Aged Care Financing Authority

Report on the Funding and Financing of the Aged Care Industry

July 2014

Contents

Glossary

Term	Definition
Aboriginal and Torres Strait Islander People (Indigenous people)	Indigenous people aged 50 years and over are eligible for Australian Government funded aged care services.
***Aged Care Act 1997* (the Act)**	The Act is the legislation upon which the Australia Government funded aged care system is based.
Aged and Community Services Australia (ACSA)	The national peak body for not-for-profit providers of aged and community care in Australia.
Aged Care Approvals Round (ACAR)	The ACAR is an annual competitive tender process for releasing and allocating aged care places to approved aged care providers. The number of places released is governed by the Commonwealth's population-based aged care service provision target ratio.
Aged Care Assessment Team (ACAT)	ACATs help older people and their carers work out what kind of care will best meet their needs when they are no longer able to manage at home without assistance. ACATs provide information on suitable care options and can help arrange access or referral to appropriate residential or community care services such as HACC. An ACAT assessment and approval is required before people can access residential aged care, CACP, EACH or EACHD Packages.
Aged Care Financing Authority (ACFA)	ACFA provides independent advice to the Australian Government on funding and financing issues, informed by consultation with consumers, and the aged care and finance sectors.
Aged Care Funding Instrument (ACFI)	Used for determining the level of care subsidies for residents in aged care homes based on the assessed care needs of each individual. It replaced the Residential Classification Scheme on 20 March 2008 as the means of allocating Australian Government funding to residential aged care providers on behalf of residents.
Allocated Places/Packages	The amount of aged care that an approved provider can deliver depends on the number of aged care places allocated to it under Part 2.2 of the Act. Under these arrangements, an approved provider can receive payment for care on behalf of consumers only for the specified number and type of aged care places allocated through the Australian Government's ACAR process.

Term	Definition
Australian Bureau of Statistics (ABS)	The ABS produces and disseminates statistics in a number of key areas, including: • Social Statistics; • Economic Statistics; • Population Statistics; • Labour Statistics; • Industry Statistics; and • Environment Statistics.
Australian Nursing and Midwifery Federation (ANMF)	The ANMF is the union for registered nurses, enrolled nurses, midwives, and assistants in nursing doing nursing work in every state and territory throughout Australia.
Bond Asset Cover	Provides an indication of the extent to which the accommodation bond liability is covered by assets. It is calculated as Total Assets/Total Accommodation Bonds.
Catholic Health Australia (CHA)	Catholic Health Australia is the largest non-government provider grouping of health, community and aged care services in Australia, nationally representing Catholic health care sponsors, systems, facilities and related organisations and services.
Community Aged Care Package (CACP)	Care consisting of a package of services provided to a person who lives in their own home and is not in residential care.
Commonwealth Home Support Programme (CHSP)	From 1 July 2015 the existing Commonwealth HACC Programme, the National Respite for Carers Programme, the Day Therapy Centres Programme and potentially the Assistance with Care and Housing for the Aged Programme, will be combined under a single streamlined Commonwealth Home Support Programme to provide basic maintenance, care, support and respite services for older people living in the community, and their carers.
Conditional Adjustment Payment (CAP)	CAP is payable to eligible providers who meet certain criteria including encouraging staff training, submitting a General Purpose Financial Report and participating in the workforce census.
Consumer Directed Care (CDC)	Consumer Directed Care gives older people and their carers greater choice and control over the types of care services they receive and the delivery of those services.
Consumer Price Index (CPI)	CPI measures the changes in the price of a fixed basket of goods and services, acquired by household consumers who are resident in the eight State/Territory capital cities.
COTA (Council on the Ageing)	COTA Australia is the peak national organisation representing the rights, needs and interests of older Australians.

Term	Definition
Culturally and Linguistically Diverse (CALD)	CALD refers to people whose first language was not English.
Current Ratio	Represents the ability to meet short term debt through current assets. A current ratio of more than one indicates that an organisation's current assets exceed its current liability. It is calculated as Current Assets/Current Liabilities.
Daily Accommodation Payment (DAP)	An amount paid by a care recipient towards their accommodation costs in a residential aged care facility calculated on a daily basis.
Department of Social Services (The Department)	The Department administers the Act and regulates the aged care industry on behalf of the Australian Government.
Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA)	Net profit after tax with interest, taxes, depreciation, and amortisation added back to it, and can be used to analyse and compare profitability between companies and industries because it eliminates the effects of financing and accounting decisions.
Financial Accountability Reports (FARs)	FARs are submitted annually by providers of Home Care Level 2 services to the Australian Government under the requirements of Community Care Deed of Agreement and Community Care Grant Agreement.
Extended Aged Care at Home (EACH)	Flexible care consisting of a package of care services, including nursing and other personal assistance provided to a person who lives in their own home and not in residential care, who requires an equivalent to high level residential care.
Extended Aged Care at Home Dementia (EACHD)	Flexible care consisting of a package of care services, including nursing and other personal assistance provided to a person who lives in their own home with dementia and not in residential care, who requires an equivalent to high level residential care.
Financial Planners Association (FPA)	The FPA represents the interests of the public and Australia's professional community of financial planners.
General Purpose Financial Report (GPFR)	A financial report intended to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs.
Global Financial Crisis (GFC)	GFC is a worldwide period of economic difficulty experienced by markets and consumers.

Term	Definition
Gross Domestic Product (GDP)	GDP is the market value of all officially recognised final goods and services produced within a country in a year, or over a given period of time.
Home and Community Care (HACC)	A programme of basic maintenance and support services for frail older people, younger people with disabilities and the carers of these people to prevent premature admission to Residential Care Services. It includes home nursing, home help, respite care and assistance with meals and transport.
Home Care	A programme that funds income-tested packages which provide home based care and support to help older Australians to remain in their own homes. Services are coordinated by a home care provider, with funding provided by the Australian Government under the Act.
Interest Coverage	Shows the number of times that EBITDA will cover interest expense. Indicates an organisation's ability to service the interest on its debt. It is calculated as EBITDA/Interest Expense.
Leading Age Services Australia (LASA)	LASA is Australia's largest peak body for age service providers.
Maximum Permissible Interest Rate (MPIR)	The MPIR is the rate used to calculate the equivalent daily payment of a refundable deposit. The refundable deposit is multiplied by the MPIR and divided by 365 days. The MPIR is determined in accordance with Section 6 of the *Fees and Payments Principles 2014 (No. 2)*. The MPIR is available on the Department of Social Services website and updated every three months. As at 1 July 2014 it is 6.69 per cent.
National Disability Insurance Scheme (NDIS)	The NDIS offers support and a better life for hundreds of thousands of Australians with a significant and permanent disability, their families and their carers.
Net Profit Before Tax	The NPBT is determined by revenue minus expenses except for taxes.
Net Profit (Before Tax) Margin	Shows the average profitability generated on each $1 of total revenue. It is calculated as Net Profit Before Tax / Total Revenue.
Operational Places/Packages	Operational Place refers to a place that was allocated and has since become available for a person to receive care.
Per Consumer Per Annum (pcpa)	An annual average financial figure relating to home care consumers.
Per Consumer Per Day (pcpd)	A daily average financial figure relating to home care consumers.

Term	Definition
Per Resident Per Annum (prpa)	An annual average financial figure relating to aged care residents.
Per Resident Per Day (prpd)	A daily average financial figure relating to aged care residents.
Refundable Accommodation Deposit (RAD)	An amount paid as a lump sum by a care recipient for their accommodation costs in a residential aged care facility.
Resident Classification Scale (RCS)	The basic tool for funding aged care is the RCS-payments to providers are based on a resident's classification assessed on a scale from 1-8, with levels 1-4 being classified as high care and levels 5-8 as low care. The RCS was replaced by the ACFI on 20 March 2008, though grand-parenting arrangements apply to some residents who entered care before 20 March 2008.
Residential Aged Care	A programme that provides a range of supported accommodation services for older people who are unable to continue living independently in their own homes.
Retention Amounts	The amount that an approved provider is allowed to deduct per month from an accommodation bond for up to five years. The maximum retention amount is set by the Australian Government. Retentions will not be allowed for new residents entering residential aged care after 1 July 2014.
Return on Assets	Indicates the productivity of assets employed in the organisation. It is calculated as EBITDA/Total Assets.
Return on Equity/ Return on Net Worth	Indicates the productivity of equity/net worth employed in the organisation. It is calculated as EBITDA/Net Worth.
Report on the Operations of the *Aged Care Act 1997* (ROACA)	A legal requirement under the Act, the ROACA is released by the Department and presents an annual snapshot of facts and figures on Commonwealth funded aged care services in Australia.
Survey of Aged Care Homes (SACH)	Each year SACH seeks information on accommodation payments and planned and actual building activity during the previous financial year for each operating residential aged care service.
Transitional Business Advisory Service (TBAS)	TBAS is a free financial advice service for providers on the 1 July 2014 accommodation payment reforms. It is provided by KPMG and funded by the Australian Government to assist with transition during the implementation of the aged care reforms.
Weighted Average Cost of Capital (WACC)	Represents the cost of capital sourced from equity and debt investments by the ratio of debt to equity in the capital structure.
Working Capital	Defined as current assets less current liabilities.

Executive Summary

Aged care is one of the largest service industries in Australia, catering to the needs of over 1 million older Australians, employing over 250,000 people and accounting for around 1 per cent of GDP in terms of Commonwealth funding alone.

This is ACFA's second report on the Funding and Financing of the Aged Care Industry. It examines the developments, issues and challenges affecting the industry and provides a range of statistics and analysis of the provision of aged care in Australia.

ACFA's annual reports aim to build over time a substantial body of facts and trend data on the aged care industry to inform future analysis and policy discussion on aged care. This report begins the process of reporting on trend data by overlaying last year's 2011-12 findings with data for 2012-13. It also identifies priorities for further research and analysis as well as key issues to monitor over the next 12 months.

The Executive Summary is broken into two parts.

The first provides ACFA's commentary on 2012-13 results including key statistics, highlighting trends in funding, financing, balance sheet metrics, pricing and financial performance. The key results are highlighted in the table below.

Key Financial Statistics 2012-13

Residential Care

Summary

- A decline in financial results in 2012-13 largely reflecting:
  - a reduction in the rate of real growth in the average subsidy per resident under ACFI
  - an increase in staff expenses – both volume and price driven
- ACFA has noted that analysis of financial performance in 2013-14 undertaken by private sector firms indicates more positive results in 2013-14

Financial Performance

- Average EBITDA margin of 10.6 per cent (12 per cent in 2011-12)
- Average NPBT margin of 4.3 per cent (5.6 per cent in 2011-12)
- Average Return on assets of 4.8 per cent (5.5 per cent in 2011-12)
- Average Revenue per resident per day increased 4.6 per cent
- Average Expenses per resident per day increased by 6.0 per cent
- 71 per cent of funding from Commonwealth (unchanged from 2011-12)

Investment Activity

- An increase in investment activity:
  - $920 million of new building, refurbishment and upgrading work was completed during 2012-13, involving about 16.6 per cent of all homes
  - Additional $1,670 million estimated to be in progress at 30 June 2013, involving about 17.7 per cent of all homes
- Estimated $31 billion needed over next decade to meet growing demand

Home Care Packages Sector

- 61 per cent of CACP providers achieved NPBT surplus
- 88 per cent of funding from Commonwealth

The second part provides a summary of key developments, issues and challenges for the industry. The key elements are summarised in the table below.

Key Developments, Issues and Challenges

- 1 July 2014 will likely - in retrospect - be seen as a significant inflection point for the aged care industry with major changes to industry funding and financing
- Increased investment activity in the residential aged care sector indicates that many see the 1 July 2014 reforms to accommodation payments as positive for the sector overall though the reform impacts will need close monitoring as impacts are likely to vary across the sector
- 2014 Budget measures included:
  - ACFI subsidies to increase by 2.4 per cent from 1 July 2014 as a result of the repurposing of the Workforce Supplement, resulting in estimated additional revenue of $1 billion over four years for residential aged care providers;
  - a 20 per cent increase in the viability supplement paid for certain residential care providers of rural and remote services and homeless services - resulting in estimated additional revenue of $28 million over four years;
  - removal of the Payroll Tax Supplement from 1 January 2015, which will reduce revenue to eligible (mostly for-profit providers) by an estimated $653 million over four years; and
  - a 2.4 per cent increase in funding for home care packages and certain community care programmes from 1 July 2014 as a result of the repurposing of the Workforce Supplement, resulting in estimated additional revenue for home care providers of $154 million over four years
- Publishing of accommodation prices in residential care which commenced on 19 May 2014 and the introduction of individual budgets in new home care packages signal the start of a new era of transparency in the market
- The first ACFA analysis of financial reports from home care providers is contained in this report. Analysis is limited by the level and quality of available data
- ACFA has two key reports due to the Australian Government this year - on financial reporting and the factors that are influencing the variability of financial performance in aged care providers
- ACFA will monitor and report to Government on the impacts of the 1 July 2014 reforms

The chapters in the body of the report then provide further detailed analysis and statistics on issues across the aged care industry.

Commentary - 2012-13 Results and Analysis

Australia's aged care industry is undergoing its largest transition since 1997, with significant changes in the way the continuum of aged care through HACC, home care and residential care is being delivered and funded.

Access to Care

The current spread of consumers accessing care is shown in Table 1 below, which details the number of Commonwealth funded services as at 30 June 2013.

Table 1: Consumers in Aged Care

	Residential Care	Home Care	HACC	Total
Consumers	186,278[1]	60,308[1]	756,148[2]	1,002,734

[1] Places.

[2] Consumers, including Victorian and WA HACC consumers aged 65 or over, or 50 and over for Indigenous people.

This report continues to build trend data on client access to HACC, home care and residential care. One key area relating to consumer access to care is the ability of residents with lower means (supported residents) to access care. ACFA provided Government with a 'Data Book' (see Appendix P) on supported residents on 30 April 2014 as a pre-cursor to ACFA's more detailed study of this area due to Government on 31 December 2015. The aim of this 'Data Book' is to provide general statistics and information on access for supported residents. The key findings of the Data Book are further discussed in Chapter 7: Access to Care.

Sustainability

ACFA estimates that $31 billion will be needed over the next decade to fund the construction of new or rebuilt aged care homes to accommodate an additional 76,000 older Australians. The 2013 Survey of Aged Care Homes estimated that a total of $920 million of new building, refurbishment and upgrading work was completed during 2012-13, with an additional $1,670 million estimated to be in progress at 30 June 2013. This was complemented in 2013-14 by a substantial level of new investment in the industry.

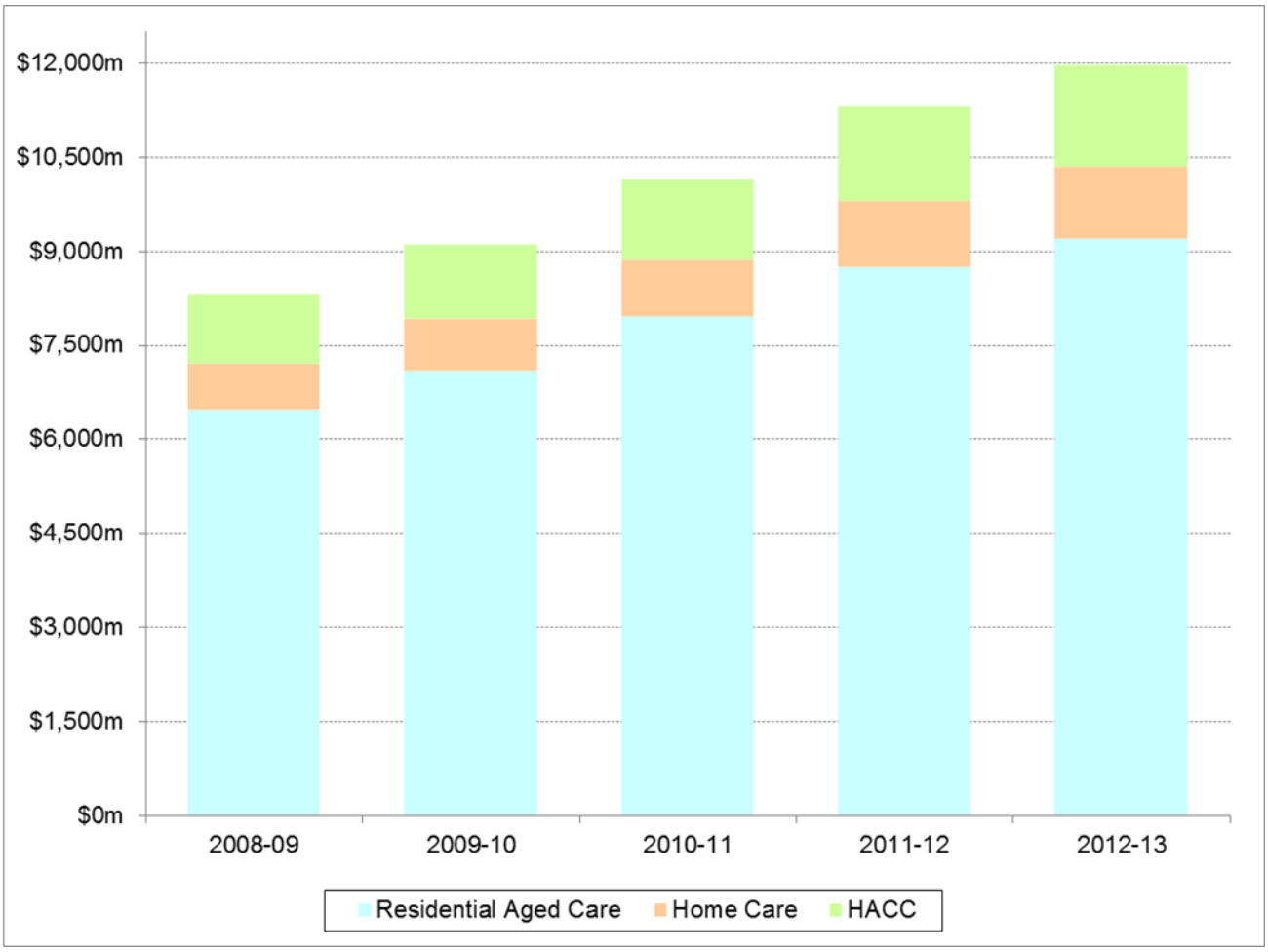
Commonwealth Funding

In 2012-13 Commonwealth funding for the main aged care programmes was $12 billion[1] across:

- HACC, which increased by 8.1 per cent to $1.6 billion;[2]
- home care packages, which increased by 9.3 per cent to $1.2 billion; and
- residential care, which increased by 5.2 per cent to $9.2 billion.

Trend data on Commonwealth aged care funding can be seen below in Chart 1.[3]

Chart 1: Commonwealth Aged Care Funding 2008-9 to 2012-13[4]



[1] This figure relates only to the programmes listed and excludes other aged care funding such as grants programmes and workforce programmes. Total Australian Government funding for all aged care programmes in 2012-13 was $13.4 billion. The Australian Government has budgeted $14.4 billion in 2014-15 for all aged care programmes, increasing to $17.7 billion in 2017-18.

[2] The HACC Commonwealth funding includes the Commonwealth's funding of the HACC programme ($1.1 billion) and the Commonwealth's contribution for consumers 65 years of age and over or 50 years of age and over for Indigenous people to the Victorian and West Australian run HACC programmes ($0.5 billion).

[3] Does not include 2013 Budget announcements.

[4] Based on ROACA.

Residential Care Sector - 2012-13 Analysis of General Purpose Financial Reports

Profitability

The 2012-13 analysis provides contrasting indicators. Financial performance measured in NPBT and EBITDA fell relative to 2011-12 largely reflecting measures to reduce the rate of real growth in average care subsidy per resident under ACFI. On the other hand an increase in investment activity, likely in anticipation of the reforms to accommodation payments arrangements that apply from 1 July 2014 provides a more encouraging outlook, and a number of surveys carried out by private sector firms during 2013-14 indicate more positive revenue and profit results compared with 2012-13.

Table 2 below shows key statistics at the aggregated sector level.

Table 2: Key Aggregate Sector Metrics

	2011-12	2012-13	Change	
	$m	$m	$m	%
Revenue	$13,073	$13,961	$888	6.8%
Expenses	$12,347	$13,367	$1,020	8.3%
EBITDA	$1,544	$1,473	-$71	-4.6%
NPBT	$726	$594	-$132	-18.2%
Net Worth/Equity	$9,612	$10,189	$577	6.0%
Building Work Completed – new, rebuilt & refurbished	$863	$920	$57	6.9%

Revenue and Expenses

Table 2 summarises the sector financial information in 2011-12 and 2012-13. It shows increases in:

- revenue of $888 million (6.8 per cent) comprising:
  - $421 million more in basic care payments made up of;
    - $151 million in volume changes resulting from approximately 1,300,000 additional resident days;[5]
    - $264 million in price changes due to increasing resident frailty; and
    - $6 million due to the volume/price interaction effect (ie additional days of care at the higher price)
  - $98 million more in Respite and other care;
  - $188 million more in Basic Daily Care Fees;
  - $26 million more in accommodation payments;

[5] In 2012-13 there were approximately 500,000 additional claim days. The remaining 800,000 claim days is driven by reporting changes including changes to providers reporting periods and differences due to transfers where the previous provider had not submitted a GPFR and the new provider had submitted a GPFR for a part year period in 2011-12 and a full year period for 2012-13.

  - $20 million more in other consumer fees; and
  - $135 million more in other income.
- expenses of $1,020 million (8.3 per cent) comprising:
  - $734 million in additional staff expenses reflecting in part approximately 1,300,000 additional resident care days and increased wages;
  - $51.3 million in additional depreciation;
  - $9.6 million in additional interest payments; and
  - $225 million in additional other costs.

This resulted in:

- a decrease in EBITDA of $71 million (-4.6 per cent); and
- a decrease in NPBT of $132 million (-18.2 per cent).

There was also an increase in:

- building work completed of $57 million (6.9 per cent); and
- an increase of net worth/equity of $577 million (6 per cent).

While many providers in the sector continue to run a profitable operation, the overall sector results were down from 2011-12 with 66 per cent of providers recording a positive NPBT (compared with 70 per cent in 2011-12).

EBITDA

EBITDA per resident per annum was down across the board with:

- 80 per cent of providers displaying positive EBITDA (compared with 84 per cent in 2011-12);
- average EBITDA per resident per annum was $8,660 (compared with $9,274 in 2011-12);
- quartile performance was down as follows:
  - top quartile $19,825 ($21,081 in 2011-12);
  - second quartile $9,884 ($10,394 in 2011-12);
  - third quartile $4,468 ($5,654 in 2011-12);
  - bottom quartile -$5,276 (-$3,646 in 2011-12);
- ownership differences were:
  - for-profit providers $12,683
  - not-for-profit providers $7,159
  - Government providers -$591
- high care $9,518 compared with low care $2,029;
- city providers $9,587 compared with regional providers $6,933; and
- size differences were:
  - single service providers $9,271
  - providers with two - six homes $7,237
  - providers with seven to nineteen homes $8,672
  - providers with twenty or more home $9,869

As noted in ACFA's Inaugural Report, these results need to be considered with caution as there continues to be wide performance variability across all size, geographical and ownership segments.

Revenue, Expenses and EBITDA – Per Resident, Per Annum and Per Day

Table 3 shows key metrics on a per resident per annum basis.

