding. I think from our previous discussions that you do not have the details on how many are being held at the moment and not progressed. Is that correct?

Mr Stuart—No, we have pretty good data on the number of approvals in the aged-care sector and the progress that they are making. I will ask an officer to see what we have to hand. We have something like 30,000 approvals in the marketplace currently.

Senator SIEWERT—And how far back are licences held that have not been developed? How many years? Does that question make sense?

Mr Stuart—Senator, I am getting some help to find some data. I just want to check the 30,000 number I quoted too. We have some data with us about the proportion of all the approvals which are over two years and the proportion which are over five years, which is just being looked for.

Senator SIEWERT—Okay, thanks.

Mr Stuart—We were asked earlier about care for dementia. All aged-care providers have to be able to care for dementia at some level. At least two-thirds of residents or more have some level of dementia. In the 2005 round, 20 per cent for all the allocations made had a primary or secondary specific focus on care for people with dementia. That was 1,037 places. In the 2006 approval round, about 1,019 or 21.5 per cent of all allocated places had a primary or secondary focus on the provision of care for people with dementia. In the 2007 round, the most recently completed round, about 14.2 per cent or 925 places had a specific focus on the provision of care for people with dementia. But, as I said, all aged-care homes certainly deal with people with dementia. Looking at approvals more than two years old, as at 30 June 2008, which was our latest complete stocktake, there were 9,694 approvals in the marketplace that were more than two years old but not yet completed.

Senator SIEWERT—Do you know how many of those had actually started construction?

Mr Stuart—I am able to obtain that, but the vast majority would have started construction.

Senator SIEWERT—If you could take that on notice it would be appreciated.

Mr Stuart—Just as an indication, I gave evidence to the last hearing about those older than five years, of which there are only a handful. Only two have not yet started construction and one of them is our famous one in northern New South Wales. So, between two years and five years, the great majority of services are completed.

Senator BOYCE—Do approvals stay live until they become beds?

Mr Stuart—No, they do not. There are at least three ways that they stop being live. One is that the provider decides that they no longer want to proceed. That is a comparatively small number. Another is that the department actively withdraws them. The third is that the department does not like the explanation for the delay that it is getting and, rather than continuing to extend them, just lets them lapse. So handing them back, actively withdrawing and just not extending anymore account for a certain number.

Senator BOYCE—Do you have those figures?

Mr Stuart—We have the question on notice and the answer is coming through for you.

Senator SIEWERT—When you said that they let them lapse, how often do you have to renew them?

Mr Stuart—After the first two-year period we start following them up quarterly. We are just about to enter discussions with the aged-care sector about doing this a little differently. It has become evident that there might be benefits to earlier follow-ups in relation to the early kinds of milestones that you might expect, which include, for example, getting approval through council, having access to land, having access to financing. So we are going to have some consultation with the sector about whether we might have some earlier indicators, because it seems to me that, after four or five years, there is a lot of sunk cost and a lot of effort and it is often a little late to remove allocations at that point. So trying to keep providers honest early with realistic milestones is something we want to discuss further with them.

Senator SIEWERT—I understand a number of providers have approached you about converting beds to community care packages.

Mr Stuart—Before we go into that, I just want to correct my answer. I said 30,000 residential places in the market place. There are actually 20,821, and so those older than two years form a little less than half that number.

Senator SIEWERT—So there are 10,500 that are less than two years old?

Mr Stuart—Yes.

Senator SIEWERT—I understand that some providers have approached you or are interested in converting some beds to community care packages?

Mr Stuart—It does happen.

Senator SIEWERT—Is there a process for doing that?

Mr Stuart—There is a process for doing that. It is administered at the state office level. They take into account whether it damages the provision of residential care in the area and also what the profile is of the delivery of community care in the area.

Senator SIEWERT—I am after a little package of information. In the past, how many beds have people converted? Is there an increasing trend and have you any applications now before you to convert beds to community care packages?

Mr Stuart—I would need to take that on notice. I think there is a departmental consideration in this area, which is that there is so little difficulty in allocating new community care places to very good providers who apply for them competitively. But sometimes there is a little reluctance to convert existing residential care places to community care and allocate it to providers who do not have a record of providing community care. That is also an issue that we take into account.

Senator SIEWERT—I presume there is a set of criteria that you have on which to make your decisions?

Mr Stuart—I can provide you with considerations.

Senator SIEWERT—Can you provide me with those?

Mr Stuart—I believe they are listed in the act, and I will come back to you on that.

CHAIR—Can you briefly report on those questions that you took on notice, because we have only three minutes left.

Mr Stuart—I think there is just one remaining. I did one a little while ago and it was on the 18,700 building breakdown.

Dr Cullen—Of that 18,700, 6,265 places would actually be in new buildings; 3,000 would be in rebuilds, but some of those would be in a building which has been rebuilt to make it larger and therefore some of those would be new places coming on; and 9,500 were in buildings that were being upgraded. In that regard, I would like to refer you to page 18 of our supplementary submission, which is a graph of the number of additional residential places which have actually been built in every year. You will see in the last year, 2007-08, 6,800 places. These are additional places, not replacement places. They are new places. You can see that, again, if anything, there is a trend upwards in that curve, indicating that more places are now being built into operation than have been brought into operation in the recent past.

CHAIR—Just before you leave—obviously, we have run out of time, as always—there are a number of outstanding issues relating to compliance and paperwork. Mr Stuart, you alluded to the fact that ACFI has supposedly reduced that paperwork. That is quite contrary to the evidence that is before us. The industry is now saying it fills out more paperwork than ever, so that is still a cost. There is one area of policy that perhaps you can give us a quick answer on. In relation to residential care, if the husband, for instance, needs high care and the wife needs low care, is there availability under the legislation to have them accommodated together?

Mr Stuart—I am aware that sometimes it does become a vexed issue, but there is considerable flexibility in the aged-care policy arrangements for low care and high care to be provided in the same aged-care homes. And, as I pointed out earlier, that is now very common.

CHAIR—In the same room?

Mr Stuart—I think there is a little challenge there to the extent that some players in the industry are building solely single rooms with en suites, but that is not a requirement of government regulation. That is a choice that the providers are making. The requirement in our certification regulation is that the average resident per room is 1.5, and that actually allows you to build as many double rooms as single rooms in a new development. We have intervened in the past in a number of cases that I am aware of to help find places for couples together.

CHAIR—Thank you. I thank my committee members. It has been an interesting, yet very challenging inquiry. I would like to thank the secretariat for their help, the department for appearing before us again today and Hansard.

Committee adjourned at 11.29 am