Table 3: Key Sector Metrics Per Resident Per Annum

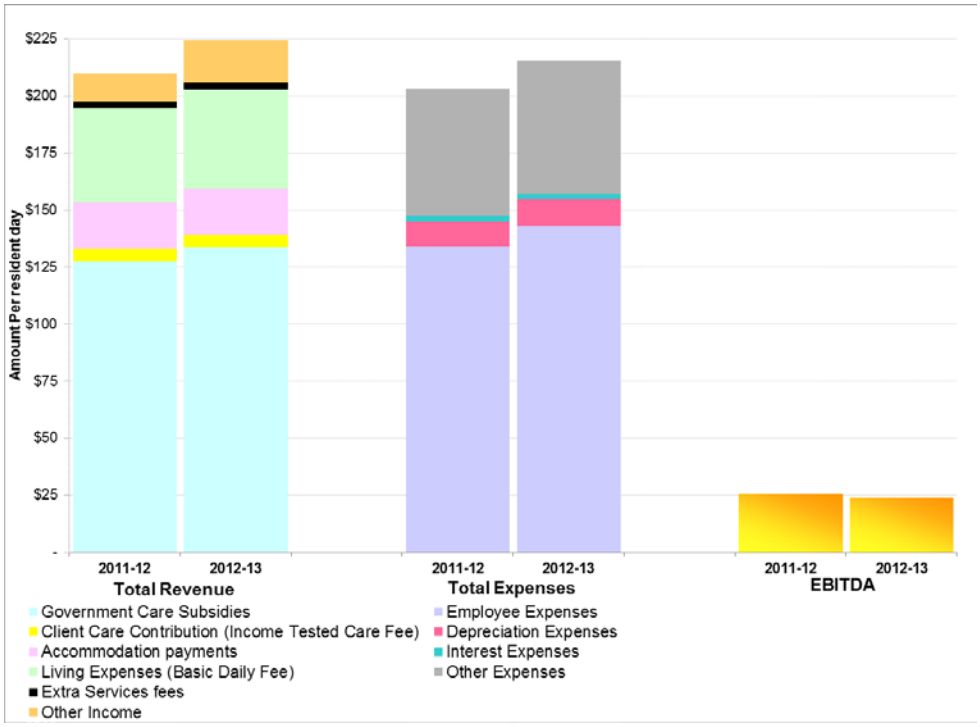
	2011-12 $ prpa*	2012-13 $ prpa	Change %
Revenue	$78,506	$82,081	4.6
Expenses	$74,145	$78,589	6.0
EBITDA	$9,274	$8,660	-6.6
NPBT	$4,360	$3,492	-19.9
Net Worth/Equity	$59,198	$61,509	3.9

Average revenue per resident per annum was $82,081, a 4.6 per cent increase. Average expenses were $78,589, a 6.0 per cent increase. While these figures indicate some margin compression, it is likely the 1 July 2014 reforms will have a positive impact.

The changes in average EBITDA are illustrated by the following chart highlighting:

- an increase in average revenue of $9.80 per resident per day;
- an increase in average expenses of $12.17 per resident per day; and
- the resulting fall in average EBITDA of $1.68 per resident per day.

Chart 2: Total Revenue and Expenses – Per Resident Per Day



Balance Sheet

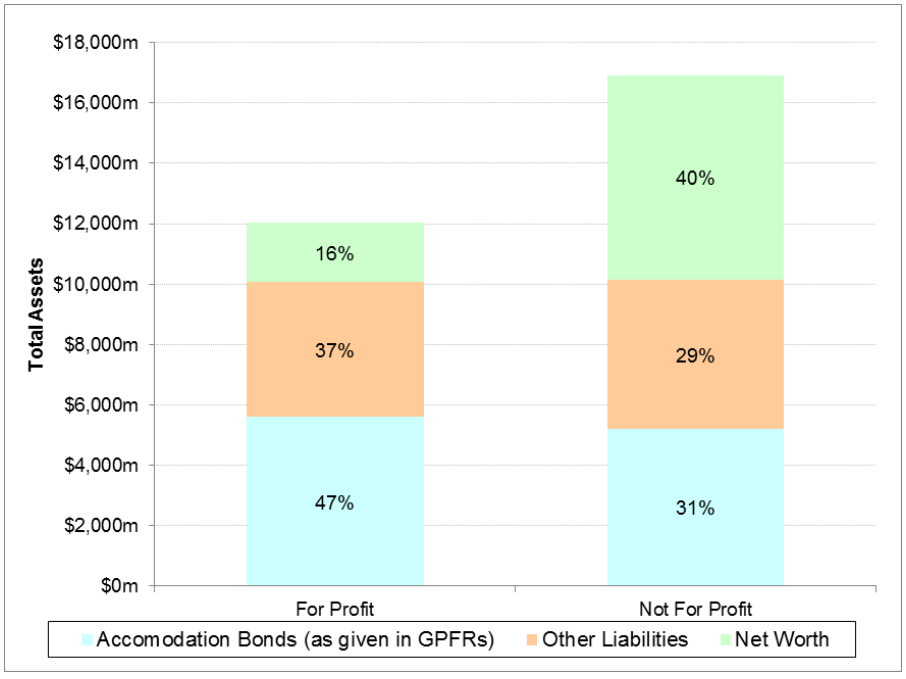
Table 4 outlines the sector's aggregate balance sheet as of 30 June 2013, with the debt/equity composition of the sector shown in Chart 3.

Table 4: Sector Balance Sheet 2011-12 and 2012-13

	2011-12 $m	2012-13 $m	Change $m	Change %
Cash Assets[1]	$3,239	$3,942	$703	21.7%
Fixed Assets[2]	$8,046	$9,372	$1,326	16.5%
Other Assets	$16,767	$17,539	$772	4.6%
TOTAL ASSETS	**$28,052**	**$30,853**	**$2,801**	**10%**
Accommodation Bonds	$12,966	$14,295	$1,329	10.3%
Other Liabilities	$5,474	$6,369	$895	16%
TOTAL LIABILITIES	**$18,440**	**$20,664**	**$2,224**	**12%**
NET WORTH/EQUITY	**$9,613**	**$10,189**	**$576**	**6%**

[1]Cash Assets includes: cash amounts, Liquid Assets (Short term), Financial Assets/Investments (Long term).
[2]Fixed Assets include: Property, Plant and Equipment.

Chart 3: Debt-Equity Composition as a Proportion of Total Assets

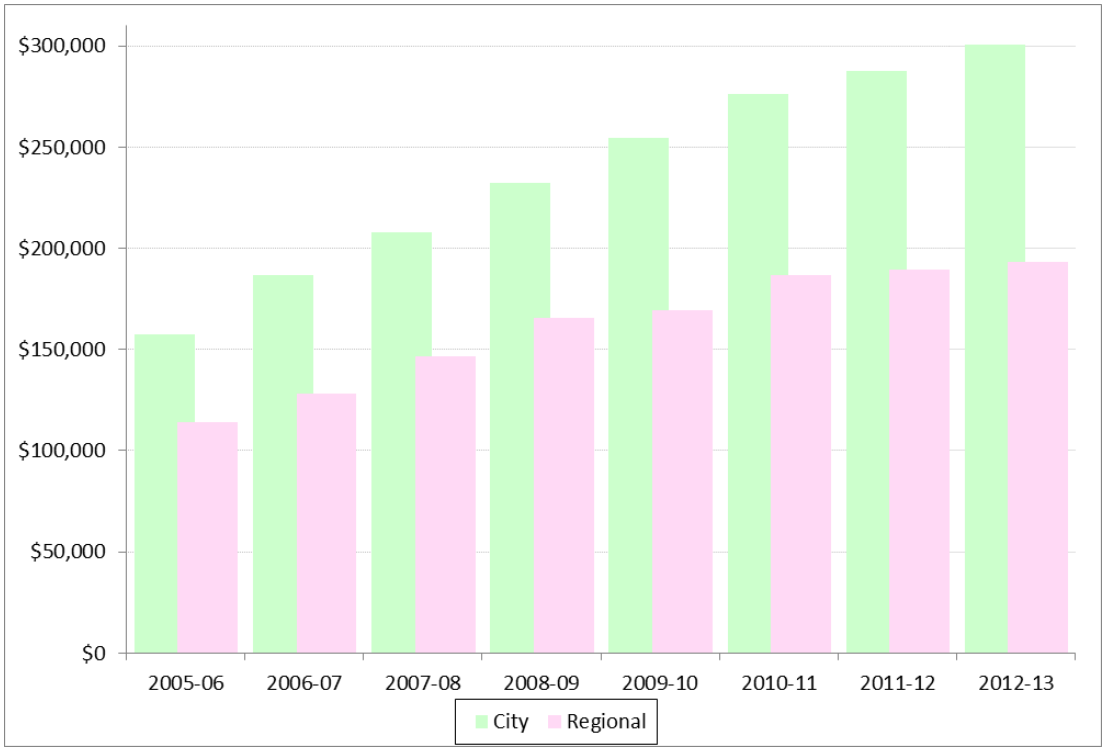


Key findings from the balance sheet analysis include:

- average return on assets for the sector was 4.8 per cent (5.5 per cent in 2011 12);
- average return on equity was 14.3 per cent (15.9 per cent in 2011 12);
- average net worth/equity per resident:
  - in not-for-profit sector fell by 1 per cent to $69,744 ($70,371 in 2011-12);
  - in for-profit sector rose 35.7 per cent to $33,453 ($24,660 in 2011-12);
    - data suggests that in aggregate these for-profit providers achieved significant growth in their current assets due mainly to an increase in their inter-company receivables, payments from residents, and subsidies and supplements from the Australian Government.
- mix of debt to equity was 66:34 (65:35 in 2011-12) with significant differences between not-for-profit (59:41) and for-profit (84:16);
- accommodation bonds as a share of sector total assets:
  - average bond per resident was $214,374, with total bonds representing 48.5 per cent of sector total assets (48.4 per cent in 2011-12);
  - the not-for-profit sector average bond per resident was $198,159, with total bonds representing 46.8 per cent of not-for-profit assets (45.6 per cent in 2011-12); and
  - the for-profit sector average bond per resident was $244,744, with total bonds representing 55.1 per cent of for-profit assets (58.2 per cent in 2011-12).

Chart 4 shows the growth in accommodation bonds by location over the past eight years.

Chart 4: Growth in Accommodation Bonds by Location 2005-06 to 2012-13[6]



[6] Based on SACH data.

Investment Activity in Residential Care

There was a significant increase in the value of investment and construction in the residential aged care sector in 2012-13, including completed and in progress work of $2,533 million at 30 June 2013, up from $1,850 million a year earlier.

Home Care Packages Sector

2012-13 Analysis of Financial Accountability Reports

This report provides greater analysis of home care package providers than was possible in ACFA's inaugural report, using statistics drawn from the 2012-13 Financial Accountability Reports (FARs) provided to the Department by CACP providers.

Key findings from the data include:

- around 61 per cent of CACP providers reported a surplus in NPBT in 2012-13;
- Commonwealth funding accounts for approximately 88 per cent of total provider revenue;
- employee expenses account for 55 per cent of the total provider expenses; and
- for-profit providers run only 8 per cent of services, but are reporting returns well above not-for-profit providers.

Table 5 below outlines some key financial metrics of the home care sector.

Table 5: Operating Performance of Home Care (CACP) Providers 2012-13

	Not For Profit	For Profit	Government	Total
Net Profit Margin	**3.4%**	**5.9%**	**-1.4%**	**3.1%**
Commonwealth Subsidies as % of Total Income	**88%**	**88%**	**90%**	**88%**
Employee Expenses as % of Total Expenses	**55%**	**57%**	**44%**	**54%**

As with residential care, performance varies significantly across the home care CACP sector as indicated below:

- average NPBT was $470 per consumer per annum, however, this varies significantly between quartiles:
  - top quartile $2,206
  - second quartile $784
  - third quartile -$41
  - bottom quartile -$1,306
- average NPBT also varies significantly by provider type:
  - for-profit $869
  - not-for-profit $519
  - Government -$205

Developments, Issues and Challenges

Residential Care Sector

Overview

While the decline in the rate of growth in ACFI funding impacted negatively on results in 2012-13, a number of surveys carried out by private sector firms in 2013-14 indicate more positive revenue and profit results than 2012-13.

The upward trend in investment activity appears to have continued in 2013-14. In addition, a number of significant investments in the sector were announced during 2013-14.

While these are positive signs, there remain a number of challenges for the sector.

Results continue to be variable across the sector and further analysis is underway to determine the causes and possible impacts on sustainable provision of quality aged care services. In addition, elements within the sector are concerned about the impact of the new accommodation payment arrangements that commenced on 1 July 2014.

Future results will be significantly influenced by the 1 July 2014 reforms and the 2014 Budget measures. Overall, the move to more market-based accommodation prices and the 2.4 per cent increase in care prices as a result of the repurposing of the Workforce Supplement are likely to result in improved financial performance in 2014-15 and beyond.

New Accommodation Payments Arrangements

The 1 July 2014 changes to residential accommodation payments represent a significant milestone in the implementation of the reform programme that was legislated through changes to the *Aged Care Act 1997* in 2013.

The new accommodation payments arrangements are both an opportunity and challenge for the sector.

As noted in its inaugural report, and reflecting KPMG modelling undertaken for ACFA, the extension of more market-based accommodation prices across the residential aged care sector can be expected to have an overall beneficial impact on viability and sustainability. The increase in investment and building activity outlined above supports a view that many investors and providers have assessed that the potential benefits of reform, such as allowing lump sums in high care, the removal of capped daily accommodation charges in high care and the increased accommodation supplement for supported residents in new or significantly refurbished homes, will outweigh concern over greater consumer choice over accommodation payment methods.

The impact of the new accommodation payment arrangements, particularly consumer choice of payment method, can be expected to vary between providers depending on their business models, including their purpose and objectives, operating, capital and financing structures and relationship

with investors and financiers. Both the Australian Government[7] and the residential aged care sector[8] have been providing support for providers in transitioning to the new reforms. Despite these efforts there is concern that some in the sector may not be as well prepared for the reforms as they could be. ACFA, the Department, key peak industry groups and providers will be monitoring the impact of the reforms closely to identify any issues that arise. ACFA has been asked by the Australian Government to monitor the impact of the reforms and to report initially on a monthly basis to the Government and the sector from July 2014.

A significant development in the reform process was the publication by providers of maximum residential aged care accommodation prices from 19 May 2014. Accommodation prices are required to be published as RADs, equivalent DAPs and a combination price of both RADs and DAPs. A person cannot be charged more than the maximum, but they may negotiate a lower amount. This is the first time approved providers have been required to publish their prices. Table 6 summarises key pricing information.

Table 6: Published accommodation prices as at 29 July 2014[9]

- the average RAD/DAP price is $355,035/$65.07:
    - Northern Territory ($255,362/$46.80) and Tasmania ($313,039/$57.37) have the lowest average prices
    - Victoria ($399,763/$73.27) and the ACT ($456,043/$83.58) have the highest average prices
- for-profit services have a lower average RAD/DAP price ($333,557/$61.13) than not-for-profit ($374,611/$68.66) or Government ($343,152/$62.89) services
- major city average RAD/DAP price is $366,020/$67.08, compared to $327,157/$59.96 in regional areas and $275,090/$50.42 in remote areas
- There are 19 aged care services with published RAD prices of more than $1 million – with the highest being $2.6 million
- There are 122 aged care services with either a published room price of more than $550,000 or where the home has indicated that an application is pending with the Aged Care Pricing Commissioner. There are none in Tasmania, Northern Territory or remote areas.

[7] Including the free Transitional Business Advisory Service to help providers prepare for and adjust to the new accommodation payments system from 1 July 2014. In the first months of operation (to 30 June 2014) 252 basic enquiries; 39 enquiries seeking a desk audit of the provider's position, readiness and provision of advice; and 17 enquiries seeking a highly detailed examination of the provider's position and readiness were received.

[8] Including a range of communication and other support activities being undertaken by key industry groups and organisations.

[9] The published data does not indicate how many rooms are available at different price points per facility - hence averages have been calculated on the assumption of an equal mix of room type. RAD/DAP equivalence based on 1 July 2014 Maximum Permissible Interest Rate.

Increased Consumer Contributions

1 July 2014 will also see the introduction of new more comprehensive means testing arrangements in residential care. While these arrangements are not designed to impact on overall funding for providers (as the increased consumer contributions would be offset by reduced Commonwealth funding) they represent another significant change to the system designed to help build a more sustainable funding system.

2014-15 Budget

The 2014-15 Budget contained measures that will impact on the residential care sector's viability and sustainability.

The repurposing of the previous Government's Workforce Supplement will see ACFI subsidies increase by 2.4 per cent from 1 July 2014, resulting in additional revenue of $1 billion over the next four years for residential aged care providers. As part of this measure the need for an application process for the Conditional Adjustment Payment (CAP) was removed as this supplement will become a permanent addition to subsidy prices from 1 July 2014. Additionally, this measure includes $27.8 million over the next four years to fund a 20 per cent increase in the Viability Supplement for regional, rural and remote aged care services.

The other key funding change is the discontinuation of the Payroll Tax Supplement which currently is paid predominantly to for-profit providers to reimburse payroll taxes paid to State and Territory Governments. This measure reflects the Australian Government's decision to bring to an end an indirect transfer of revenue from the Commonwealth to States and Territories and is estimated to reduce total revenue to the for-profit segment of the sector by $590 million over four years. The net final impact on providers will depend on whether States and Territories make any changes to how they apply payroll tax to providers.

Supply of Places

The 2014 ACAR will increase the supply of residential aged care places, once operational, by 9,330 - a 20 per cent increase on the number allocated in the 2012-13 ACAR.

Occupancy levels in aged care homes have fallen over the past decade from the high to mid-nineties, which has resulted in reduced times for entry. The challenge over the next two decades, however, will be to ensure there is sufficient capacity in the system to meet the expected increase in demand resulting from the baby boomer generation entering their seventies and eighties.

Home Care Packages Sector

Overview

The home care packages sector is, similar to residential aged care, in the process of undergoing reforms that will significantly impact and shape the sector over coming years. In part, these reforms have already commenced with additional levels of home care package introduced in August 2013 and the roll out of Consumer Directed Care (CDC) to new packages which require care agreements that incorporate individual budgets.

Home care providers will receive additional revenue as a result of the 2.4 per cent increase in the value of home care package subsidies from 1 July 2014 announced in the 2014-15 Budget as part of the repurposing of the Workforce Supplement. Providers will also see a change in their revenue mix with an increase in consumer contributions from 1 July 2014 under new income tested care fee arrangements being offset by an equal reduction in Commonwealth subsidies.

This report includes ACFA's first analysis of information provided by home care providers through FARs submitted to the Department. Information provided through these reports is more limited than that provided through GPFRs by residential aged care providers. ACFA is currently reviewing the scope and manner of collection of financial data from the sector. This review is a component of ACFA's separate project examining financial reporting arrangements for the industry.

Increased Consumer Choice and Control

Since 1 August 2013 the structure of home care packages has changed, with packages now offered across four different levels ranging from a Level 1 package for those with low level needs to a Level 4 package for those with high needs. A separate Dementia and Cognition supplement is now also paid for eligible consumers. These changes aim to allow for a better and more flexible tailoring of packages to individual needs, thereby increasing the opportunity for consumers to choose to be cared for in their own home for longer as their care needs increase.

The home care packages sector is also facing a significant change to its operations with the ongoing roll-out of CDC and individual budgets for each package recipient, with all new home care packages being offered on this basis and all existing packages required to be converted to CDC and individual budgets by 1 July 2015. While this change does not affect the level of Commonwealth payment for a package, it significantly changes the dynamics of the relationship between the provider and consumer and how the consumer controls the use of the funding provided for the package and how this is managed by the provider.

The recently advertised 2014 ACAR also made an additional 6,653 home care places available, all of which will be on a CDC basis. Home care places will increase by approximately 80,000 places to around 140,000 places by 2021-22.

Increased Consumer Contributions

1 July 2014 will also see the introduction of new income tested fee arrangements in home care.

From 1 July 2014 the amount of Commonwealth subsidy paid to home care providers on behalf of consumers will reduce by the amount of the income tested fee that may be charged. To retain the same total revenue stream as previously, providers will need to charge income tested fees to consumers.

As with the changes to consumer contributions to residential aged care providers, these changed arrangements will not impact on overall funding for providers (as the increased consumer contributions will offset the reduced Commonwealth funding), however, they represent another significant change to the system which should over time help build a more sustainable, accessible and equitable funding system. ACFA will be monitoring any impacts on access to care.

2014-15 Budget

The 2014-15 Budget also contained announcements of relevance to the home care packages sector. Home care providers, like residential aged care providers, will receive additional revenue ($154 million over four years) from a 2.4 per cent increase to subsidy funding from 1 July 2014. Complementing this will be a $7.4 million increase in the viability supplement to eligible home care providers over the next four years.

The Government also announced it would bring forward the allocation of places to achieve a more consistent release over the period 2014-15 to 2017-18, thereby reducing the annual variability in the number of places released.

Commonwealth Home Support

From 1 July 2015, the Australian Government intends to bring together a number of existing programmes, including the Commonwealth HACC Programme, into one consolidated Commonwealth Home Support Programme targeting basic levels of care and support. Key reform directions that will underlie the new programme will include a focus on reablement, a national fees policy, more streamlined access and nationally consistent assessment arrangements, and better integration with the rest of the aged care system.

A discussion paper on this proposal was released by the Department on 20 May 2014 for comment (see Commonwealth Home Support Programme - Discussion Paper).

Financial Data Collection and Quality

The lack of data on provider performance and key industry metrics has historically hindered analysis of the industry.

The availability of such data is important because of the influence Australian Government policies and regulations have on the quality, viability and sustainability of aged care services. This lack of data impedes the development of aged care policy, constraining the Australian Government's and the industry's ability to better understand, predict and respond to industry developments. Similarly, ACFA's ability to provide high quality advice to the Australian Government on pricing and financing issues across the industry is reliant on the quality of the data it can access.

With these issues in mind, the Australian Government has asked ACFA to report by 30 September 2014 on options for improving the collection of appropriate financial data from aged care providers, including options to rationalise current financial reporting requirements consistent with the Australian Government's red tape reduction agenda.

Variability in Financial Performance

Provider financial performance across size, location, ownership and resident mix continued to vary significantly in 2012-13. In order to more clearly understand the underlying reasons for this variability, the Australian Government has asked ACFA to conduct a study into factors that are influencing the financial performance of aged care providers. The initial report, focussing on residential care providers, is due with the Government by 31 December 2014, with home care to be examined subsequently.

Workforce

A well-resourced and appropriately skilled workforce that meets the needs of aged care consumers is essential to a strong and effective aged care system. Last year's report detailed the findings of the 2012 Aged Care Sector Workforce Survey, which are summarised in Chapter 8. The Government has announced that the timing of the next survey will be brought forward to 2015, however, in the meantime there is little new data which can be analysed.

As announced in the 2014-15 Budget, the $1.5 billion (over 5 years) previously set aside for the Workforce Supplement is being redirected into an increase in ACFI subsidies and increased funding for home care packages, increased funding for certain community care programmes and an increase in the Viability Supplement. Also included in this measure is a stocktake and evaluation of the existing aged care workforce programmes to inform development of a comprehensive Aged Care Industry Workforce Strategy.

As was the case last year, the key workforce challenges for the industry remain:

- ensuring the workforce has the appropriate number of appropriately qualified and skilled staff;
- dealing with increasing rates of complex chronic conditions;

- consumer expectations for improved standards of quality and access;
- addressing the increasing competition for staff from complementary areas such as hospital and disability care; and
- the capacity of providers to create attractive workplaces and view their workforce as an asset.

Reform Monitoring

The key components of aged care reform are just commencing and as already noted it will be important to monitor and assess their impacts. ACFA has been tasked with reporting to the Australian Government on the impacts on consumers and providers of the following components of aged care reform:

- Accommodation payment arrangements including the number and distribution of care recipients choosing RADs and DAPs, and consideration of the impacts on different types of providers;
- Means testing arrangements in both home care and residential care - including the impacts of the changes on take-up and access to care and the impacts of the design of the fee scales on consumer welfare in both residential and home care; and
- The transitional support arrangements to assist providers prepare for and manage the transition to the new accommodation payments system in residential aged care.

All of the above advice will consider the impact on rural, regional and remote aged care providers, including remoteness and size.

ACFA will be providing monthly reports to the Australian Government for the remainder of 2014 and quarterly reports throughout 2015. All of these reports will be published on ACFA's website.

ACFA appreciates the support offered by provider peak bodies to assist in the provision of data on accommodation payments from providers to support this monitoring role.

ACFA's Engagement with the Industry and Consumers

In the last 12 months ACFA has held meetings and forums with representatives from the investment and financing sectors, providers, consumers and workers. These meetings and forums have been critical to ACFA's understanding of the key issues and challenges facing the industry, and to developments in the industry. ACFA will continue with its Communication and Engagement Programme over the next 12 months, with a particular focus on the impact of the 1 July 2014 reforms on all stakeholders.

1. Introduction

Contents

1.1. ACFA and its Role

ACFA is a statutory committee whose role is to provide independent, transparent advice to the Australian Government on financing and funding issues in the aged care industry. It is led by an independent Chairman and Deputy Chair complemented by seven Members with aged care sector expertise. Details of ACFA's membership can be found at Appendix A.

ACFA considers issues in the context of maintaining a viable, accessible and sustainable aged care industry that balances the needs of consumers, providers, the workforce, taxpayers, investors and financiers.

Under the *Committee Principles 2014,* ACFA is required to provide an annual report on the industry to the Australian Government each year, which examines the impact of aged care funding and financing arrangements on industry viability and sustainability, consumer access to quality care, and the aged care workforce.

Australia's aged care industry is currently undergoing a major transition across both residential and home care. Major reforms to the industry of which the first tranche commenced in August 2013 and the second on 1 July 2014, are likely to have a significant impact on the provision of aged care in Australia.

It will be some time before the full impact of these changes is known. This report analyses 2012-13 GPFRs provided to the Department by approved providers of residential aged care, the level of investment in residential aged care, initial data from the publishing of residential aged care accommodation prices, and data on home care provided in the 2012-13 FARs lodged with the Department by home care providers.

Building on the baseline of last year's report, this report also begins to analyse long term trend data on the industry, a process which will continue to develop with each report. It must be noted, however, that a number of limitations in data and data quality continue to restrict ACFA's ability to undertake meaningful analysis in some areas.

In addition to analysing available data, ACFA has also consulted widely with the industry, relevant financiers and other stakeholders in developing this report.

ACFA's forward work programme and the objectives of aged care financing arrangements are below.

1.1.1. Objectives of the Aged Care Financing Arrangements

In framing its advice, ACFA is to consider all relevant factors and take into account the Australian Government's broad objectives for aged care financing arrangements which are set out in ACFA's Operating Framework. These objectives are to:

- support access, quality care, flexibility and choice for consumers including those with special needs and those living in rural and remote areas;
- recognise that accommodation is essentially a personal responsibility, so that consumers with sufficient means should pay a reasonable price corresponding to the value of the accommodation services they receive, with appropriate safeguards for people who are marginalised, disadvantaged or have modest means;
- enable efficient aged care providers to:
  - provide quality care for their consumers, while being appropriately rewarded for the operational risks inherent in operating an aged care business; and
  - make a return on investment that is sufficient to ensure that investment will continue to be made in the aged care industry at the rate needed to meet the demand for services;
- ensure that the cost of aged care remains sustainable for the Australian taxpayer;
- support a stable and skilled workforce that can meet the growing demand for aged care services;
- minimise the regulatory burden placed upon aged care providers;
- maximise competition, while ensuring appropriate consumer protection; and
- ensure that the availability, affordability and quality of aged care services meets the broader community's expectations.

1.2. ACFA's Forward Work Plan

ACFA's Operating Framework requires it to provide advice to the Australian Government on a range of matters. The following table summarises ACFA's current forward work programme.

Table 1.1: ACFA's Work Programme

Task	Key Date
Advice on the impacts of aged care reforms on the industry, including the impact of accommodation payment arrangements, choice of payments, means testing, transitional advisory services, and in particular the impact of rural, regional and remote providers	Monthly reports July - December 2014 Quarterly reports from then until 31 December 2015 Ongoing advice in its annual report
Options for improving the collection of appropriate financial data from aged care providers, including options to rationalise financial reporting arrangements	30 September 2014
Advice on the key factors influencing financial performance of providers and what could be done to improve performance, including consideration of issues affecting rural, regional and remote providers	31 December 2014 (initial report)
Advice on cost neutral mechanisms to ensure access to care for supported residents, including reviewing the supported resident ratio	31 December 2015
Advice to inform the five year review of the aged care reforms, with particular regards to funding, financing and pricing issues affecting the matters specified for review in Section 4 of the *Aged Care (Living Longer Living Better) Act 2013*. In particular, this advice would focus on such issues as they relate to means testing, fees, accommodation prices, access and workforce. In relation to advice on workforce issues, ACFA's advice should focus on identification of issues affecting the long term demand, supply and quality of the aged care workforce, with an emphasis on the impact of financial and funding considerations on demand, supply and quality and advice on options to support a stable and skilled workforce to meet the growing demand for aged care services	30 June 2016

Information on work completed by ACFA to date can be found at Appendix B, the *Committee Principles 2014* can be found at Appendix C, and ACFA's Operating Framework at Appendix D. ACFA's recommendations are published within 28 days of being presented to the Australian Government on the ACFA page of the Department's website.

1.3. ACFA's Engagement with the Aged Care Industry

In the last 12 months ACFA has held meetings and forums with representatives from the investment and financing industries, providers and consumers. These meetings and forums have been critical to ACFA's understanding of the key issues, developments and challenges facing the industry. ACFA will continue with its engagement strategy over the next 12 months, with a particular focus on the impact of the 1 July 2014 reforms on all stakeholders.

1.3.1. Investors

In December 2013, ACFA held Investment and Financing Roundtables in Sydney and Melbourne to obtain feedback from debt and equity financiers on their views of the aged care industry. Between the two Roundtables, over 40 interested parties participated and a diverse range of issues and views were put forward, including:

- there is strong interest in investing in the aged care industry;
- returns and scale need to be sufficient to make investment in the industry attractive;
- quality of management is a key driver for investment returns;
- some investors would be looking for opportunities to invest in the property side of the business, without taking on the risks that can arise when investing in a combined property and operational structure;
- some investors see an opportunity to build profitable businesses through scale and improving management and systems in the properties they purchase;
- availability of land for greenfield developments is challenging;
- difficulty in categorising the industry (given its mixed property and operational components) in terms of standard asset allocation processes has been one reason some investors and financiers have been reluctant to invest; and
- some investors were wary of sovereign risk issues.

These Roundtables were very successful and are likely to be held again in the future.

1.3.2. Providers

During the first half of 2014, ACFA met with board members and Chief Executive Officers of LASA, ACSA, CHA, the Aged Care Guild and Uniting Care to discuss the industry's financing. One key concern raised by the five peak bodies was the potential impact on some providers of any significant movement from RADs to DAPs after 1 July 2014.

As previously noted, the provider peaks have assisted ACFA in developing mechanisms for providers to supply ACFA with information on post 1 July 2014 RAD movements to inform ACFA's implementation monitoring reports.

ACFA and the five provider peaks will continue to meet on a regular basis.

1.3.3. Consumers

ACFA also met with the National Aged Care Alliance's Consumer Organisations Forum. This meeting proved productive for all involved and like the meetings with the provider peaks, future meetings will take place on a regular basis.

1.3.4. Aged Care Workforce

With the 2014 Australian Government Budget detailing changes to the workforce policy framework, ACFA intends to formally engage with aged care workforce stakeholders during the year ahead to seek their feedback on the industry.

1.3.5. Other Stakeholders

ACFA also met with the Financial Planners Australia. This meeting was similarly productive as the FPA's members will be a vital source of information and advice to prospective aged care residents.

Additionally, ACFA met with the full membership of the National Aged Care Alliance.

2. Aged Care Industry Overview

Contents

2.1. Industry make up

Aged care is one of the largest service industries in Australia, catering to the needs of over 1 million older Australians, employing over 250,000 people and accounting for around 1 per cent of GDP in terms of Commonwealth funding alone. Table 2.1 below provides an overview of the scope of the provision of the Commonwealth funded aged care industry in Australia.

Overall, 2012-13 saw an increase in the use of aged care services across all three sectors in the industry: residential aged care, home care and HACC.

2012-13 saw a fall due to consolidation in the number of providers supplying residential aged care services, but this did not affect the number of services and places available in the residential aged care sector. Demand for residential aged care places is still strong with the number of places growing by 1.4 per cent in 2012-13 and the occupancy rate remaining steady.

2012-13 saw growth in the number of providers, services and places in the home care sector. Demand for services in the sector also saw the take up of home care packages increase in 2012-13. Data on the HACC sector, especially for 2011-12, is less complete compared with the other sectors in the aged care industry. This is in part due to the Commonwealth HACC Programme only commencing in 2012-13 and two states, Victoria and Western Australia, still running their own programme with the Commonwealth making a contribution to those programmes. Nevertheless, the available data does show an increase in the number of consumers using HACC programmes.

Table 2.1: Aged Care in Australia

	Residential Aged Care				Home Care				Home And Community Care[1]			
	2011-12	2012-13	Change		2011-12	2012-13	Change		2011-12	2012-13	Change	
				%				%				%
No. of Providers	1,054	1,034	-20	-1.9%	498	504	6	1.2%	1,043[3]	1,041[3]	-2	0.2%
No. of Services	2,716	2,720	4	0.1%	2,095	2,131	36	1.7%	n/a	n/a		
No. of Places	182,663	185,281	2,618	1.4%	59,201	60,308	1,107	1.9%	-	-		
Occupancy/ No of Consumers	93.0%	93.0%			90.3%	92.0%			750,133[2]	756,148	6,015	0.8%
Total Funding												
Commonwealth	$8,738m	$9,192m	$454m	5.2%	$1,058m	$1,157m	$98m	9.3%	$1,501m	$1,623m	$122m	8.1%
Consumer	$3,560m	$3,757m	$197m	5.5%	$80m	$84m	$4m	5.1%	n/a	n/a		

Note:
[1] HACC information includes Commonwealth, Victorian and WA funding for eligible older consumers.
[2] Includes 3,274 consumers of unknown age.
[3] Does not include Victorian or WA providers.

The following three charts give an indication of the cross over between residential age care providers, home care and HACC providers.[10] While there is a strong cross over between residential aged care providers and home care providers and between home care providers and HACC providers, there are not many residential aged care providers who also provide HACC services.

Chart 2.1 below gives an indication of the significant cross over between providers of residential age care and home care. 23 per cent of residential aged care providers also provide home care, accounting for approximately 48 per cent of home care providers.

Chart 2.1: Overlap of Provision of Residential Aged Care and Home Care

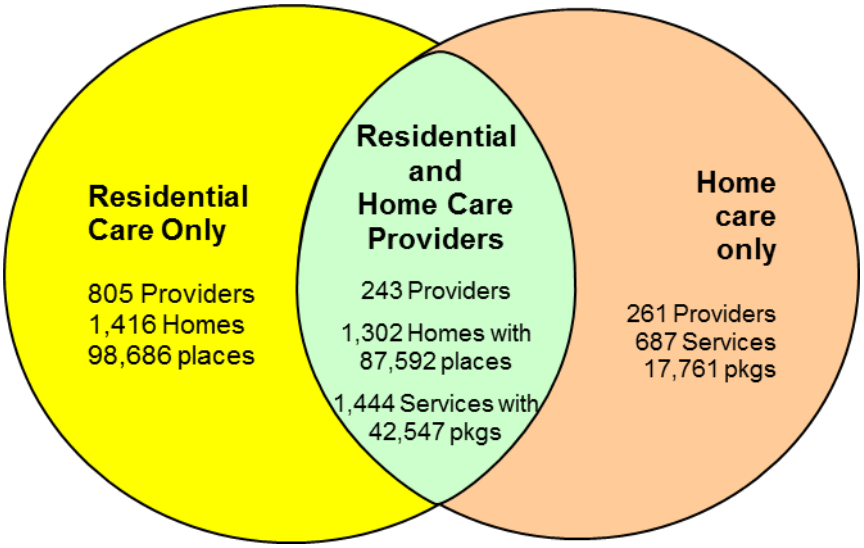
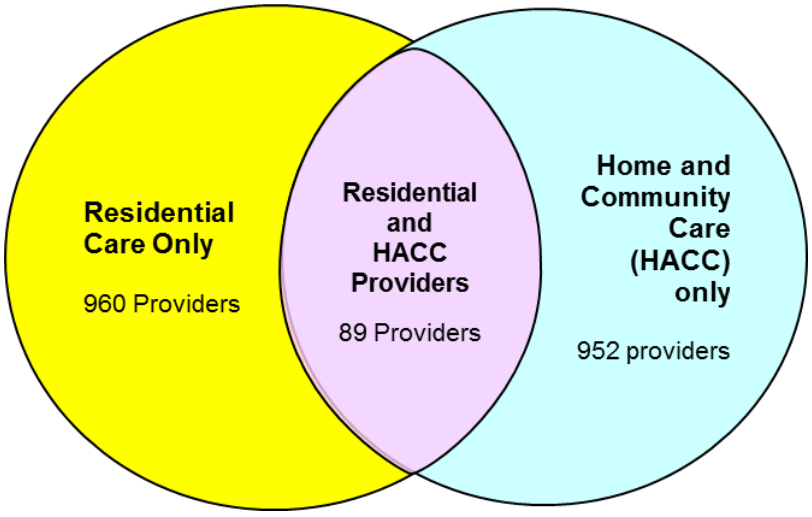


Chart 2.2 below gives an indication of the cross over between providers of residential aged care and HACC. Less than 9 per cent of residential aged care providers also provide HACC services and they account for less than 10 per cent of HACC providers.

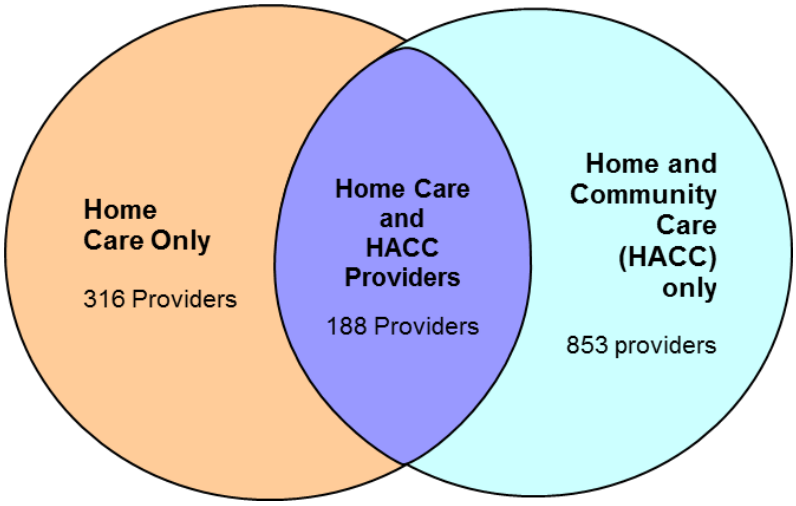
Chart 2.2: Overlap of Provision of Residential Aged Care and Home and Community Care



[10] Does not include Victorian or WA HACC providers.

Chart 2.3 below gives an indication of the significant cross over between providers of home care and HACC. Just over 37 per cent of home care providers also provide HACC services, but only account for 18 per cent of HACC providers.

Chart 2.3: Overlap of Provision of Home Care and Home and Community Care



3. Sustainability

Contents

3.1. Context

The demand for and total cost to the economy of aged care services is projected to increase substantially by 2050. The Treasury's 2010 Intergenerational Report projected that the number of Australians aged 85 and over would increase to 1.8 million by 2050, compared with 400,000 at that time.

Additionally, based on aged care policies at the time, the 2010 Intergenerational Report estimated that Australian Government spending on aged care services would increase from 0.8 per cent of GDP to 1.8 per cent of GDP by 2050. The next Intergenerational Report, which will take into account the cost implications of the current reforms, is expected to be released in early 2015.

Faced with these projections, the sustainability of aged care services will depend on the following inter-related factors:

- matching supply to the challenge of future demand;
- the affordability of aged care for taxpayers;
- contributions by consumers towards their aged care costs;
- the ongoing viability of providers, including their ability to access the capital needed to renew and expand aged care services and their efficiency in the provision of quality services;
- the availability of an appropriately skilled and flexible workforce, and the ability to attract and retain an appropriately skilled workforce; and
- the quality of services to meet consumer needs and demands.

3.2. The Challenge of Future Demand

ACFA's Deputy Chair, Professor Graeme Hugo, has recently undertaken an examination of the demographics of older Australians over the next 20 years. As a result, ACFA will soon be releasing an information paper 'The Demographic Facts of Ageing in Australia'. This paper highlights the significant difference between the ageing population of baby boomers entering the retirement stage of the life cycle and the previous generation. Specifically he notes how they differ economically, socially and in their values, attitudes and expectations.

One of the most important differences between generations relates to health. Specifically, baby boomers are eight times more likely than the previous generation to have three or more health problems – a difference which will have a significant impact on their demand for health services. The increasing prevalence of co-morbidities amongst baby boomers may also have implications for their aged care and support needs.

Another key factor identified is the spatial distribution of the older population, with Australia's over 65's being the least residentially mobile group in Australia. This is important as older Australians' local areas are usually where their main social contacts and services, or urban villages, are located and they will be generally reluctant to leave these areas in order to access residential aged care services.

The Government's current population-based service provision target (achieving 125 aged care places per 1,000 people aged 70 and over by 2021-22) is intended to ensure that the overall supply of home and residential care places keeps pace with the growth of the aged population. However, there is a risk of a shortage of services due to underinvestment, and a mismatch between the location of available residential aged care and people requiring residential aged care. The detailed demographics will need to be examined further by both government and providers.

3.3. Affordability for Taxpayers

The current aged care reforms are a major step towards improving the future sustainability of the aged care system in the face of the steadily increasing demand resulting from our ageing population. They involve an increase in consumer contributions by those who can afford to pay and a shift in the balance of care from residential to home care. The reforms also give consumers greater choice and control and increase the scope for providers to offer more responsive and innovative services valued by consumers in order to increase or sustain viability.

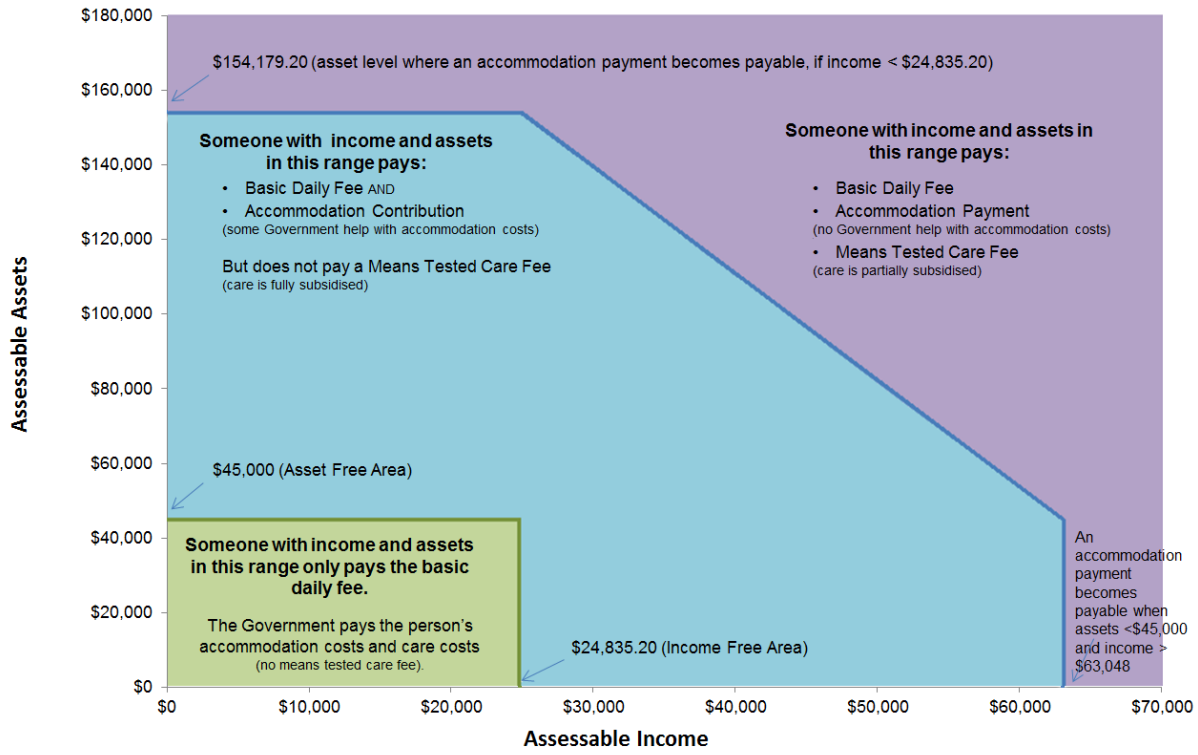
The shift in the balance of care in favour of home care is expected to improve affordability for taxpayers over the long term given the higher cost of funding residential care. This shift is consistent with the preference for older people to be cared for in their own home for as long as possible. The changing balance of care is projected to increase the number of home care places by around 80,000 (130 per cent) to around 140,000 places by 2021-22. Over the same period the number of residential care places is expected to increase by 65,000 (35 per cent).

3.3.1. Contributions by Consumers

The reforms will reduce the share of the cost of aged care met by taxpayers by increasing the number of consumers paying care fees in residential and home care.

Charts 3.1 and 3.2 outline the new means testing arrangements. A lifetime cap of $60,000 per consumer applies to means tested care fees, with annual income tested fees capped in home care at $5,000 for part pensioners and $10,000 for self-funded retirees, and in residential care means tested fees are capped at $25,000. The former Government estimated that income testing in home care would deliver savings to Government of $183 million over five years to 2016-17, while changes to residential care means testing are expected to deliver savings to Government of $378 million over the same period.

Chart 3.1: Impact of New Residential Care Means Testing Arrangements

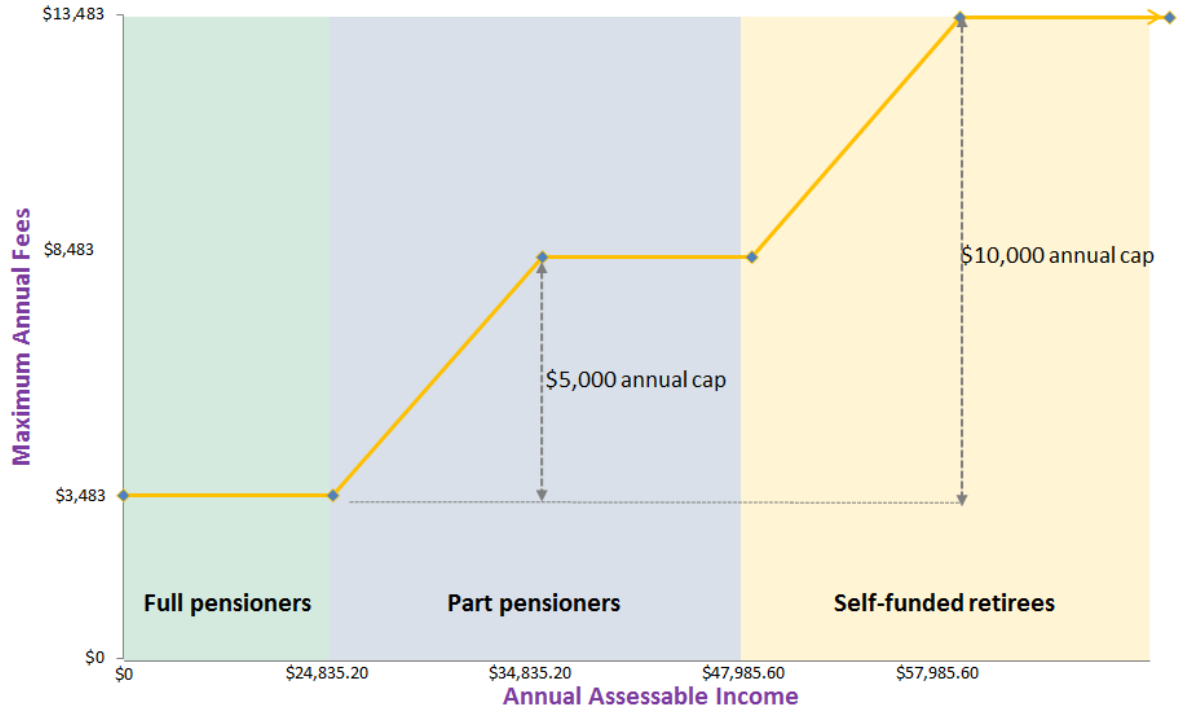


	Green	Blue	Purple
Means Tested Care Fees	✗	✗	✓
Accommodation Costs	✗	Up to the Accommodation Supplement	Agreed Price
Basic Daily Fee	✓	✓	✓

This chart demonstrates how the means testing arrangements create three tiers of consumer contributions in residential aged care:

- consumers with low means, who are required to pay only the basic daily fee (85 per cent of the single aged pension) as a contribution towards their daily living expenses while their accommodation and care costs are funded by the Australian Government;
- consumers with moderate means, who in addition to contributing towards their daily living expenses by paying the basic daily fee also make a capped contribution towards their accommodation costs; and
- consumers with greater means, who in addition to contributing towards their daily living expenses also pay the basic daily fee for their accommodation costs in full and make a capped contribution towards their care costs.

Chart 3.2: Impact of New Home Care Income Testing Arrangements



Note: The thresholds current as of 1 July 2014

This chart outlines the maximum fees payable by consumers under the new home care income testing arrangements. All consumers can be asked to pay the basic daily fee of 17.5 per cent of the single aged pension which equates to $3,343 per annum. Those with incomes above a full pensioner can be asked to pay an additional income tested fee subject to a $5,000 or $10,000 cap dependant on their income.

The affordability of the aged care system for taxpayers will also be improved by the Government's decision to introduce a national fees policy under the Commonwealth Home Support Programme that will move consumer contributions from approximately 5 per cent of programme costs to approximately 15 per cent by 2017-18.

As well as a national fees policy, the Government is proposing to improve the sustainability of basic aged care support services under the Commonwealth Home Support Programme[11] (as well as provide better care for consumers) by placing greater emphasis on wellness and reablement. This includes the development of a network of reablement services to deliver goal oriented, time-limited support plans for individuals designed to reduce or delay their need for ongoing services. The CHSP Discussion Paper noted that recent research examining the service records of older people who had received a reablement service versus conventional home support found that the former were less likely to require home care services for several years.

[11] For more information on the Commonwealth Home Support Programme go to: Department of Social Services - Commonwealth Home Support Program webpage.

3.4. Provider Viability

Growing demand for aged care as the population ages will require significant further investment in the sector. Chart 3.3 illustrates the situation for residential care, whose capital requirements are greater than home care.

A viable industry needs to provide rates of return on capital that are appropriate for the risk involved. Viable and well run providers are best placed to attract the financial capital, experienced management and quality staff required to deliver long term industry sustainability and growth. To be viable a provider, whether profit or not-for-profit, must at a minimum be run efficiently enough to make a surplus sufficient to repair and replace their capital stock, be able to maintain working capital to support their operations and use capital efficiently relative to the other purposes to which it could be deployed.

The viability and sustainability of the residential sector is dependent on ongoing investment in new facilities with extra places and upgrading of older facilities to maintain the standard of existing homes. Investment activity requires equity investor and debt provider confidence in the viability of specific providers to deliver sustainable returns on capital. The amount of (and change in) invested capital is one key metric of sustainability. The other key sustainability metric is the growth in the capital value of aged care providers. Essentially a sustainable aged care industry will meet three key indicators relating to providers:

1. current providers will be viable enough to continue to maintain a quality service for consumers and replace their capital stock as needed;
2. well run providers who wish to grow to help meet the increasing demand for aged care will be able to attract the finance, equity and staff needed to enable them to expand; and
3. new investors and providers will be attracted to the industry.

While viability for home care providers is harder to quantify, the same general principles do apply. These principles will be examined in more detail in ACFA's new project to examine the performance of aged care providers.

3.5. Investment and Financing

The Department has updated its estimates of the sector's annual investment requirement for residential care each year in the next decade, in terms of the amount of required investment (in real terms) and the number of places that will need to be built. These estimates are based on several key assumptions namely that:

a) the current service provision targets continue;

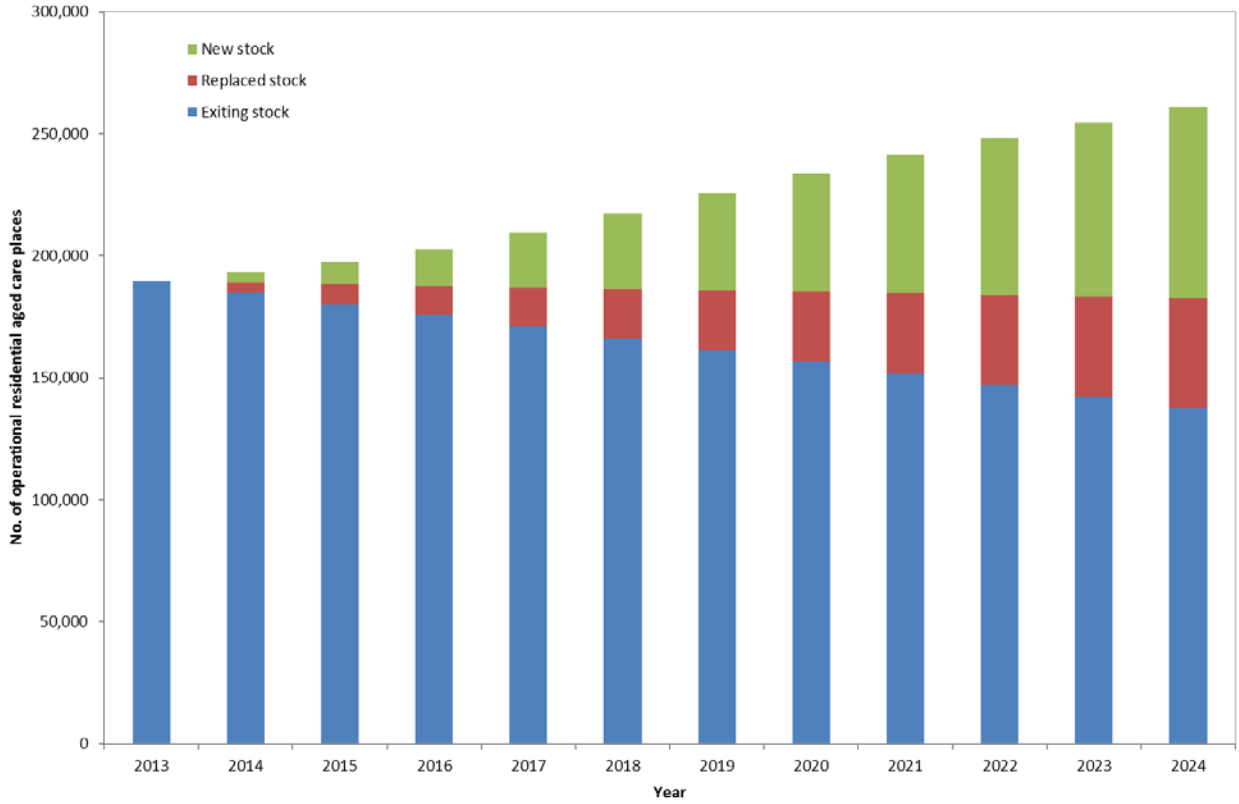
b) the cost of construction continues to grow at about 2.3 per cent real each year;12 and

c) the average lifetime of an aged care building is about 40 years, so that the current stock will need to be replaced over the next four decades.

[12] The Department has derived estimates of the full cost of constructing an aged care home based on the results of the Department's 2012-13 Survey of Aged Care Homes. The median cost of construction of these projects was $212,000 per place. Trends in aged care construction costs are derived from Rawlinsons (2012) *Australian Construction Handbook*, various editions. Perth: Rawlinsons.

Based on current policies, the Department estimates that the residential care sector will need to build approximately 76,000 additional places over the next decade, compared with the 37,731[13] new places that came online over the previous decade. At the same time, the sector will need to knockdown and rebuild a substantial proportion of its current stock. Assuming that the cost of construction continues to grow at about the current rate, and that a quarter of the current stock of buildings is rebuilt at an even rate over the next decade, the Department estimates that the investment requirement of the sector over that period to be in the order of $31 billion (in 2012-13 prices). This figure does not include the cost of refurbishing existing stock.

Chart 3.3: Number of Operational Residential Aged Care Places Required in the Next Decade – 2013-2024



As noted last year, this increase in demand presents a number of challenges, specifically implications for:

- care and capital funding from the Australian Government;
- capital financing from residents, providers, investors and financiers;
- an appropriately skilled workforce; and
- availability of greenfield sites for the construction of new aged care homes in the areas needed.

[13] 30 June 2003 to 30 June 2013.

Chart 3.4: Future Annual Investment Requirement

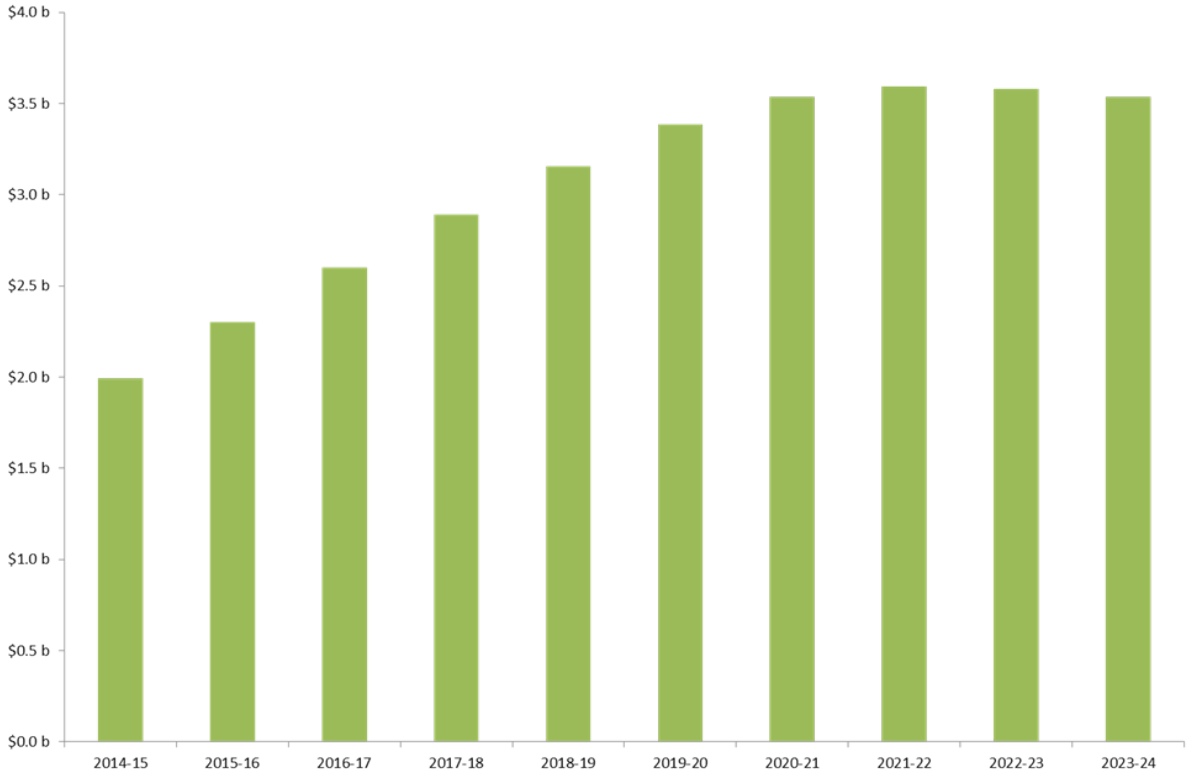


Chart 3.4 shows the investment needed over the next decade to construct the new aged care places required to cater for the baby boom generation. Over the next seven years there is a steep ramp up from $2 billion needed in 2014-15 to around $3.5 billion that will be needed in 2020-21.

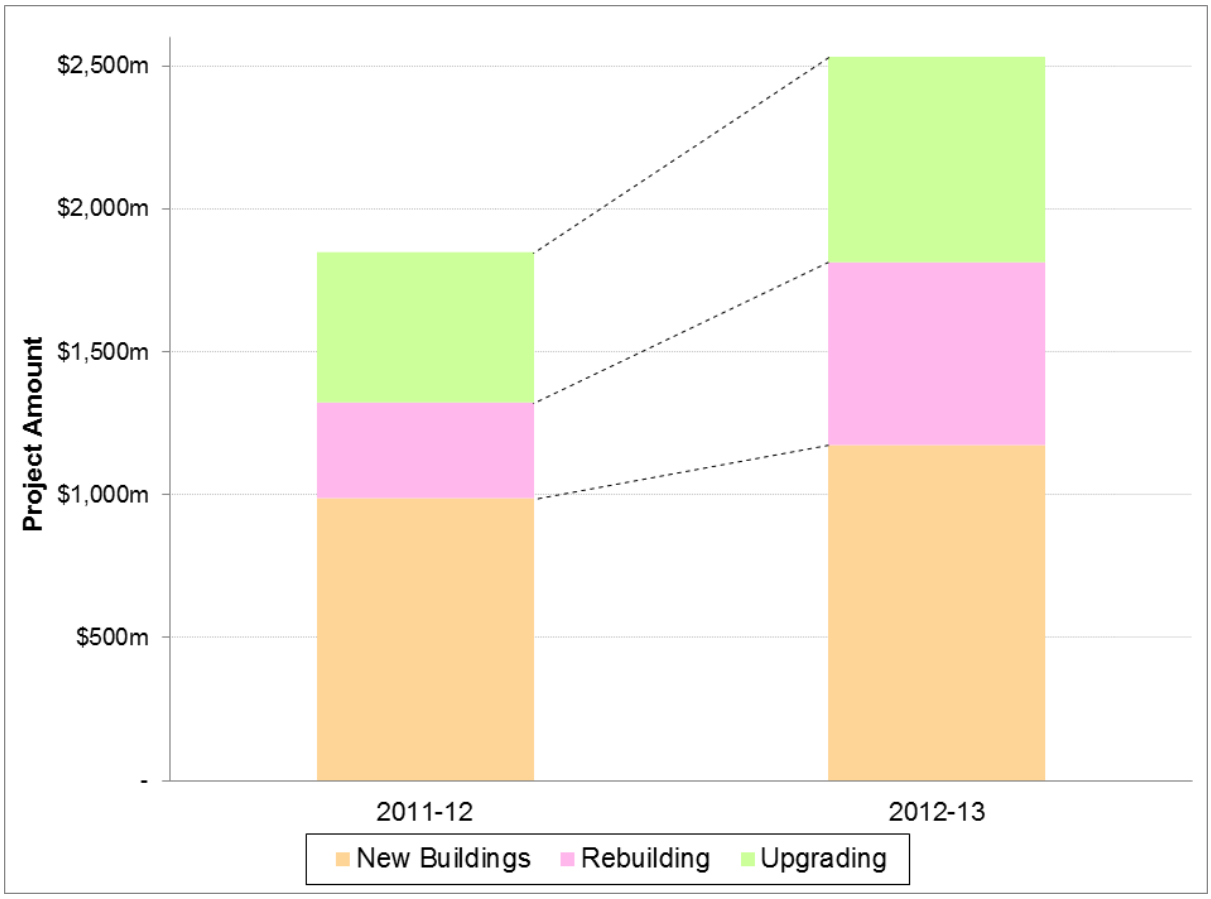
3.5.1. Recent Trends in Investment in the Residential Care Sector

Recent investment trends are improving. The 2013 Survey of Aged Care Homes estimated that a total of $920 million of new building, refurbishment and upgrading work was completed during 2012-13, involving about 16.6 per cent of all homes, with an additional $1,670 million estimated to be in progress at 30 June 2013, involving about 17.7 per cent of all homes. This is an increase on 2011-12 of $57 million (6.9 per cent) and $718 million (43 per cent) respectively.

Taken together with other positive signs of investment activity from ABS data and a number of significant investments in the sector in 2013-14, it would appear that investors have an overall positive view of the 1 July 2014 reforms and interest in investments that leverage the ageing demographic.

Chart 3.5 shows residential aged care building activity over 2011-12 and 2012-13.

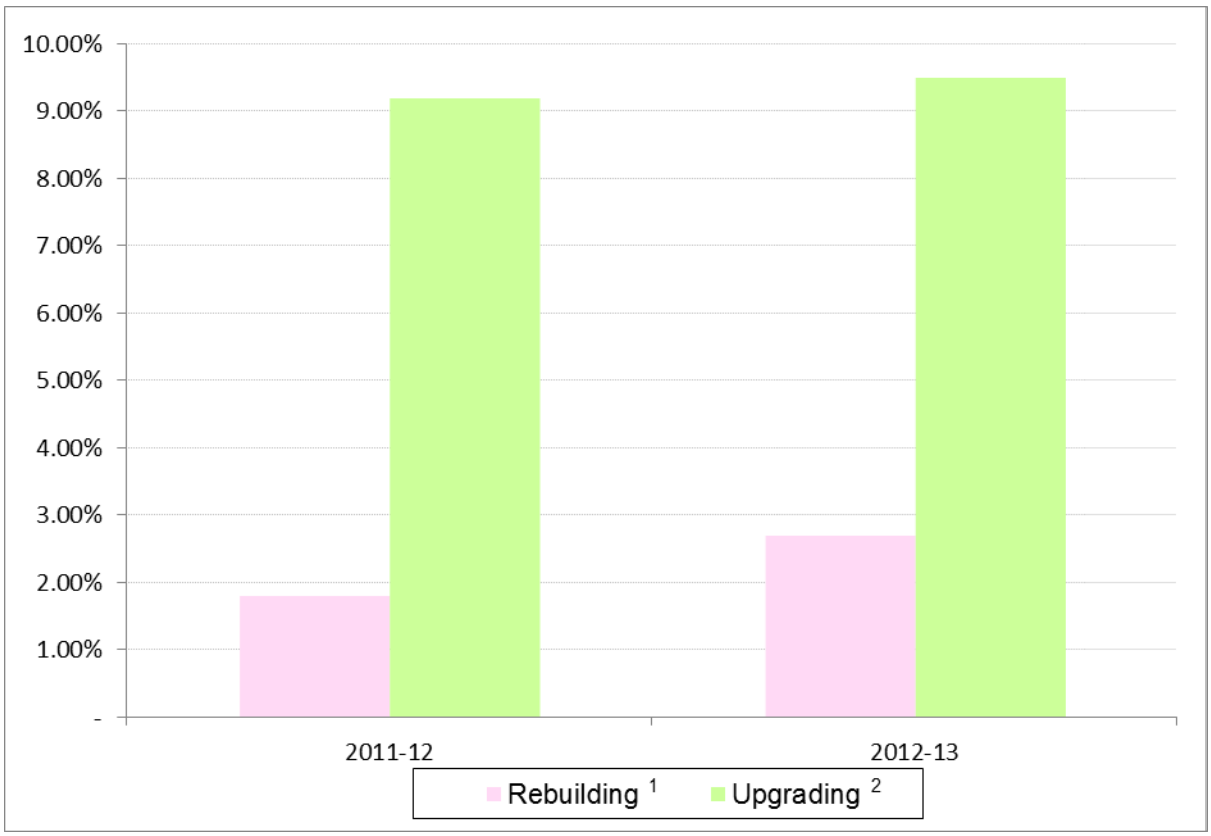
Chart 3.5: Residential Aged Care Building Activity over 2011-12 and 2012-13[14]



[14] Based on SACH data.

Chart 3.6 shows the proportion of homes planning to either rebuild or upgrade over 2011-12 and 2012-13.

Chart 3.6: Proportion of Homes Planning to either Rebuild or Upgrade over 2011-12 and 2012-13[15]



[1] Rebuilding is the demolition of an entire service and its reconstruction on the same site.
[2] Upgrading is the renovation or refurbishment of an existing facility, including extensions to an existing building or reconstruction of part of a building. It does not include routine repairs and the maintenance of premises such as painting, plumbing, electrical work or gardening.

3.5.2. Building and Construction Statistics

Building statistics data from the Australian Bureau of Statistics (ABS)[16] show strong signs of investment in the sector with building approvals across the sector increasing to 311 in the 12 months to April 2014, compared with 270 the previous year, 240 the year before that and 179 in the 12 months to April 2011. Additionally, there was a significant increase in the value of building construction commencing in 2013, with a total of $1.16 billion worth of projects commencing, compared with $0.86 billion in 2012 and $0.88 billion in 2011.[17]

The value of building approvals has fallen slightly with average monthly total building approvals for aged care facilities in the 12 months to April 2014 being $96.5 million per month, compared with $99.6 million in the previous 12 months, $70 million in the year before that and $63 million in the 12 months to April 2011.

[15] Based on SACH data.
[16] Building Approvals Cat. No. 8731.0, viewed on 3 June 2014.
[17] Building Activity Cat. No. 8752.0, viewed on 16 April 2014.

There has been a substantial increase over the past four years in approvals for building work with values between $20 million and $50 million. In the 12 months to April 2014 there were 16 projects approved, up from 10 in the previous 12 months, nine in the year before that and five in the 12 months to April 2011. As a broad rule it can be assumed that work of this size is either construction of a new home, or a knock down and rebuild of an existing home.

This trend is more variable for smaller building work ($1 million to $5 million, and $5 million to $20 million).

There were 46 building projects approved in the 12 months to April 2014 in the $5 million to $20 million category, down from 62 the previous year, up from 36 the year before that but slightly below 12 months to April 2011 where there were 48 approvals. This work is likely to be a mix of new construction and refurbishment of existing stock.

In the 12 months to April 2014 there were 55 building projects approved in the $1 million to $5 million category, up from 45 the previous year, down from 63 the year before that, but up from 46 in the 12 months to April 2011. As a broad rule it can be assumed that work of this size is refurbishment of existing stock.

3.5.3. Debt and Equity Financiers

There will be a need for substantial brownfield investments to refurbish old stock and new investments to meet growing demand. The increased accommodation supplement to providers for supported residents with significant refurbishments and new homes and more market based accommodation payment arrangements for non-supported residents should provide incentive for such investments.

Financing arrangements in the sector currently allow for bonds paid by residents to form a significant part of funding. There is some uncertainty over future net lump sum payment flows due to changes to the accommodation payment arrangements, though modelling by KPMG indicates an overall positive effect. ACFA will be monitoring the impacts and reporting to government.

In developing this report, ACFA has spoken to a sample of financial institutions to understand their current valuation processes and the sentiment regarding the impact on the reforms. Currently, the lending criteria used by financial institutions include the time and cost to trade up to an acceptable level of occupancy, Loan to Valuation Ratio, Interest Cover Ratio, Debt/EBITDA Ratio and qualitative aspects. The latter includes management expertise and quality of facilities, and forms a major component in deciding to lend. Trends and movements in these criteria will affect investment.

The financial institutions noted that bonds are an important part of their lending decision making as they represent a low cost source of financing with relatively predictable repayment characteristics. If there was a switch from RADs to DAPs, lending institutions acknowledged that their lending terms may need to adjust, although financing appetite will not necessarily reduce.

Investment of new equity in the residential aged care sector increased in 2012-13 and continued to increase in 2013-14 as did investment by existing providers in new facilities. These measures indicate investment confidence by those providers, their investors and financiers.

In addition to provider viability, financiers form a view in relation to reputation and regulatory risk.

3.5.4. Investor sentiment

During this year, ACFA commenced a communication and engagement programme with all stakeholder groups.

ACFA held productive forums with current and potential investors in the sector. The overwhelming feedback from these forums and other meetings is that there is strong investor interest in the sector. This has been reflected in some major developments over the past year.

Firstly, was the $136.7 million investment in the Domain Principal Group (since renamed Opal Specialist Aged Care) by Singapore investment company G. K. Goh Holdings Limited in August 2013. This investment represented a 47.62 per cent stake in the 55 aged care services, 4,500 place aged care group.

The second major development was the $450 million public float of the Japara Healthcare in April 2014. Japara owns 35 aged care services and around 3,130 aged care places. Since listing at $2 Japara has generally been trading in a range of $2.50 to $2.60. Japara is the first publicly listed aged care operator in Australia since DCA was bought by venture capitalists in 2006. The success of this float appears to be motivating other aged care operators to consider publicly listing in the near future.

April also saw Allity purchase 10 age care services from South Australia's ECH for about $140 million, increasing its portfolio to 43 services and nearly 3,500 places with a total value of over $700 million.

Additionally, private equity firm Quadrant has purchased the 1,100 aged care place Estia Health, 900 aged care place Padman Health Care, and 1,000 aged care place Cook Care Group which they plan to merge into one 3,000 aged care place provider.

All of these developments indicate investor confidence in the sector has been increasing. ACFA will continue to monitor financier and investor sentiment and investment trends.

3.5.5. Other Impacts on Investment

From 1 July 2014, the maximum Accommodation Supplement the Government pays providers on behalf of residents who cannot meet all of their own accommodation costs will increase from approximately $33 per day to $52.49. Aged care homes that are newly built or significantly refurbished from 20 April 2012 will be eligible to receive the higher supplement, encouraging investment.

Feedback from financial institutions indicates that the removal of the cap (approximately $33 per consumer per day) on consumer accommodation payments in high care for non-supported residents is also having a positive impact on investment. The average published daily accommodation payment as at 29 July 2014 under the new arrangements was $65.07.

Overall, the 1 July 2014 reforms and measures in the 2014 Budget have the potential to impact positively on investment in the sector.

The availability of greenfield development sites also has an impact on investment in the sector. Sites are not always available in the areas where there is or will be demand, councils and local residents sometimes have a negative view of aged care developments, and there is usually competition for

sites from other property developers who wish to build higher yielding residential or commercial developments. These factors combined with the 3-5 year lead time for constructing an aged care home can be a significant impediment to investment.

3.6. Access to an Appropriately Skilled and Flexible Workforce

In the longer term, one of the key sustainability challenges for the sector will be accessing a suitably skilled workforce. The Department estimates that if the ratio of aged care workers to the size of the population aged 70 and over remains constant, then by 2050 approximately 800,000 individuals will be engaged in the provision of aged care, compared with 250,000 in 2012. A combination of the significant anticipated expansion of the sector over the next decade and competition for staff with the more highly paid acute care sector, the National Disability Insurance Scheme and the service sector in general make this a major issue.

Complementing the skilled workforce is the large informal workforce of people caring for relatives. In 2009 the ABS estimated that there were around 350,000 people providing informal care for older Australians. However, social and demographic trends suggest that in future there are likely to be fewer informal carers relative to the growing older population. The Productivity Commission's Caring for Older Australian's Report estimates that the informal workforce will increase by 60 per cent between 2011 and 2031, whereas demand for informal carers is estimated to increase by 160 per cent over the same time period. This presents a challenge to ensure that policies support the informal care workforce.

The Australian Government has announced that it will examine these issues in more detail during 2014-15 through the development of an Aged Care Workforce Development Strategy (see Chapter 8).

3.7. Consumer Sustainability

In considering the sustainability of the aged care industry, it is important to be aware of the level of wealth available to those likely to be accessing aged care and support.

The 1 July 2014 reforms are a further recognition of the importance of consumers making an appropriate contribution towards the costs of their care where they have the capacity to do so. This supports the sustainability of the overall aged care system by reducing the pressure on general taxpayer funded contributions (via subsidies and other payments) on behalf of aged care consumers. A range of factors will affect future wealth of consumers and thus their capacity to contribute towards costs, including levels of superannuation, savings, and overall wealth, which in turn will be affected by both savings behaviour of individuals, financial products developed by the finance industry and government policy over time.

3.8. Developments, Issues and Challenges

The key challenge for the sector in the short term will be bedding down the current reforms.

For residential care providers, transitioning to the new RAD/DAP and published pricing arrangements will be crucial.

For home care providers, adapting services and administrative processes to Consumer Directed Care (CDC) and individual budgets will be the main priority.

For consumers, leveraging the fuller information and their increased discretion on how to pay for accommodation while adapting to the new means testing framework will be the focus.

The launch of the MyAgedCare web site and the requirement for providers to publish maximum accommodation prices are two important initiatives in increasing transparency and subsequently community confidence in the value of the care and accommodation they receive.

Over the next decade there is likely to be significant efficiency improvements resulting from advances in technology. One of the longer term factors that will need to be considered is the impact of technology to allow higher levels of home care to be monitored remotely. Already we are seeing remote monitoring of health diagnostics and remote communication through Skype starting to be used.

Further analysis of sustainability issues should also involve consideration of the scope for providers to operate more efficiently and have regard to their financial performance. The Minister requested ACFA undertake a study into the factors influencing performance in the residential aged care sector, with the initial report due for completion by 31 December 2014. ACFA will consider the findings of the report in the context of industry sustainability.

In response to the workforce challenges facing the sector, the Australian Government has announced a stocktake and evaluation of existing workforce development programmes and the development of a comprehensive Aged Care Industry Workforce Strategy.

3.8.1. Five Year Review of the Aged Care Reforms

A report on the independent review of the aged care reforms is required to be tabled in Parliament by mid-2017.

The terms of reference for the review set out in the Act require the review to consider a number of matters that will bear significantly on the future sustainability of the aged care sector. These matters include:

- whether unmet demand for residential and home care places has reduced;
- whether the number and mix of places for residential and home care should continue to be controlled;
- whether further steps could be taken to change key aged care services from a supply driven model to a consumer driven model;
- the effectiveness of means testing arrangements for aged care services, including an assessment of the alignment of charges across residential and home care services; and
- the effectiveness of workforce strategies.

The Government has asked ACFA to provide advice by 30 June 2016 to inform the 5 year review of the aged care reforms. This advice will focus on funding, financing and pricing issues including means testing, fees, accommodation prices, consumer access and workforce. In relation to workforce issues, ACFA's advice will focus on identification of issues affecting the long term demand, supply and quality of the aged care workforce, with an emphasis on the impact of financial and funding considerations on demand, supply and quality and advice on options to support a stable and skilled workforce to meet the growing demand for aged care services.

From a sustainability perspective, a key issue to be examined by the five year review is uncapping the supply of aged care services. The level of unmet demand for aged care is currently unknown and quite hard to quantify. This is especially the case in home care.

Feedback from financiers indicates that there is a level of unmet demand for higher quality residential care, as the supply cap decreases price competition and the incentive for providers with high occupancy to differentiate and upgrade the quality of their offering.

While uncapping demand would allow a more market based approach to aged care services, it would entail significant financial risks for taxpayers if unmet need estimates could not be confidently made.

4. Residential Aged Care Viability

Contents

4.1. Introduction

This chapter provides an analysis of funding, financing and pricing arrangements in residential care. In particular this chapter examines:

- the sources of funding and financing for the industry, including a break-down of the various types of Australian Government subsidies, supplements and resident funding. Changes between 2011-12 and 2012-13 are also highlighted;
- profitability, revenue, expense and balance sheet metrics for the industry and different segments are calculated using information from the 2012-13 GPFRs[18];
- information on payments made for residential accommodation, including data on accommodation bonds paid in 2012-13 and prior years;
- the published prices for accommodation that homes have advertised to apply from 1 July 2014; and
- key developments, issues and challenges affecting the residential aged care sector.

Unless otherwise stated, all data in this chapter is based on provider GPFR reports submitted to the Department.

[18] 98 per cent of providers submitted GPFRs in 2012-13.

4.2. Snapshot

Table 4.1: Overview of Residential Aged Care Sector

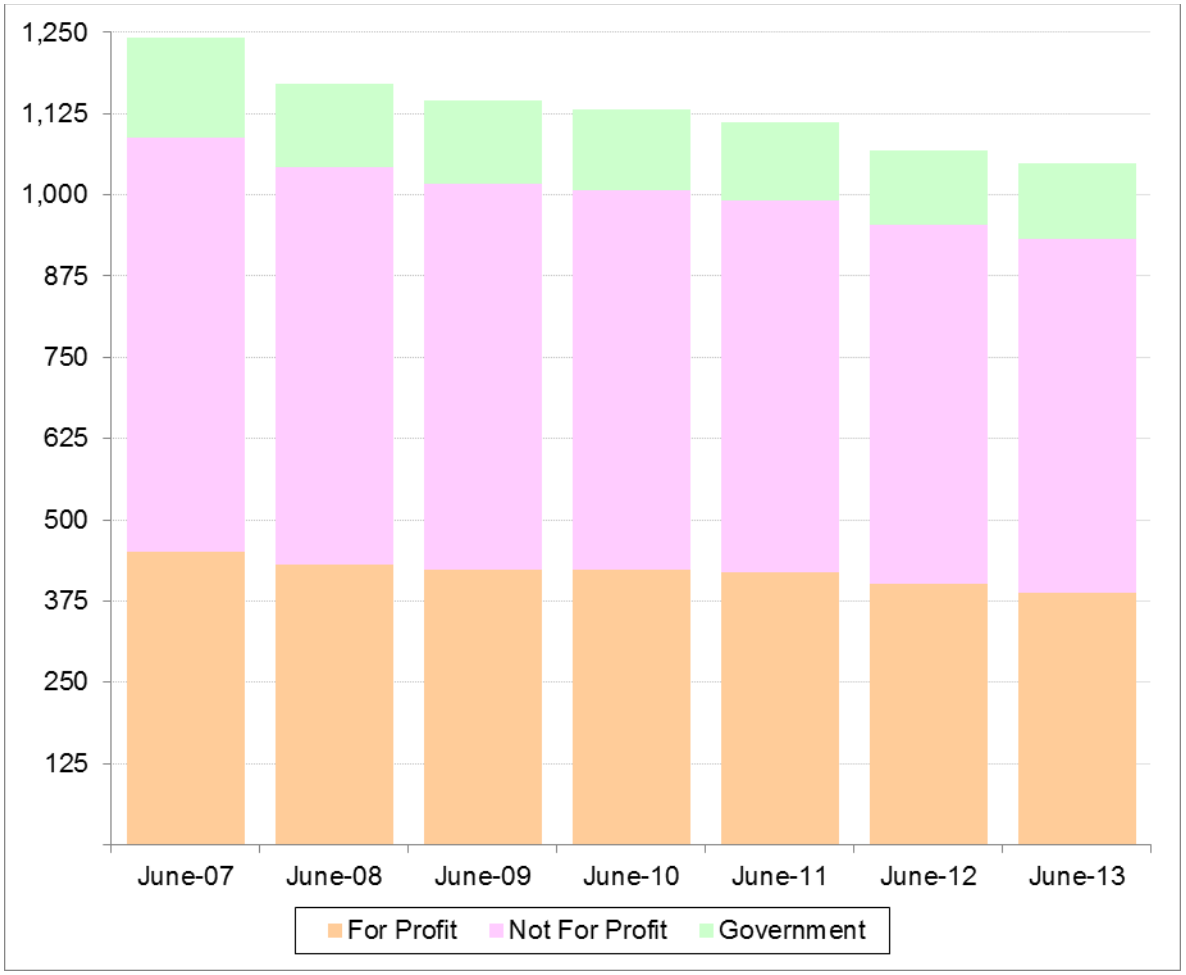
	2011-12	2012-13	Change	
Statistics				%
No of Providers	1,054	1,034	-20	-1.9%
No of Services	2,716	2,720	4	0.1%
No of Places	182,663	185,281	2,618	1.4%
Occupancy	93.0%	93.0%		
P & L				
Revenue	$13,073m	$13,961m	$888m	6.8%
Expenses	$12,347m	$13,367m	$1,020m	8.3%
EBITDA	$1,544m	$1,473m	-$71m	-4.6%
NPBT	$726m	$594m	-$132m	-18.2%
EBITDA prpa	$9,274	$8,660	-$614	-6.6%
NPBT prpa	$4,360	$3,492	-$868	-19.9%
Balance Sheet				
Total Assets	$28,052	$30,853	$2,801	10%
Total Liabilities	$18,440	$20,664	$2,224	12%
Net Worth/Equity	$9,612	$10,189	$577	6%

In 2012-13 there were 1,047 residential age care providers (noting that 14 did not submit GPFRs, hence the discrepancy with Table 4.1) a decrease of 21 from the 1,069 providers in 2011-12. There has been a downward trend in provider numbers in recent years, with a reduction of 15.7 per cent since 2006-07 when there were 1,243 providers. Chart 4.1 shows the gradual consolidation of the industry providers over the seven years to 2013. This trend towards consolidation is expected to continue in coming years as the industry matures and more providers seek to increase their scale.

Religious, charitable and community-based providers represent 58.2 per cent of operational residential care places, unchanged from 2011-12, whereas for-profit providers provide 36.3 per cent of operational residential care places compared with 35.9 per cent in 2011-12. The other 5.5 per cent were operated by State/Territory and local government owned providers, down from 5.9 per cent in 2011-12. This trend continues for State/Territory and local governments exiting the industry.

On the financial performance side, total revenue increased by 6.8 per cent whilst expenses increased by 8.3 per cent resulting in a decrease in EBITDA of $71 million and NPBT of $132 million.

Chart 4.1: Consolidation of Provider Numbers



4.3. Summary of Revenue, Funding, Financing and Pricing

4.3.1. Revenue & Funding

Residential aged care provider revenue is essentially comprised of revenue from payments for nursing and personal care, living expenses, accommodation and extra services. Some providers have revenue streams unrelated to the direct provision of care and accommodation to older Australians, but that largely falls outside the scope of this report. Payments for accommodation and care to providers are jointly funded by the Commonwealth (on behalf of residents) and by residents directly. Payments for living expenses and extra services are funded by residents.

Capital financing for residential aged care providers is sourced from equity investments, loans from financial institutions and interest free loans from residents in the form of accommodation bonds.

The sources of funding and financing as at 30 June 2013 in residential aged care are shown in Diagram 1[19].

Total funding of residential aged care on a per resident per day basis increased by 4.6 per cent from 2011-2012 to 2012-2013 – as shown in Table 4.5. Table 4.2 details the types and funding sources of each revenue type.

Table 4.2: 2012-13 Funding by the Commonwealth and Resident

	Commonwealth Funding		Resident Funding		Total	
	$m	**% of Total**	**$m**	**% of Total**	**$m**	**% of Total**
Government Care Subsidies[1]	$8,412.4	*91.5%*			$8,412.4	*65.0%*
Client Care Contribution (Income Tested Care Fee)			$329.5	*8.8%*	$329.5	*2.5%*
Accommodation Payments[2]	$779.6	*8.5%*	$515.0	*13.7%*	$1,294.6	*10.0%*
Basic Daily Fee[3] **(Living Expenses)**			$2,733.1	*72.7%*	$2,733.1	*21.1%*
Extra Services Fees[3]			$179.8	*4.8%*	$179.8	*1.4%*
Total	**$9,192.0**	***100.0%***	**$3,757.4**	***100.0%***	**$12,949.4**	***100.0%***
% funding source	***71%***		***29%***			

Note:

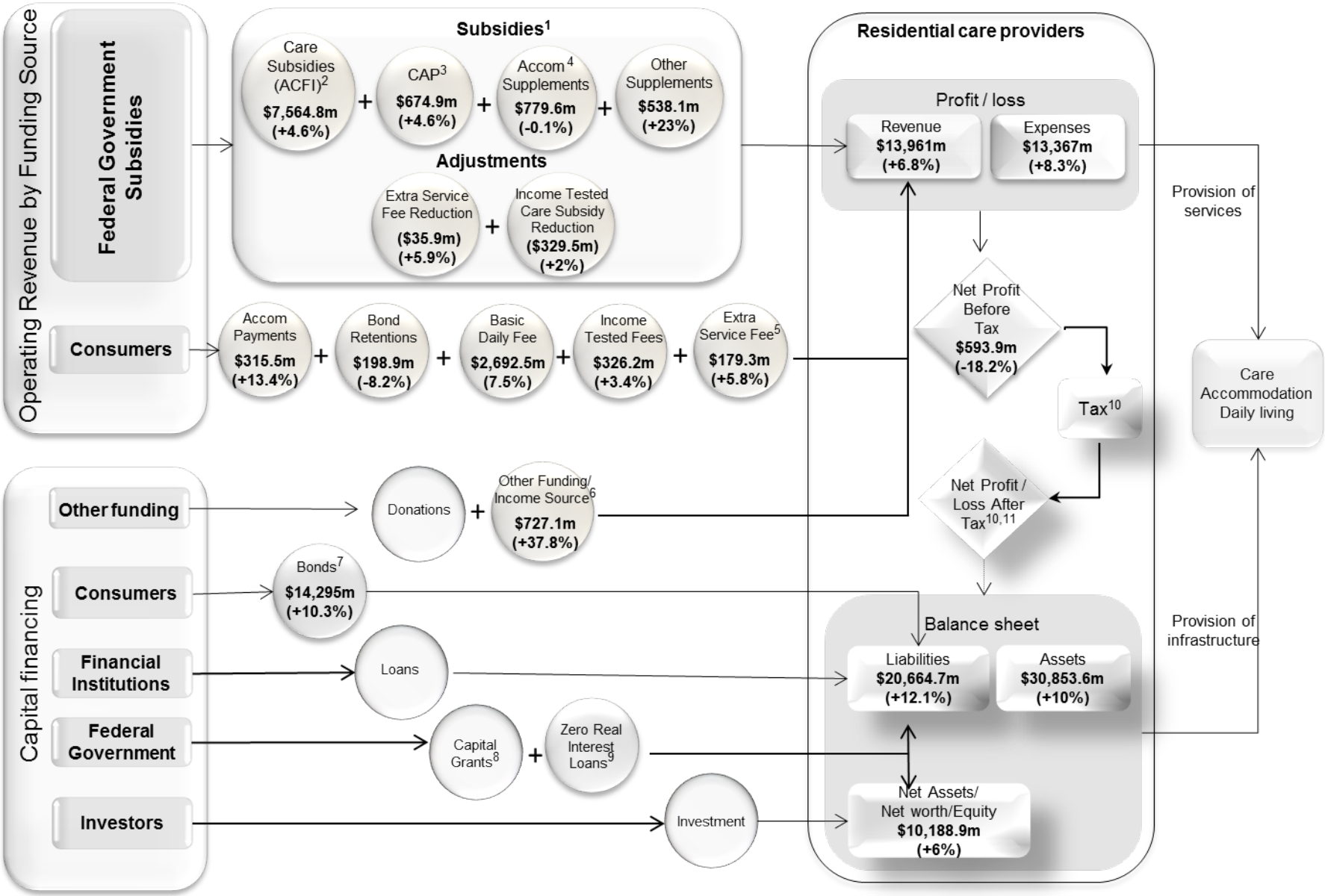
[19] The flow chart is from GPFRs 2012-13, the 2012-13 ROACA, the SACH and the Department's payment system data for 2012-13. The information obtained from GPFRs is prepared by providers of residential aged care under the *Aged Care Act 1997* as part of the eligibility requirements for the CAP. Notes relating to this diagram and GPFR data are provided at Appendix E.

[1] Amount netted off after adjustments and reductions. Mainly comprises ACFI, but also includes RCS subsidies for $188 million, and supplements (CAP, primary care supplements, hardship, viability and supplements relating to grand-parenting). Further breakdown is detailed in Appendix F of the report.

[2] Does not include accommodation bond or associated revenue benefits earned from accommodation bonds (e.g. interest on bonds and avoided capital costs) of Australian Government capital grants.

[3] These figures do not match those in Diagram 1 or Table 4.4 which are based on providers who have submitted GPFRs. This Table is based on all approved providers.

Diagram 1: Sources of funding and financing as at 30 June 2013 in Residential Aged Care



Notes:

(1) Australian Government subsidies represent the entire industry whereas consumer section represents those providers who have given their GPFRs (approx. 98.1 per cent of the industry).

(2) Includes RCS. In the inaugural report RCS subsidies of $369.1m were allocated under other supplements. Therefore, the growth in care subsidies is measured by taking into account the effect of including RCS amount in both years.

(3) CAP is the Conditional Adjustment Payment which is paid to eligible providers who meet certain criteria including encouraging staff training, submitting a GPFR and participating in the workforce census.

(4) The accommodation supplements included both the current accommodation supplement and the grand-parented supplements paid toward accommodation costs. There was a 17.5 per cent increase in the amount of accommodation supplement paid and a decrease in the grand-parented and transitional accommodation supplements. Also note that in the inaugural report, the grand-parented supplements of $254.5 million were allocated under other supplements. The growth in accommodation supplements is measured by taking into account the effect of including grand-parented supplements in both years.

(5) The extra service fee is an estimated amount which includes the reduction amount adjustment.

(6) The other funding source mainly comprise of interest income (including interest from accommodation bonds), asset revaluations, trust distributions and other income ("other income" is not fully detailed in the GPFRs by all providers.

(7) The amount of bonds held as at 30 June 2013 (i.e. not annual flow) by those providers who have given their GPFRs. The SACH found that $5,281.3 million were taken in new accommodation bonds in 2012-13.

(8) In the 2013 ACAR, up to $51 million in capital grants was made available nationally to providers to undertake necessary capital works to establish, upgrade or expand residential aged care services. However, capital grants once executed do not become liability.

(9) The Zero Real Interest Loans is the total amount as at 28 June 2013 and comprised the amounts executed in Rounds one, two and three applications.

(10) The amount of tax and Net Profit/Loss After Tax is not given in the GPFRs at the residential aged care segment level by all providers.

(11) The amount of un-appropriated profit flowing to the balance sheet is not given by all providers at the residential aged care segment level.

4.3.2. Australian Government Funding

In 2012-13, the Australian Government paid $9.2 billion to approved providers in the form of subsidies on behalf of consumers, up from $8.7 billion in 2011-12, representing growth of 5.2 per cent. This funding constituted around 71 per cent of the total funding in residential aged care in 2012-13, unchanged from 2011-12. Full details of Australian Government funding to the residential aged care sector can be found in Appendix F.

The number of residents receiving care increased by 1.2 per cent from 171,065 in 2011-12 to 173,094 in 2012-13.

4.3.3. Resident Funding

Payments received from residents contribute about $3.7 billion in 2012-13 to the residential aged care sector by way of payments for living expenses (basic daily fees), income tested care fees, extra service fees, periodic accommodation payments and retention amounts withdrawn from bonds. This was an increase of $197 million or 5.5 per cent on 2011-12. This does not include interest received by providers from accommodation bonds paid by consumers.

4.3.4. Financing

As shown in Table 4.1 the industry overall had net equity of $10.2 billion in 2012-13, up from $9.6 billion in 2011-12, with total assets of $30.9 billion, up from $28 billion.

Accommodation bonds, which act as an interest free loan to providers paid by residents, play a significant role in the industry. At 30 June 2013, a total of $14.3 billion of bonds were held by providers, a 10.3 per cent increase from 2011-12. They represent 71 per cent of total industry liabilities. Restrictions preventing providers from seeking accommodation bonds from high care residents were removed from 1 July 2014.

Additionally the Australian Government makes capital grants available for services that target communities and geographic areas where accommodation payments are insufficient to support the service. In the 2012-13 ACAR, $51 million in capital grants were offered to 15 approved providers. In 2013-14 the ACAR is making up to $103 million in capital grants available.

4.3.5. Pricing of Commonwealth Subsidies and Supplements

The Commonwealth determines:

- the level of care payments on behalf of residents by setting the framework and rules for claiming ACFI care subsidies including the funding amounts for various resident care needs;
- the amount of accommodation supplement payable on behalf of residents who cannot meet all of their accommodation costs;
- the rates of primary and other supplements payable by the Commonwealth;
- the maximum accommodation charge that residents entering high care could be asked to pay on a daily basis (before 1 July 2014);
- the maximum rate of the basic daily fee for living expenses[20]; and
- the daily income tested care fee[21] that may be charged by providers.

[20] All residents may be asked to pay the basic daily fee which is a contribution towards living expenses such as meals, laundry services, utilities and toiletries. This is set at a maximum of 85 per cent of the single basic age pension.

[21] The income tested care fee is determined based on the resident's assessable income.

Commonwealth subsidies and supplements are indexed either biannually (accommodation related) or annually (care related). The indexation factor is applied differently according to the underlying cost drivers of each payment type (e.g. the proportion of wage and non-wage costs within the total cost).

4.4. Profitability

4.4.1. Earnings Before Interest, Taxes, Depreciation and Amortisation[22] and Net Profit Before Tax

While EBITDA continued to vary significantly across the industry during 2012-13, it was generally down across all segments. Table 4.3 below shows EBITDA per resident and the quartile changes between 2011-12 and 2012-13.

Table 4.3: Comparative Earnings Before Interest, Taxes, Depreciation and Amortisation per Resident in 2011-12 and 2012-13

	Top Quartile	Next Top	Next Bottom	Bottom	TOTAL
EBITDA PRPA – 2011-12	$21,081	$10,394	$5,654	-$3,646	**$9,274**
EBITDA PRPA – 2012-13	$19,825	$9,884	$4,468	-$5,276	**$8,660**
% change	*-6.0%*	*-4.9%*	*-21.0%*	*-44.7%*	***-6.6%***
$ change	*-$1,256*	*-$510*	*-$1,186*	*-$1,630*	***-$614***
Provider Count – 2012-13	259	258	259	258	**1,034**

Table 4.3 shows the decrease in sector EBITDA in 2012-13. This is largely the result of a range of changes to the ACFI which were introduced to moderate growth back in line with the historical rate. These changes included a one off price reduction of 1.6 per cent on 1 July 2012, and changes to strengthen the evidence requirements in some domains.

Due to the capital intensive nature of the residential aged care sector, subtracting maintenance capital expenditure from EBITDA may provide a better measure of operating margin to contribute to financing costs.

Pre-tax profitability is variable across the industry, with approximately 66 per cent of residential aged care providers reporting a positive NPBT in 2012-13, down from 70 per cent in 2011-12.

[22] Refer to Appendix G for numbers and interpretations.

4.4.2. Revenue

Table 4.4 shows provider revenue from the Commonwealth and Residents.

Table 4.4: Commonwealth and Resident Funding Sources 2011-12 and 2012-13[23]

	2011-12	2012-13	Change	
			$m	%
Government Care Subsidies				
- ACFI & RCS	$7,062.5m	$7,483.1m	$420.6m	6.0%
- Respite & Other	$707.0m	$805.0m	$98.0m	13.9%
Client Care Contribution (Income Tested Care fee)	$315.5m	$326.0m	$10.5m	3.3%
Accommodation payments	$1,257.8m	$1,284.0m	$26.2m	2.1%
Living Expenses (Basic Daily Fee)	$2,504.1m	$2,692.5m	$188.4m	7.5%
Extra Services fees	$169.5m	$179.3m	$9.8m	5.8%
Other Income	$1,056.4m	$1,191.0m	$134.6m	12.7%
Total	**$13,072.8m**	**$13,960.9m**	**$888.1m**	**6.8%**

Note:

- Government Care Subsidies include:
  - ACFI care payments and grand-parented RCS care payments; and
  - Subsidies paid to respite residents and other supplements (except accommodation supplements) netted off from the adjustments.
- Accommodation Payments include:
  - Accommodation supplements;
  - Transitional accommodation supplements;
  - Hardship accommodation supplement;
  - Accommodation charges paid by residents;
  - Accommodation Charge Top Up Supplement (grand-parented);
  - Concessional Supplement (grand parented);
  - Pension Supplement (grand-parented);
  - Bond retentions; and
  - Other deductions from bond amount.
- Figures in this table will not match those in table 4.2 which is based on Departmental data rather than GPFRs.

Table 4.4 shows that compared with 2011-12, in 2012-13 providers reported:

- $421 million more in basic care payments – a 6.0 per cent increase;
- $98 million more in Respite and other care – a 13.9 per cent increase;
- $188 million more in Basic Daily Care Fees – a 7.5 per cent increase;
- $26 million in accommodation payments – a 2.1 per cent increase;
- $20 million in other consumer fees – a 4.2 per cent increase; and
- $135 million in other income – a 12.7 per cent increase.

[23] Based on GPFR, SACH and Departmental data.

Analysing the change in basic care payments (ACFI) in terms of volume and price shows that the majority of the growth has occurred through claiming higher prices due to increased resident frailty rather than through volume changes.

A volume/price analysis explains the $421 million change as:

- $151 million in volume changes;
- $264 million in price changes; and
- $6 million due to the volume/price interaction effect (ie additional days of care at the higher price).

The $421 million attributable to volume changes is as a result of an additional 1,300,000[24] resident claim days in 2012-13[25]. The volume change is, however, understated as it does not adjust for the additional $20 million in basic care subsidies paid in 2011-12 as a result of the additional day due to the leap year in 2012.

The basic daily fee payments to providers for living expenses in 2012-13 were $2.693 billion, an increase of $188 million on 2011-12. Of this it is estimated that:

- $53.7 million (28 per cent) of the increase was associated with volume changes (noting this does not adjust for the leap year in 2011-12);
- price variation accounted for $131.9 million (70 per cent) of the increase[26]; and
- the interaction effect of the price/volume changes accounted for the remaining $2.8 million (2 per cent).

The average Government care subsidy amount in 2012-13 was $133.50 per resident per day, $5.67 per resident per day higher (see Table 4.5) than in the previous year. Given there was a one off ACFI price reduction of 1.6 per cent on 1 July 2012, most of this movement is due to frailty growth in the ACFI claims (ie the average ACFI score for residents was higher in 2012-13 than in the 2011-12).

Within the price effect there was also a shift of claim days paid under the grand-parented RCS to the ACFI[27].

Table 4.5 shows the revenue per person per day received by residential aged care providers.

[24] In 2012-13 there was approximately an additional 500,000 claim days. The remaining 800,000 claim days is driven by reporting changes including changes to providers reporting periods and differences due to transfers where the previous provider has not submitted a GPFR and the new provider has submitted a GPFR for a part year period in 2011-12 and a full year period for 2012-13.

[25] This equates to an indicative figure of approximately 3,500 equivalent resident years more in 2012-13.

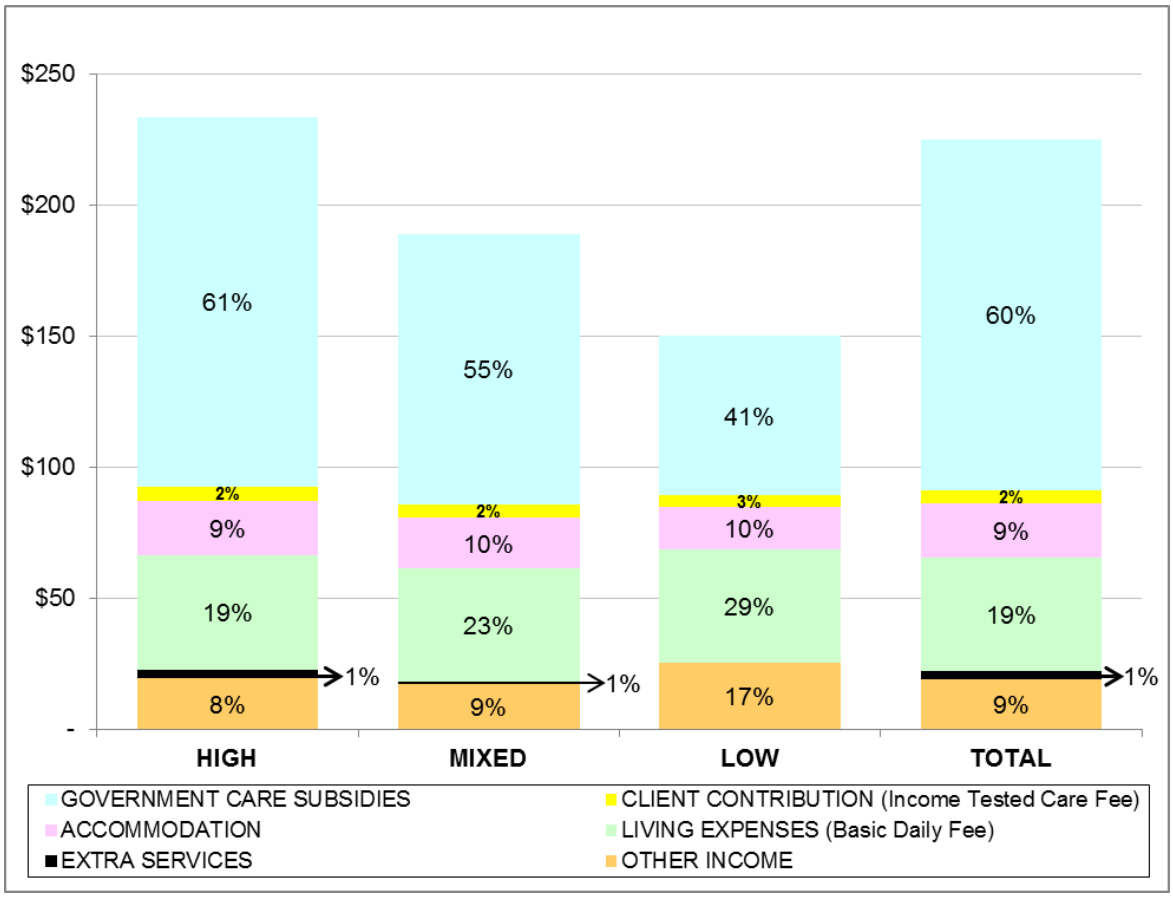
[26] From 1 July 2012, the maximum basic daily fee increased by one per cent to 85 per cent of the annual single basic age pension. This increase occurred as a result of the additional payments made to Commonwealth Seniors Health Card holders through the Household Assistance Package payments. The price changes also included movements in line with indexation of the pension.

[27] The number of claim days paid under the RCS halved from 4 million days to 2 million days as residents either left residential aged care or were reclassified to a higher paying ACFI level. In 2011-12 the average RCS claim was $92.98 per day, with indexation and the movement out of residents from this payment classification the average RCS claim in 2012-13 was $95.35 per day. This is still significantly lower than the average ACFI claim for the same year ($124.33 per day).

Table 4.5: Revenue – Per Resident Per Day[28]

	2011-12	2012-13	Change	
			$ prpd	%
Government Care Subsidies	`$127.83	$133.50	$5.67	4.4%
Client Care Contribution (Income Tested Care Fee)	$5.19	$5.25	$0.06	1.2%
Accommodation payments	$20.69	$20.68	-$0.01	0%
Living Expenses (Basic Daily Fee)	$41.20	$43.37	$2.17	5.3%
Extra Services fees	$2.79	$2.89	$0.10	3.6%
Total Residential Service Income	**$197.70**	**$205.69**	**$7.99**	**4.0%**
Other Income	$17.38	$19.19	$1.81	10.4%
Total	**$215.08**	**$224.88**	**$9.80**	**4.6%**

Chart 4.2:– Revenue Per Resident Per Day 2012-13



[28] Based on GPFR, SACH and Departmental data.

Chart 4.2 clearly illustrates the far greater proportion of revenue high care providers received from ACFI and RCS subsidies in comparison with low care providers.

4.4.3. Expenses

Total expenses in 2012-13 were $13.37 billion, up $1.02 billion from $12.35 billion in 2011-12. This is shown in Table 4.6.

Table 4.6: Summary of Expenses 2011-12 to 2012-13

	2011-12	2012-13	Change	
	%	%	$m	%
Staff Expenses[1]	65.9	66.4	$734.4	9%
Depreciation	5.5	5.5	$51.3	7.7%
Interest paid	1.8	1.7	$9.6	6.4%
Other expenses[2]	28.4	26.4	$225.2	6.6%
Total Expenses $m	**$12,346.7**	**$13,367.2**	**$1,020.5**	**8.3%**

[1] Staff expenses include salaries, superannuation and PAYG tax amounts.

[2] Includes other staff costs, building repairs and maintenance expenses, rent and utilities. A detailed breakdown is not available as residential aged care expenses are submitted on a voluntary basis and many providers only report aggregate in Other expenses.

- Other staff costs is the amount associated with employment support activities and includes professional development and training, job support, recruitment expenses, staff amenities, costs incurred for volunteering and other activities connected to the support and development services for the staff of the entity. It does not include salaries, superannuation, workers compensation and income or payroll tax amounts.

The GPFR results again indicated that the major expense item for the residential aged care sector is staffing costs which represented an average of 66.4 per cent of total expenses in 2012-13, up from 65.9 per cent in 2011-12.

In 2012-13, depreciation and amortisation represented 5.5 per cent and interest represented 1.7 per cent.

In 2012-13, the GPFRs reported that $8,873 million was expended in wages and management fees, an increase of $734 million. Of this:

- around 24 per cent ($174 million) of this is attributable to an increase in the number of days of care provided (volume changes)[29];
- the average amount paid per claim day in wages and management fees increased by 6.7 per cent, or $9.02 per claim day, which accounts for $548 million (75 per cent) of the increase. This would reflect a combination of factors including wage increases, increased hours worked per claim day, increased staffing levels and changes in the mix of staff to cater for increased care needs; and
- the remaining $11.7 million (1.6 per cent) is due to the interaction of price/volume changes.

[29] This broadly reflects increases in resident numbers.

Table 4.7: Expenses as a Percentage of Total Revenue

Measure	Expenses as % of Total Revenue				
	2008-09	2009-10	2010-11	2011-12	2012-13
Total Revenue $b	$10.1b	$11.0b	$12.0b	$13.1b	$13.9b
Staff Expenses	66.6% *$6.7b*	65.4% *$7.2b*	63.3% *$7.6b*	62.3% *$8.1b*	63.6% *$8.9b*
Depreciation Expenses	5.3% *$0.5b*	5.6% *$0.6b*	5.5% *$0.7b*	5.1% *$0.7b*	5.2% *$0.7b*
Interest Expenses	1.5% *$0.1b*	1.2% *$0.1b*	1.2% *$0.1b*	1.1% *$0.2b*	1.1% *$0.2b*
Other Expenses	26.5% *$2.7b*	25.0% *$2.7b*	25.6% *$3.1b*	25.9% *$3.4b*	25.9% *$3.6b*
Revenue Surplus	0.1% *$0.01b*	2.7% *$0.3b*	4.4% *$0.5b*	5.6% *$0.7b*	4.3% *$0.6b*

Note: employee expenses include salaries, wages and management fees.

4.4.4. Operating Performance – Segment Analysis[30]

Operating performance in 2012-13 continued to vary widely across provider ownership type, type of care offered, location of services and size. Table 4.8 provides the segmentation of providers, services and places.

[30] It should be noted that this analysis is based on entities under the *Aged Care Act 1997*. Approved providers are often part of, or linked to broader business organisations which do not submit General Purpose Financial Reports to the Department.

Table 4.8 - Distribution of Places 2012-13 – Residential Aged Care[31]

		Care Type			Ownership Type			Location		
	Total	*High care*	*Low care*	*Mixed care*	*Not-for-profit*	*For-profit*	*Govt*	*City*	*Regional*	*City & Regional*
Providers who reported their GPFRs										
Provider Count	1,034	691	44	299	545	380	109	599	396	39
- Ratio to Total Providers		*66.8%*	*4.3%*	*28.9%*	*52.7%*	*36.8%*	*10.5%*	*57.9%*	*38.3%*	*3.8%*
Services Count	2,720	2,121	46	553	1,624	820	276	1,494	648	578
- Ratio to Total Services		*78.0%*	*1.7%*	*20.3%*	*59.7%*	*30.1%*	*10.1%*	*54.9%*	*23.8%*	*21.3%*
Places	185,281	150,971	1,743	32,567	108,309	66,889	10,083	113,350	31,483	40,448
- Ratio to Total places		*81.5%*	*0.9%*	*17.6%*	*58.5%*	*36.1%*	*5.4%*	*61.2%*	*17.0%*	*21.8%*
Total Sector										
Provider Count	1,047	700	45	302	547	386	114	606	402	39
- Ratio to Total Providers		*66.9%*	*4.3%*	*28.8%*	*52.2%*	*36.9%*	*10.9%*	*57.9%*	*38.4%*	*3.7%*
Services Count	2,745	2,139	47	559	1,629	835	281	1,510	655	580
- Ratio to Total Services		*77.9%*	*1.7%*	*20.4%*	*59.3%*	*30.4%*	*10.2%*	*55.0%*	*23.9%*	*21.1%*
Places	186,278	151,816	1,763	32,699	108,536	67,470	10,272	114,105	31,614	40,559
- Ratio to Total places		*81.5%*	*0.9%*	*17.6%*	*58.2%*	*36.3%*	*5.5%*	*61.3%*	*17.0%*	*21.8%*

[31] The distribution of providers into care type and remoteness is based on the proportion of 70 per cent or more days of care provided to high care/city area residents.

The analysis and comparisons in the following sections need to be considered with caution. While distinctions between provider type, care type and geographical location may have some impact on performance, there are likely to be other factors, such as the mission, objectives and financing framework, management quality and provider efficiency which are important and vary throughout the industry and within different segments. Additional details on provider performance can be found in Appendices G to J.

4.4.4.1. By Ownership Type

In 2012-13 the 545 not-for-profit providers represented 52.7 per cent of all providers, up slightly from 52.4 per cent in 2011-12. This translates into ownership of 1,624 or almost 60 per cent of aged care homes and 108,309 or 58.5 per cent of all places. Table 4.8 shows this information. As a group they have the highest occupancy rate at an average of 94.4 per cent compared with 94.7 per cent in 2011-12.

The 380 for-profit providers comprised 36.8 per cent of all providers, down from 37.2 per cent in 2011-12. Their average occupancy in 2012-13 was 90.9 per cent compared with 90.4 per cent in 2011-12.

Table 4.9 below summarises profitability by ownership type, with for-profits performing more strongly than not-for-profits, and State/Territory Government owned providers consistently performing poorly.

Table 4.9: Profitability Margins by Ownership Type

	EBITDA Margin		NPBT margin	
	2011-12 %	2012-13 %	2011-12 %	2012-13 %
Not-for-Profit	11.1	9.4	4.5	2.8
For-Profit	15.5	14.2	10.5	9.1
Government	-1.6	-0.6	-14.1	-14.3

Comparative lower profitability is not necessarily an indicator of poor viability as profit may not be a major objective for not-for-profit or State/Territory Government owned providers, many of whom report that their charter, mission and financing framework may require or allow them to take different operating decisions that increase expenses relative to revenue.

Table 4.10 shows sector operating performance ratios by ownership.

Table 4.10: Operating Performance Ratios 2012-13

	Not-for-Profit	For-Profit	Government	Total
Interest Coverage	12.8	5.5	-10.3	7.0
Net Profit Before Tax margin	2.8%	9.1%	-14.3%	4.3%
EBITDA margin	9.4%	14.2%	-0.6%	10.6%
Occupancy	94.4%	90.9%	91.6%	93.0%

Table 4.11 shows EBITDA per resident claim and ownership in 2012-13.

Table 4.11: Earnings Before Interest, Taxes, Depreciation and Amortisation per Resident Claim Year 2012-13 – by Ownership

	Top Quartile	Next Top	Next Bottom	Bottom	Total
Not For Profit					
- EBITDA prpa	$19,125	$9,990	$4,410	-$2,556	$7,159
-% change from previous year	-2.9%	-2.9%	-23.0%	-16.6%	-12.4%
- Provider Count	82	153	165	145	545
- Service Count	190	642	499	293	1,624
- No of Places	11,104	44,760	35,415	17,030	108,309
For Profit					
- EBITDA prpa	$20,203	$9,661	$4,799	-$8,157	$12,683
-% change from previous year	-7.3%	-8.9%	-9.8%	-260.9%	-3.3%
- Provider Count	164	96	74	46	380
- Service Count	387	239	121	73	820
- No of Places	31,270	20,702	9,705	5,212	66,889
Government					
- EBITDA prpa	$18,023	$9,153	$4,113	-$11,958	-$591
-% change from previous year	-26.2%	-14.3%	-30.8%	-38.9%	60.8%
- Provider Count	13	9	20	67	109
- Service Count	41	17	67	151	276
- No of Places	2,028	564	2,558	4,933	10,083
Total					
- EBITDA prpa	**$19,825**	**$9,884**	**$4,468**	**-$5,276**	**$8,660**
-% change from previous year	**-6.0%**	**-4.9%**	**-21.0%**	**-44.7%**	**-6.6%**
- Provider Count	**259**	**258**	**259**	**258**	**1,034**
- Service Count	**618**	**898**	**687**	**517**	**2,720**
- No of Places	**44,402**	**66,026**	**47,678**	**27,175**	**185,281**

For-profit providers reported the highest overall returns and are over represented in the top quartile (63.3 per cent) for EBITDA. They had on average a higher EBITDA per resident per annum of $12,683 in 2012-13 (compared with $13,121 in 2011-12) and recorded the largest NPBT margin of 9.1 per cent (10.5 per cent in 2011-12).

Not-for-profit providers reported EBITDA per resident per annum or $7,159 (compared with $8,176 in 2011-12) and recorded an NPBT margin of 2.8 per cent (4.5 per cent in 2011-12). Not-for-profit providers comprise 60 per cent of the bottom two quartiles compared with 23 per cent for for-profit providers and 17 per cent for State/Territory Government owned providers.

State/Territory Government owned providers reported EBITDA per resident per annum of -$591 (compared with -$1,508 in 2011-12). They have a disproportionate share of providers in the lowest quartile and on average have negative EBITDA per resident per annum.

4.4.4.2. By Resident Profile

In 2012-13 high care providers continued to have a higher representation in the top quartile of EBITDA per resident claim year than low care providers. As noted earlier, while comparisons need to be treated with caution, it is clear that providers able to access the high ACFI payments that accompany high needs residents are the most profitable (also see Chart 4.2).

Table 4.12: Earnings Before Interest, Taxes, Depreciation and Amortisation per Resident Claim Year 2012-13 – by Resident Profile

	Top Quartile	Next Top	Next Bottom	Bottom	Total
High Care					
- EBITDA prpa	$19,612	$10,082	$4,376	-$5,624	$9,518
-% change from previous year	-8.3%	-4.6%	-22.5%	-49.6%	-8.2%
- Provider Count	213	186	167	125	691
- Service Count	558	744	530	289	2,121
- No of Places	41,222	54,846	38,470	16,433	150,971
Mixed Care					
- EBITDA prpa	$22,950	$8,917	$4,885	-$4,653	$5,060
-% change from previous year	28.5%	-8.2%	-14.1%	-34.4%	-12.9%
- Provider Count	40	67	80	112	299
- Service Count	54	149	145	205	553
- No of Places	2,939	10,988	8,768	9,872	32,567
Low Care					
- EBITDA prpa	$17,111	$9,334	$3,971	-$5,759	$2,029
-% change from previous year	-30.1%	-1.6%	-28.1%	-65.5%	-17.3%
- Provider Count	6	5	12	21	44
- Service Count	6	5	12	23	46
- No of Places	241	192	440	870	1,743
Total					
- EBITDA prpa	**$19,825**	**$9,884**	**$4,468**	**-$5,276**	**$8,660**
-% change from previous year	**-6.0%**	**-4.9%**	**-21.0%**	**-44.7%**	**-6.6%**
- Provider Count	**259**	**258**	**259**	**258**	**1,034**
- Service Count	**618**	**898**	**687**	**517**	**2,720**
- No of Places	**44,302**	**66,026**	**47,678**	**27,175**	**185,281**

4.4.4.3. By Location[32]

City providers continue to have higher representation in the top quartile. The providers with aged care homes in both city and regional areas report the lowest results in the top quartile but have shown better results overall than regional providers. Although the number of providers with homes in both city and regional areas remains small (3.8 per cent), they account for 21 per cent of all homes (compared with 4 per cent and 20 per cent respectively in 2011-12).

Again, high level comparisons need to be treated with caution. For example, in 2012-13 high performing regional providers performed significantly better than high performing city providers in the top quartile. This is shown in Table 4.13 and may in part reflect a shift by regional providers

[32] City refers to the ABS Major Cities Classification and Regional to all other locations. In determining the City (only) or Regional (only) providers, at least 70 per cent of subsidy days have to be provided in that geographic classification, otherwise the provider is classified as City and Regional.

towards admitting higher care residents. The number of top quartile regional providers serving high care residents increased to 71 per cent in 2012-13, up from 68 per cent in 2011-12.

Table 4.13: Earnings Before Interest, Taxes, Depreciation and Amortisation per Resident Claim Year 2012-13 – by Location

	Top Quartile	Next Top	Next Bottom	Bottom	Total
City					
- EBITDA prpa	$19,327	$9,894	$4,811	-$6,144	$9,587
-% change from previous year	-12.2%	-5.9%	-14.9%	-72.7%	-7.5%
- Provider Count	187	169	137	106	599
- Service Count	426	516	346	206	1,494
- No of Places	33,326	39,790	27,364	12,870	113,350
City & Regional					
- EBITDA prpa	$16,129	$10,047	$3,698	-$4,522	$7,457
-% change from previous year	-6.6%	-1.1%	-38.5%	-57.6%	-10.7%
- Provider Count	9	11	9	10	39
- Service Count	106	252	137	83	578
- No of Places	6,313	18,681	9,861	5,593	40,448
Regional					
- EBITDA prpa	$27,343	$9,435	$4,305	-$4,480	$6,933
-% change from previous year	24.4%	-6.1%	-19.5%	-3.9%	4.1%
- Provider Count	63	78	113	142	396
- Service Count	86	130	204	228	648
- No of Places	4,763	7,555	10,453	8,712	31,483
Total					
- EBITDA prpa	**$19,825**	**$9,884**	**$4,468**	**-$5,276**	**$8,660**
-% change from previous year	**-6.0%**	**-4.9%**	**-21.0%**	**-44.7%**	**-6.6%**
- Provider Count	**259**	**258**	**259**	**258**	**1,034**
- Service Count	**618**	**898**	**687**	**517**	**2,720**
- No of Places	**44,402**	**66,026**	**47,678**	**27,175**	**185,281**

4.4.4.4. Provider Size

Variations in EBITDA by provider size are not overly significant, with providers with 20 or more services having the highest average EBITDA. Single service providers account for 63 per cent of all providers, unchanged from 2011-12, but only 24 per cent of total aged care services (25 per cent in 2011-12). Larger providers with 7-19 services account for 6 per cent of all providers, but 25 per cent of all aged care services. This is shown in Table 4.14.

Table 4.14 – Earnings Before Interest, Taxes, Depreciation and Amortisation per Resident Claim Year 2012-13 – by Provider Size

	Top Quartile	Next Top	Next Bottom	Bottom	Total
Single Services					
- EBITDA prpa	$22,796	$9,698	$4,475	-$6,309	$9,271
-% change from previous year	3.3%	-5.7%	-14.1%	-96.7%	-5.5%
- Provider Count	176	155	169	155	655
- Service Count	176	155	169	154	654
- No of Places	12,750	11,605	12,088	8,172	44,615
2 To 6 Services					
- EBITDA prpa	$19,851	$9,753	$4,446	-$6,722	$7,237
-% change from previous year	-14.9%	-6.9%	-17.5%	-44.7%	-17.4%
- Provider Count	66	77	68	90	301
- Service Count	189	219	196	239	843
- No of Places	12,713	16,057	13,000	11,648	53,418
7 To 19 Services					
- EBITDA prpa	$18,661	$9,939	$5,250	-$1,950	$8,672
-% change from previous year	1.1%	-1.7%	-14.3%	26.0%	-0.2%
- Provider Count	13	19	18	13	63
- Service Count	138	223	183	124	668
- No of Places	10,323	15,885	13,142	7,355	46,705
20 & More Services					
- EBITDA prpa	$16,620	$10,039	$3,379	-	$9,869
-% change from previous year	-4.8%	-5.6%	-43.0%	-	-2.7%
- Provider Count	4	7	4	-	15
- Service Count	115	301	139	-	555
- No of Places	8,616	22,479	9,448	-	40,543
Total					
- EBITDA prpa	**$19,825**	**$9,884**	**$4,468**	**-$5,276**	**$8,660**
-% change from previous year	**-6.0%**	**-4.9%**	**-21.0%**	**-44.7%**	**-6.6%**
- Provider Count	**259**	**258**	**259**	**258**	**1,034**
- Service Count	**618**	**898**	**687**	**517**	**2,720**
- No of Places	**44,402**	**66,026**	**47,678**	**27,175**	**185,281**

Note:

1) One provider with single service sold their home before 30 June 2013 but submitted their GPFR. The service was included with their new provider.
2) One provider with 9 services sold their homes before 30 June 2013 but submitted their GPFR. These services were included with their new provider.

4.5. Balance Sheet & Financing

4.5.1. Summary

Due to the availability of accommodation bonds, the balance sheet financing of the residential aged care sector is very different to other sector's capital structures. Key balance sheet figures and ratios are set out in Table 4.15 and Table 4.16.

Table 4.15 – Balance Sheet 2011-12 and 2013-14

	2011-12 $m	2012-13 $m	Change $m	Change %
Cash Assets[1]	$3,239	$3,942	$703	21.7%
Fixed Assets[2]	$8,046	$9,372	$1,326	16.5%
Other Assets	$16,767	$17,539	$772	4.6%
TOTAL ASSETS	**$28,052**	**$30,853**	**$2,801**	**10%**
Accommodation Bonds	$12,966	$14,295	$1,329	10.3%
Other Liabilities	$5,474	$6,369	$895	16%
TOTAL LIABILITIES	**$18,440**	**$20,664**	**$2,224**	**12%**
NET WORTH/EQUITY	**$9,613**	**$10,189**	**$576**	**6%**

[1]Cash Assets includes: cash amounts, Liquid Assets (short term), Financial Assets/Investments (long term).
[2]Fixed Assets include: Property, Plant and Equipment.

Table 4.16 – Comparative Ratios 2011-12 and 2013-14

	2011-12	2012-13	Change
Current Ratio	0.50	0.51	0.01
% EBITDA to Total Assets	5.5%	4.8%	
% EBITDA to Equity/Net worth/Net Assets	15.9%	14.3%	

At 30 June 2013, the industry as a whole had assets of $30.9 billion (an increase of $2.8 billion from 2011-12). Total liabilities were $20.7 billion (compared with $18.4 billion in 2011-12), with resulting net worth/equity of $10.2 billion (a 6.0 per cent increase over 2011-12). Included in the liabilities are accommodation bonds held by the industry of $14.3 billion (compared with $12.9 billion in 2011-12).

4.5.2. Balance Sheet – Segment Analysis

Table 4.17 shows the financial position of the residential aged care sector at 30 June 2013.

Table 4.17: Financial Position of Residential Aged Care Providers as at 30 June 2013

	Not-for-Profit	For-Profit	Government	Total	
	$m	$m	$m	$m	%
Total Assets	$16,924	$12,047	$1,882	$30,853	*100%*
financed by:					
	100.0%	*100.0%*	*100.0%*	*100.0%*	
Accommodation Bonds	$7,801	$6,194	$301	$14,295	*48.5%*
- Proportion to Total Assets	*46.8%*	*55.1%*	*19.1%*	*48.5%*	
Other Liabilities	$2,338	$3,879	$152	$6,369	*17.9%*
- Proportion to Total Assets	*11.8%*	*28.5%*	*5.2%*	*17.9%*	
Net Worth/Equity	$6,785	$1,974	$1,429	$10,189	*33.6%*
- Proportion to Total Assets	*41.4%*	*16.4%*	*75.7%*	*33.6%*	
No of Beds/Places	108,309	66,889	10,083	185,281	
% Industry	*58.5%*	*36.1%*	*5.4%*	*100.0%*	

Note: The proportions are based on only those providers who have reported the financial data that is useful to calculate the above proportions. Therefore, a provider is excluded if only a part of the financial data is given making it incapable to measure the proportions. Due to this reason, the numbers of providers differ in each proportion and it is also possible that a provider included in the measurement of one proportion may not be in the group of providers for measuring another proportion.

Table 4.18 shows the residential aged care sector's balance sheet in relation to resident claim year 2012-13.

Table 4.18: Average Per Resident for the Claim Year 2012-13

	Not-for-Profit $	For-Profit $	Government $	Total $
Total Assets	$167,434	$202,787	$202,782	$181,737
- change from previous year	3.6%	14.8%	4.9%	7.8%
	$5,748	*$26,197*	*$9,505*	*$13,126*
Working Capital	-$38,949	-$69,821	-$4,664	-$49,822
- change from previous year	-5.2%	-9.2%	-216.3%	-10.3%
	-$1,929	*-$5,909*	*-$8,674*	*-$4,654*
Net Worth/Equity	$69,744	$33,453	$156,018	$61,509
- change from previous year	-0.9%	35.7%	4.4%	3.9%
	-$627	*$8,793*	*$6,557*	*$2,311*
Accommodation Bonds	$198,159	$244,744	$149,587	$214,374
- change from previous year	6.8%	5.0%	3.5%	6.6%
	$12,578	*$11,712*	*$5,012*	*$13,192*

Note: Under the Australian Accounting Standards Board Standard 101 – Presentation of Financial Statements - bonds are required to be accounted for as Current Liabilities. This results in working capital being negative.

Table 4.19 shows the residential aged care sector's balance sheet ratios for 2012-13.

Table 4.19: Balance Sheet Ratios 2012-13

Balance Sheet Ratios 2012-13				
	Not-for-Profit	**For-Profit**	**Government**	**Total**
Current Ratio[1]	0.52	0.48	0.92	0.51
Return on Assets[2]	4.3%	6.3%	-0.2%	4.8%
Return on Equity/Net Worth[3]	10.5%	37.9%	-0.1%	14.3%
Bond Asset Cover[4]	2.14	1.82	5.24	2.06

[1] Under the Australian Accounting Standards Board Standard 101 – Presentation of Financial Statements - bonds are required to be accounted for as Current Liabilities. There are, however, inconsistencies in the GPFRs for treating bonds as current/non-current liabilities. Therefore, the current ratio may not be fully representative of the industry.

[2] Return on Assets indicates the productivity of assets employed in the organisation and is calculated by EBITDA/Total Assets.

[3] Return on Equity/Net Worth indicates the productivity of equity/net worth employed in the organisation and is calculated by EBITDA/Net Worth.

[4] Bond Asset Cover provides an indication of the extent to which the accommodation bond liability is covered by assets and is calculated by Total Assets/Total Accommodation Bonds

Current ratio usually indicates the organisation's ability to meet short term debt through current assets. A ratio of more than one indicates that an organisation's current assets exceed its current liability and is calculated by Current Assets/Current Liabilities. The classification of bonds as current liabilities means the current ratio needs to be treated with considerable caution in the residential aged care sector.

Not-for-profit providers have an average of 41 per cent of financing from equity (43 per cent in 2011-12), while for-profit providers have an average 16 per cent of financing from equity with a higher reliance on debt (14 per cent in 2011-12). Not-for-profit providers are currently leveraging commercial debt less.

Bonds[33] are essentially a source of interest free debt (see Table 4.17 for the separation of bond amounts) and generally provide residential care providers with an additional source of funds to build, upgrade and maintain facilities or raise operating revenue. Bonds should not be considered to be a risk free source of funds as an outflow of bonds would need to be replaced with debt or equity.

It should be noted that providers with thin equity are much more vulnerable to bond outflows if they were to result from the 1 July 2014 reforms. Robust liquidity management systems will be a key mitigation strategy for providers concerned about potential lump sum outflow.

[33] The Australian Government sets permitted uses and prudential standards for consumer bonds and RADs held by approved providers.

4.5.3. Accommodation Bonds

In 2012-13, accommodation bonds represented 49 per cent of assets for the whole industry with industry differences as follows:

- 47 per cent of assets for the not-for-profit industry (45.6 per cent in 2011-12);
- 55 per cent of assets for the for-profit industry, (58 per cent in 2011-12);
- 51 per cent of assets for city providers (53 per cent in 2011-12); and
- 33 per cent for regional providers (34 per cent in 2011-12).

The distribution of bonds by provider type and EBITDA quartile are shown in Table L.1 in Appendix L. The proportion of bonds to residents is fairly evenly spread across performance quartile and provider type.

The average new accommodation bonds for years 2006-07 to 2012-13 is shown in Table 4.20.

Table 4.20: Average New Accommodation Bonds: 2006-07 to 2012-13

	06-07 $	07-08 $	08-09 $	09-10 $	10-11 $	11-12 $	12-13 $
Ownership							
Not-for-Profit	161,001	177,545	201,163	221,226	235,484	236,462	251,440
For-profit	193,099	215,516	237,325	256,068	277,243	298,097	309,396
Government	117,788	135,122	165,184	165,070	185,062	181,581	191,631
Location							
Major City	186,929	207,806	232,311	254,653	276,213	287,902	300,914
Regional Areas	128,157	147,045	165,964	169,355	186,642	189,796	193,378
Remote Areas	89,160	101,483	98,155	120,057	142,972	147,873	131,393
State/territory							
NSW	179,840	198,160	223,481	235,182	250,793	265,356	281,673
VIC	172,166	192,382	213,216	236,421	262,867	274,484	279,299
QLD	156,987	187,287	203,783	229,561	224,408	230,643	244,044
WA	129,935	151,646	188,043	228,193	252,354	248,548	280,518
SA	150,053	172,071	207,802	209,465	234,770	230,402	238,507
TAS	122,870	147,742	171,057	207,033	201,070	208,855	195,990
ACT	254,786	303,320	286,813	315,804	365,937	339,785	363,045
NT[1]	227,519	127,851	238,153	252,240	242,325	172,311	422,414*
All residents	167,454	188,798	212,950	232,795	250,256	259,829	273,386
% increase on previous year	18.2%	12.7%	12.8%	9.3%	7.5%	3.8%	5.2%

[1] Only six bonds were paid in the Northern Territory in 2012-13, with an average of 11.6 bonds being paid per year between 2006-07 and 2012-13.

Tables showing the distribution of new bonds in 2012-13 by ownership, location, state and size and charts showing the changes in the distribution levels compared with 2010-11 are in Appendix L. Details of the number of unsupported places without bonds can be found in the Supported and Non-Supported Resident Data Book at Appendix P.

4.6. Developments, Issues and Challenges

4.6.1. Overview

The reforms in residential care commencing on 1 July 2014, and in particular the move to more market based accommodation payments and the higher accommodation supplement applying for new and refurbished homes, will provide a significant inflection point that will shape the future direction of the sector.

Modelling undertaken by ACFA for its first annual report suggested a significant overall benefit to the sector from these reforms. The recent upswing in both investment activity and investment interest in the sector, despite some deterioration in financial performance in 2012-13, supports this view. However the impact of the new arrangements is likely to vary across the sector, particularly in the shorter term. While the Australian Government and sector peak bodies have been assisting providers to prepare for the reforms, it is likely that some are less prepared than others to manage transition issues that arise.

4.6.2. Financial Performance

The margin compression experienced by the sector in 2012-13 was largely the result of measures to reduce annual real growth in per resident care subsidy under ACFI back to long term trend including a one-off price reduction of 1.6 per cent on 1 July 2012, and changes to strengthen the evidence requirements to support ACFI claims.

ACFA has noted that more recent reporting of financial performance by private industry firms indicates some improvement in financial results in 2013-14. Stewart Brown's survey results show that overall EBITDA per bed per annum was $8,577 as at 31 March 2014 compared with $6,884 at 30 June 2013 and $7,994 at 30 June 2012.

The 1 July 2014 reforms, in particular the move to more market-based accommodation prices, and the 2.4 per cent increase in care prices as a result of the repurposing of the Workforce Supplement are expected to result in improved financial performance in 2014-15 and beyond, though the removal of the Payroll Tax Supplement may moderate the improvement for a segment of the sector.

4.6.3. Investor Sentiment

The new accommodation payment arrangements should have a positive impact on investor sentiment and the sector's viability. Relevant changes, which involve a mix of improved income streams for providers and greater consumer protections, include:

- the harmonisation of high and low care through the removal of the capping of daily payments in high care and allowing which has seen accommodation prices increase from a capped $33 per day to an average published maximum daily price of $65.07 (or RAD equivalent of $355,035);
- removal of providers' access to retention amounts;
- a 55 per cent increase in the accommodation supplement (to $52.49 prpd) being paid for residents with low means in new or significantly refurbished homes;
- the compulsory publishing on the web of maximum accommodation prices;
- providers requiring pre-approval from the Aged Care Pricing Commissioner for all Refundable Accommodation Deposit prices of $550,000 or more; and
- residents having choice in their accommodation payment method.

Largely in anticipation of the new accommodation payment arrangements, there was a substantial increase in the value of investment activity in the industry in 2012-13 with new building and upgrade work, both completed and in progress, up significantly. In addition, a number of significant developments in terms of investments in the industry were announced during 2013-14. ACFA members also met with a number of potential investors in the industry during the past 12 months and have observed growing interest in the industry from both domestic and international investors.

However, the impacts of the reforms can be expected to vary between providers dependent on their business models including their purpose and objectives, operating, capital and financing structures and the support and relationship and engagement with investors and financiers. The transition to the new system and its impact on providers and consumers will be monitored by ACFA, who is required to report initially on a monthly basis to the Australian Government from July 2014. As with all ACFA advice, the reports will be publicly available.

Both the Australian Government[34] and the industry have been providing support for providers in transitioning to the new reforms. ACFA, the Department, key peak industry groups and providers will be collaborating to monitor the impact of the reforms.

4.6.4. Published Accommodation Prices

Since 19 May 2014 all approved providers have been required to publish their maximum accommodation prices for non-supported residents that apply from 1 July 2014 in conjunction with a statement describing their accommodation.[35]

Initial analysis of these published prices shows that:

- for-profit homes have a lower average RAD/DAP[36] price ($333,557/$61.13) than not-for-profits ($374,611/$68.66) or Government ($343,152/$62.89) homes;
- 10 per cent of aged care homes have either a published room price of more than $550,000 ($100.80) or have indicated that an application is pending with the Aged Care Pricing Commissioner; and
- the average major city RAD/DAP price is $366,020/$67.08, compared with $327,157/$59.96 in regional areas and $275,090/$50.42 in remote areas.

It is important to note some data limitations when analysing the published prices:

- published data does not indicate how many rooms are available at different price points per services - hence averages have been calculated on the assumption of equal mix of room type; and
- published prices are as at 29 July 2014 and relate to the 2014-15 year, so this needs to be considered if comparing the published data and subsequent actual prices to actual bond data published for 2012-13 and 2013-14.

[34] Assistance includes access to free advice from the Transition Business Advisory Service to help providers prepare for and adjust to the new accommodation payments arrangements. In the first months of operation (to 30 June 2014) 252 basic enquiries; 39 enquiries seeking a desk audit of the provider's position, readiness and provision of advice; and 17 enquiries seeking a highly detailed examination of the provider's position and readiness were received.

[35] As at 29 July 2014, 96 per cent of providers have published their accommodation prices. The Department is working with those providers who have not yet published in order to ensure they meet their statutory obligations, noting that some providers may not charge accommodation payments. Providers who do not publish cannot charge a RAD or DAP until this is rectified. It should be noted that not all providers will choose to publish an accommodation price as some do not intend to charge an accommodation payment (eg some Multi-Purpose services).

[36] RAD/DAP equivalence based on 1 July 2014 Maximum Permissible Interest Rate.

Additionally, provider approaches to price publishing will vary:

- published prices are *maximum* prices - providers may ultimately agree to negotiate lower prices with residents;
- some providers may have increased lump sum prices to compensate for the removal of retention amounts;
- this is the first occasion that providers have been required to publish their accommodation prices so their pricing policies and strategies may evolve with experience; and
- published prices can be altered by providers at any time,[37] so the competitive pressure resulting from potential consumers and their families being able to compare the price offerings of different aged care homes in the same area may result in downward price pressure.

Table 4.21 below shows the average published RAD price as at 29 July 2014 was $355,035. It also shows average RAD prices by quartile, ownership, location, State/Territory and overall.

Table 4.21: Average and other Maximum Published Price Statistics as at 29 July 2014

	Average	Min	Quartile 1	Median	Quartile 2	Max
Overall	$355,035	$0	$250,000	$325,000	$450,000	$2,600,000
Not for profit	$374,611	$0	$290,000	$350,000	$450,000	$1,800,000
For profit	$333,557	$0	$230,000	$295,000	$400,000	$2,600,000
Government	$343,152	$0	$285,000	$340,000	$425,000	$550,000
Major cities	$366,020	$0	$250,000	$350,000	$450,000	$2,600,000
Regional areas	$327,157	$100,000	$250,000	$300,000	$395,000	$750,000
Remote areas	$275,090	$190,000	$228,000	$280,000	$320,000	$320,000
NSW	$329,460	$0	$234,281	$299,000	$400,000	$2,600,000
VIC	$399,763	$0	$300,000	$350,000	$475,000	$1,800,000
QLD	$328,515	$100,000	$230,000	$300,000	$400,000	$900,000
WA	$352,500	$0	$250,000	$350,000	$425,500	$1,125,000
SA	$381,752	$0	$280,000	$380,000	$450,000	$850,000
TAS	$313,039	$160,000	$250,000	$296,000	$375,000	$550,000
ACT	$456,043	$185,000	$300,000	$460,000	$540,000	$950,000
NT	$255,362	$114,000	$144,000	$200,000	$300,000	$550,000

Note: Since number of rooms/beds is not recorded these statistics are weighted based on number of beds in room and number of places in the service.

Table 4.22 provides a distribution by value of RAD published prices according to ownership, with the vast majority of prices remaining below $400,000. This table also shows RAD/DAP equivalents for these price bands.

[37] Noting that prices cannot be adjusted upwards when over the $550,000 threshold without further approval from the Aged Care Pricing Commissioner (after 4 months).

Table 4.22 - Distribution of Refundable Accommodation Deposit Published 29 July 2014 Prices, by Ownership

Distribution of Refundable Accommodation Deposit Published Prices as at 29 July 2014 – by Ownership*								
RAD	<= $250,000	$250,001-$300,000	$300,001-$400,000	$400,001-$500,000	$500,001-$550,000	$550,001-$750,000	$750,001-$1 million	> $1 million
DAP	<= $45.82	$45.82-$54.99	$54.99-$73.32	$73.32-$91.64	$91.64-$100.81	$100.81-$137.47	$137.47-$183.29	>$183.29
Not-for-profit	31.7%	33.5%	50.1%	24.9%	18.1%	3.5%	1.3%	0.3%
For-profit	44.0%	46.5%	54.3%	31.2%	25.0%	6.4%	4.2%	1.8%
Govt	41.1%	30.3%	44.9%	13.7%	7.6%	0.0%	0.0%	0.0%

* Rows may total to greater than 100% since some services offer room types across a range of price bands.

Further tables on published prices can be found at Appendix O.

4.6.4.1. Increased Consumer Care Contributions

1 July 2014 also saw the introduction of a new combined income and assets test in residential care that is estimated to increase consumer contributions. These arrangements will not impact provider revenues as the increased consumer contributions collected by providers will be offset by reduced Government subsidies for residents assessed as liable to contribute towards their cost of care. However, this reform represents another significant change which should over time help build a more sustainable and fairer aged care system.

4.6.4.2. 2014-15 Budget

The 2014-15 Budget contained a number of measures which will impact on the financial performance of the residential sector.

Care prices under ACFI will increase by 2.4 per cent from 1 July 2014 as a result of the repurposing of the former Government's Workforce Supplement, resulting in additional revenue of $225.8 million in 2014-15 and $1 billion over four years for residential aged care providers.

There will also be a 20 per cent increase in the viability supplement paid for certain providers of rural and remote services and homeless services. Funding through the viability supplement is estimated to increase by $6.3 million in 2014-15 and almost $28 million over four years. These changes are shown in Table 4.23.

Table 4.23 – 2014-15 Residential Care Budget Increases

	2014-15	2015-16	2016-17	2017-18	Forward Estimates
Increase to care subsidies	$225.8m	$241.9m	$259.0m	$279.0m	**$1,005.7m**
Increase to viability supplement	$6.3m	$6.7m	$7.1m	$7.6m	**$27.8m**
Total	**$232.1m**	**$248.6m**	**$266.1m**	**$286.6m**	**$1,033.5m**

The care price increase will be partly offset, mainly for for-profit providers, by the removal of the Payroll Tax Supplement from 1 January 2015, which will reduce revenues for for-profit providers by an estimated $590 million over four years. Table 4.25 shows the impact on all providers, noting that

some not-for-profits receive Payroll Tax Supplement as they engage staff through labour-hire firms who are subject to payroll tax.

Table 4.24 –Payroll Tax Supplement Removal

	2014-15	2015-16	2016-17	2017-18	Forward Estimates
Decrease in subsidies	$86.3m	$181.3m	$188.2m	$197.8m	**653.6m**

ACFA notes that the proposed changes to aged care pension indexation rates from 2017 will have a negative impact on provider revenues over the longer term by reducing the rate of increase in the basic daily fee paid by all residents towards their living expenses. The basic daily fee is set at 85 per cent of the single age pension.

4.6.5. Dementia and Severe Behaviours Supplement

The Government discontinued the Dementia and Severe Behaviours Supplement in residential care from 31 July 2014. The Supplement commenced on 1 August 2013 and was intended to target those residents with the most severe behavioural and psychological symptoms of dementia. However, the number of residents being assessed as eligible by providers for the Supplement significantly exceeded initial estimates, with more than 29,000 residents attracting the Supplement by 30 June 2014 compared with the initial estimate of 2,000. If this claiming pattern continued, it is estimated that the Supplement would cost $780 million over four years rather than the budgeted $52 million. Payment of the Supplement has been discontinued as a result. The Government has announced it will work with aged care providers and consumers in the support of people with severe behavioural and psychological symptoms of dementia.

4.6.6. ACFA Work Programme

4.6.6.1. Variability in Financial Performance

Financial results continue to vary across the industry.

The Australian Government has asked ACFA to undertake a study to identify the key factors that are influencing the financial performance of aged care providers, including a focus on what is driving the performance of the better performing providers relative to those who are not performing as well, and what could be done to improve performance. This study will first consider residential care providers and later home care providers, and will include consideration of issues affecting rural, regional and remote providers. An initial report to the Australian Government with a focus on residential care providers is due by 31 December 2014.

4.6.6.2. Improving the Collection of Financial Data

The Government has asked ACFA to report by 30 September 2014 on options for improving the collection of appropriate financial data from aged care providers, including options to rationalise financial reporting requirements consistent with the Government's red tape reduction agenda.

The availability of financial performance data and key industry metrics is important to better understand, predict and respond to industry developments and to inform the development of Government aged care policies. ACFA's ability to provide high quality advice to the Australian Government on pricing and financing issues also relies on the quality of the data it can access.

5. Home Care Packages - Sector Viability

Contents

5.1. Introduction

This report includes ACFA's first analysis of information provided by home care providers through FARs for 2012-13 submitted to the Department. Information provided through these reports is more limited than that provided through GPFRs by residential care providers. ACFA will be considering home care reporting in its September 2014 report to the Australian Government on options for improving the collection of appropriate financial data from aged care providers.

5.2. Snapshot

Tables 5.1 and 5.2 show a snapshot of the home care sector in 2011-12 and 2012-13.

Table 5.1: Home Care Overview

	2011-12	2012-13	Change	
No of Providers	498	504	6	1.2%
No of Services	2,095	2,131	36	1.7%
No of Places	59,201	60,308	1,107	1.9%
Occupancy	90.3%	92.0%		
Revenue	n/a	$613m		
Expenses	n/a	$594m		
NPBT	n/a	$19m		
NPBT $pcpa	n/a	$470		

a) The number of providers, no of services, no of places and occupancy is based on all providers of CACP, EACH and EACHD packages.

b) The revenue, expenses and NPBT is based on only CACP providers.

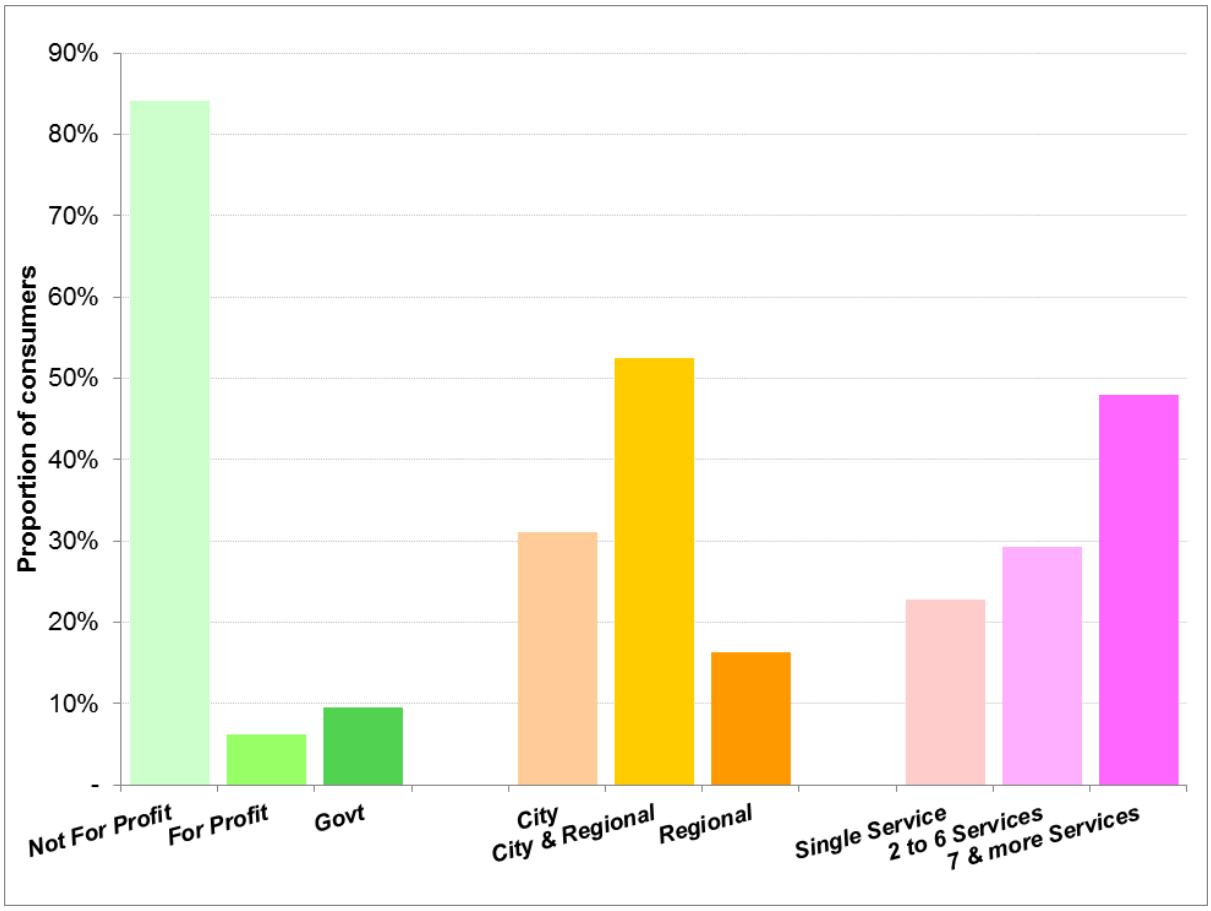
The vast majority of the providers in the home care packages sector are not-for-profit providers as can be seen in Table 5.2. As this report deals with the 2012-13 financial year, this table is based on the old provider categories of CACP, EACH and EACHD.

Table 5.2: Operational Home Care Packages by Provider Type, as at 30 June 2013[38]

Operational Home Care CACP Packages, by Provider Type				
	Not-for-profit	For-profit	Government	Total
Australia	39,273	2,906	4,979	47,158
% of Total	83.30%	6.20%	10.50%	100.00%
Operational Home Care EACH Places, by Provider Type				
	Not-for-profit	For-profit	Government	Total
Australia	7,672	767	359	8,798
% of Total	87.20%	8.70%	4.10%	100.00%
Operational Home Care EACHD Places, by Provider Type				
	Not-for-profit	For-profit	Government	Total
Australia	3,821	410	121	4,352
% of Total	87.70%	9.50%	2.80%	100.00%

Chart 5.1 shows the home care sector by mix of ownership, location and service size.

Chart 5.1: Provision of CACP Services to Home Care Consumers



[38] ROACA data.

5.3. Funding of the Sector

5.3.1. Overview

Total revenue in the home care sector in 2012-13 was $1.24 billion, as shown in Table 5.3.

Table 5.3: Overall Funding for Different Types of Home Care Packages in 2012-13

	Commonwealth Payments $m			Consumer contributions $m	Total Funding $m	No. of Packages	%
	Basic Subsidy	*Supplements*	*Total Payments*				
CACP	593.8	5.1	598.9	59.7	658.6	47,158	78%
EACH	370.7	1.9	372.6	17.0	389.6	8,798	15%
EACH-D	184.7	0.4	185.1	7.5	192.6	4,352	7%
Total	**1,149.2**	**7.4**[1]	**1,156.6**	**84.2**	**1,240.8**	**60,308**	100%
% Funding	**92.6%**	**0.6%**	**93.2%**	**6.8%**	**100%**		

[1] Viability ($6.1m), Enteral Feeding ($0.4m) & Oxygen ($0.9m)

5.3.2. Commonwealth Funding

Table 5.4 shows Commonwealth funding for the home care sector in 2012-13.

Table 5.4: Commonwealth Funding for Community Aged Care During 2012-13[39]

	Subsidy $m	Supplement $m	Total Funding $m	Total Funding %
For Profit	**$84.7**	**$0.5**	**$85.2**	**7.4%**
Not for Profit	**$980.4**	**$4.5**	**$984.9**	**85.1%**
Government	**$84.1**	**$2.4**	**$86.5**	**7.5%**
Total	**$1,149.2**	**$7.4**	**$1,156.6**	**100.0%**

Note: Includes CACP, EACH and EACHD only.

In 2012-13, the Commonwealth made payments of $1.16 billion to home care package providers on behalf of consumers as a contribution towards their care and support costs, up from $1.06 billion in 2011-12. Payments from consumers in the form of care fees were estimated to be $84.2 million[40].

Table 5.5 shows that while there has been a recent increase in the number of home care packages managed by for-profit providers, from 2,501 in 2008-09 to 4,083 in 2012-13, they remain a small part of the sector.

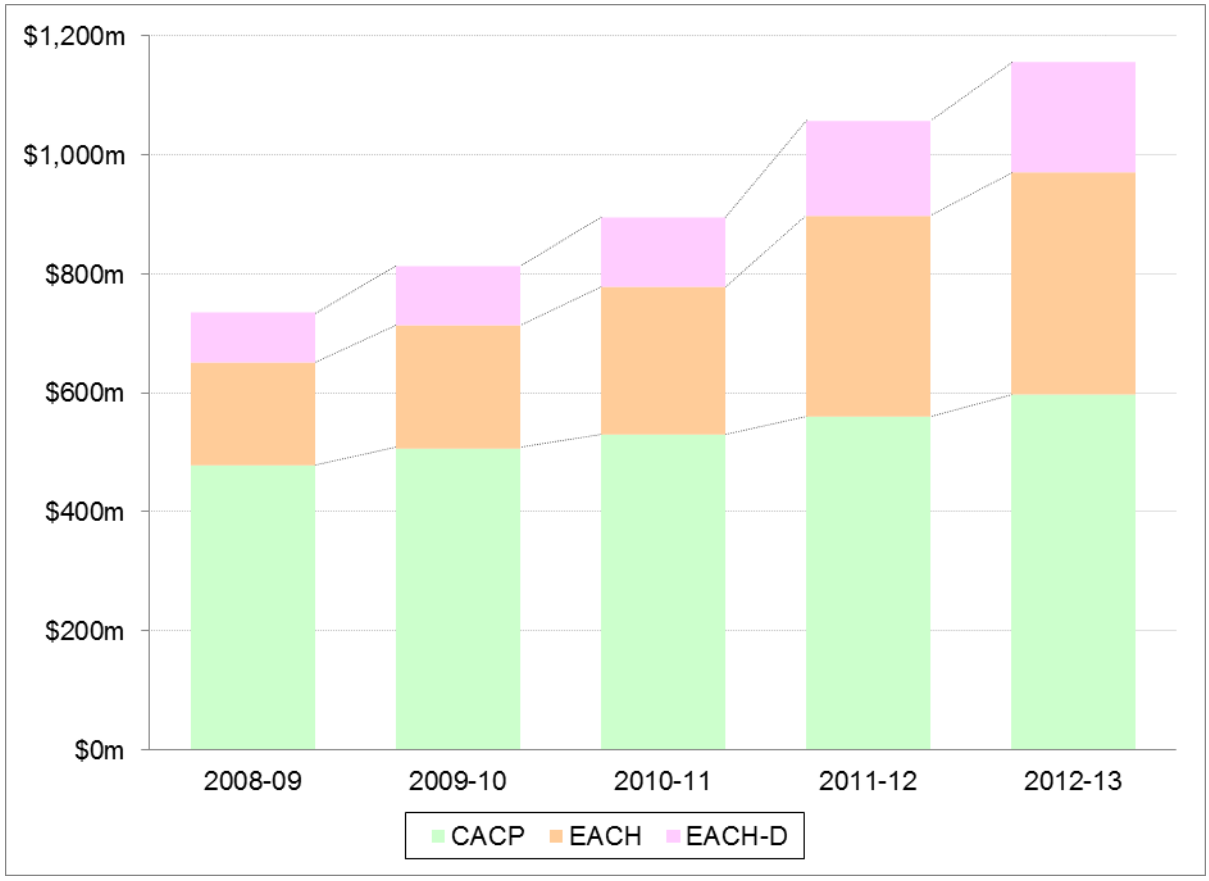
[39] Departmental data.
[40] The estimate for payments of consumer care fees is based on FAR data.

Table 5.5: Packages Held by For-Profit Providers[41]

	2008-09	2009-10	2010-11	2011-12	2012-13
No of For-Profit Providers	51	51	53	57	57
Total Home Care Providers	485	494	495	498	504
Proportion of For-Profit Providers	10.5%	10.3%	10.7%	11.4%	11.3%
Packages held by For-Profit Providers	2,501	2,940	3,582	4,010	4,083
Total Sector	46,709	50,804	57,241	59,201	60,308
Proportion of packages held by For-Profit providers	5.4%	5.8%	6.3%	6.8%	6.8%

Chart 5.2 shows the increase in Commonwealth funding from $736 million in 2008-09 to $1,156.6 million in 2012-13 as the number of operational packages increased from 46,709 to 60,308.

Chart 5.2: Funding for CACP, EACH and EACHD over the Past Five Years[42]



Note: Includes supplements.

[41] Departmental data.
[42] ROACA data.

5.4. Analysis of 2012-13 Financial Accountability Reports

5.4.1. Aggregate Sector Results

As previously discussed, this report provides analysis of home care package providers based on data drawn from the 2012-13 FARs. It needs to be noted, however, that FARs are not audited accounts and are provided only in relation to CACPs, not EACH and EACHD packages, so the analysis below only applies to CACPs. Some private sector surveys[43] undertake financial analysis of EACH and EACHD packages and reference to these results is noted where appropriate.

Analysis of the performance of home care package providers using traditional metrics such as NPBT needs to be treated with some caution. As the majority of the sector's approved providers are not-for-profit organisations, traditional profit based targets may not always be consistent with the organisation's mission and objectives, as the objectives of some organisations may be to balance funding with expenditure rather than setting profit based goals. Also the FARs upon which this analysis is based are designed to account for and report on the expenditure of Commonwealth funds.

Overall an analysis of 2012-13 data shows that approximately 61 per cent of the home care providers achieved a surplus in NPBT. Table 5.6 provides key financial data for home care package providers by ownership. Factors such as expense management policies and practices and quality of general management impact results. For-profit providers make up a small proportion of home care package providers, but on average generate the largest surplus per package compared with not-for-profit and Government home care package providers.

Table 5.6: Community Aged Care Packages Financial Result - 2012-13, by Ownership

	Not for Profit	For Profit	Government	Total
No of Providers	298	48	77	423
No of Services	866	85	147	1,098
No of Packages	36,157	2,690	4,104	42,951
Total Revenue	$517,518,122	$37,773,395	$58,273,107	$613,564,624
Total Expenses	$500,236,757	$35,669,903	$59,056,122	$594,962,771
Average Surplus / Deficit per Package	$478	$782	-$191	$433

[43] One such report is the Stewart Brown 2013 Home Care Report on financial performance. This report identified that there was a small improvement in the CACP results, a slight decline in EACH results and a reasonable increase in the result of EACHD packages in 2012-13 comparable to 2011-12.

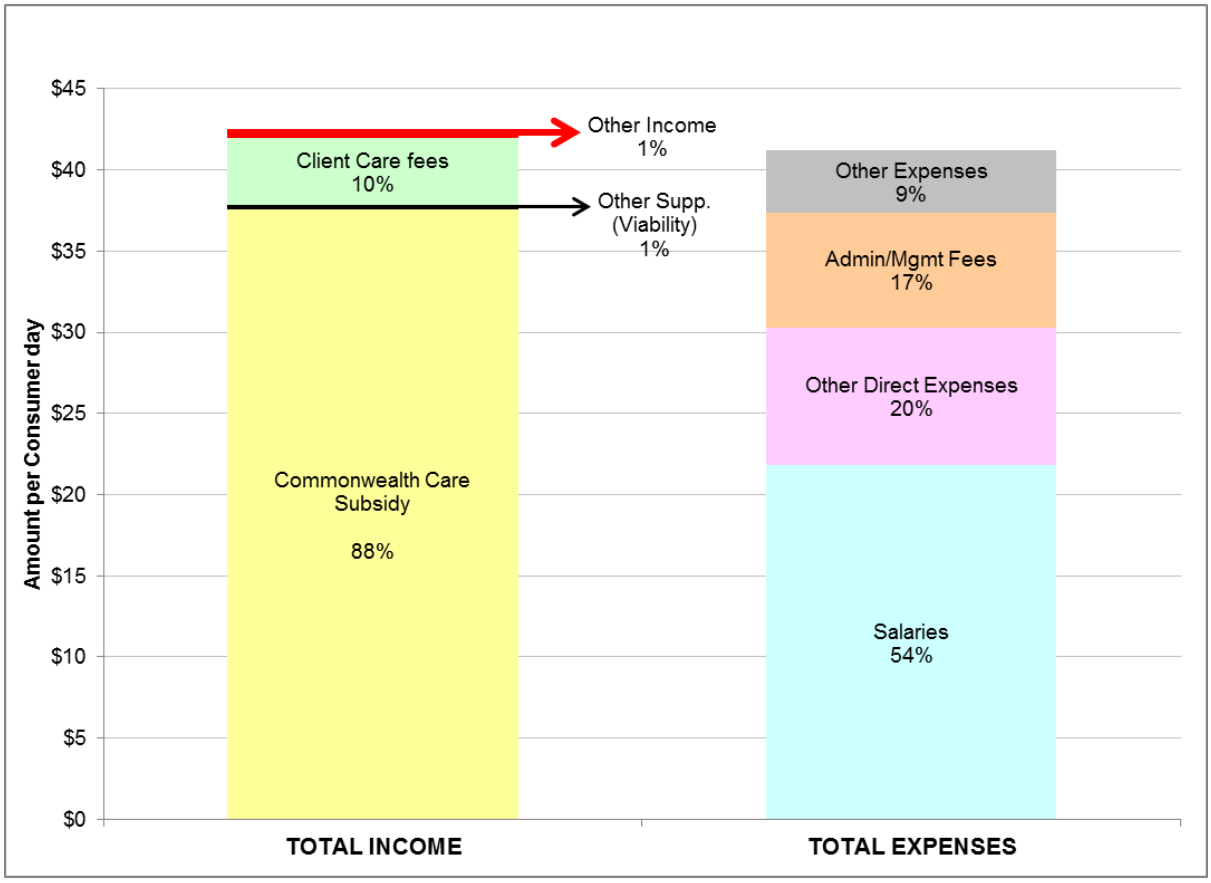
Table 5.7 summarises key operating performance metrics in the home care sector.

Table 5.7: Operating Performance of Home Care Providers 2012-13

	Not for Profit	For Profit	Government	Total
Net Profit Margin	3.4%	5.9%	-1.4%	3.1%
Commonwealth Subsidies as % of Total Income	88%	88%	90%	88%
Employee Expenses as % of Total Expenses	55%	57%	44%	54%

Commonwealth subsidies paid on behalf of consumers are the major source of revenue for home care providers, accounting for approximately 88 per cent of total revenue. Staff expenses[44] constitute on average 54 per cent of the total expenses, as shown in Chart 5.3.

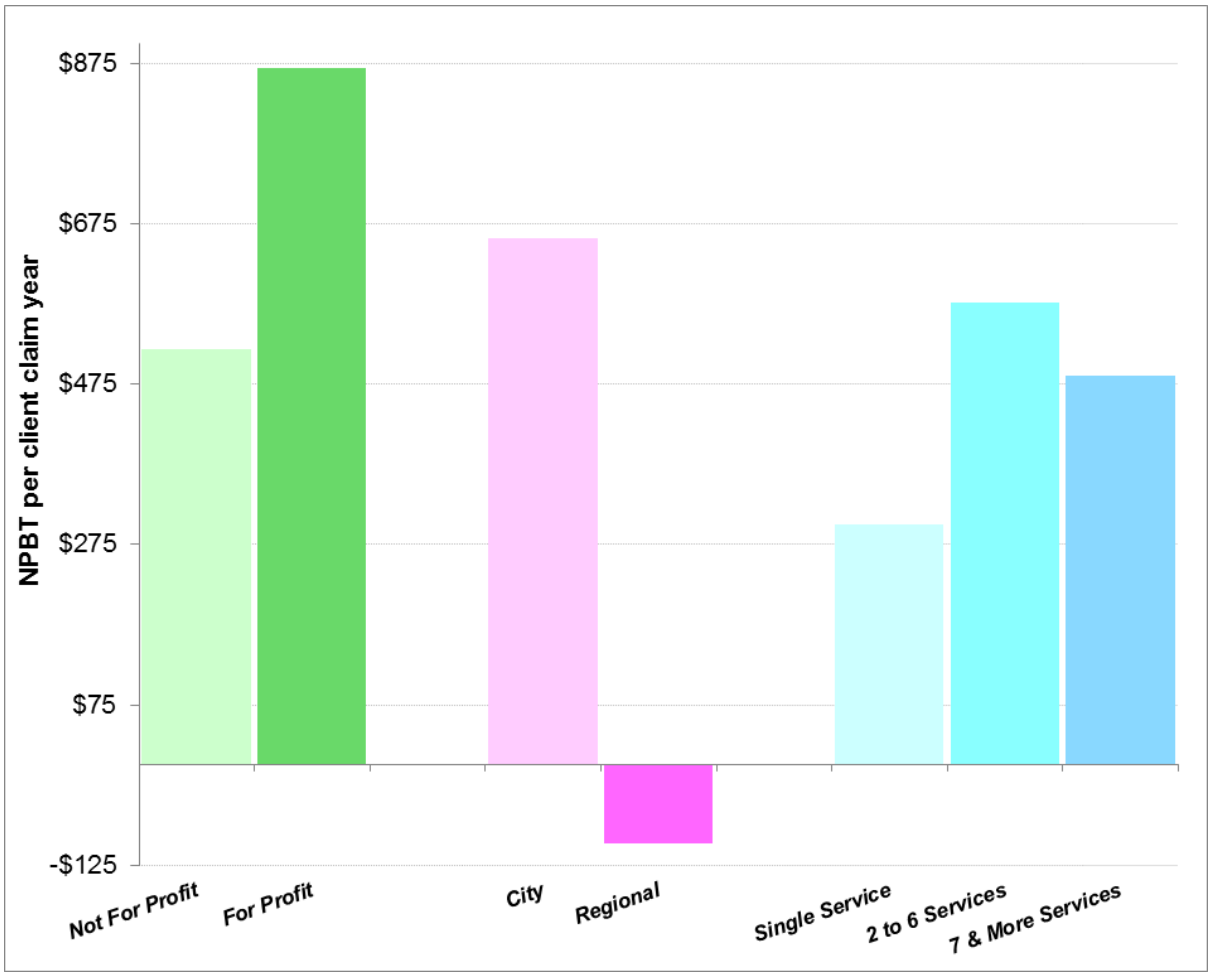
Chart 5.3: Community Aged Care Packages Revenue and Expenses Per Client Per Day



For-profit providers are reporting returns well above not-for-profit providers, with the highest returns on average, as shown in Chart 5.4. City providers outperform regional providers and multi-service providers outperform single service providers in general.

[44] This amount includes salaries, wages, on costs, workers compensation, superannuation and leave provisions paid to care staff, case managers and coordinators.

Chart 5.4: Net Profit Before Tax by Ownership, Care Type, Location and Size in 2012-13



5.4.1.1. Quartile Analysis

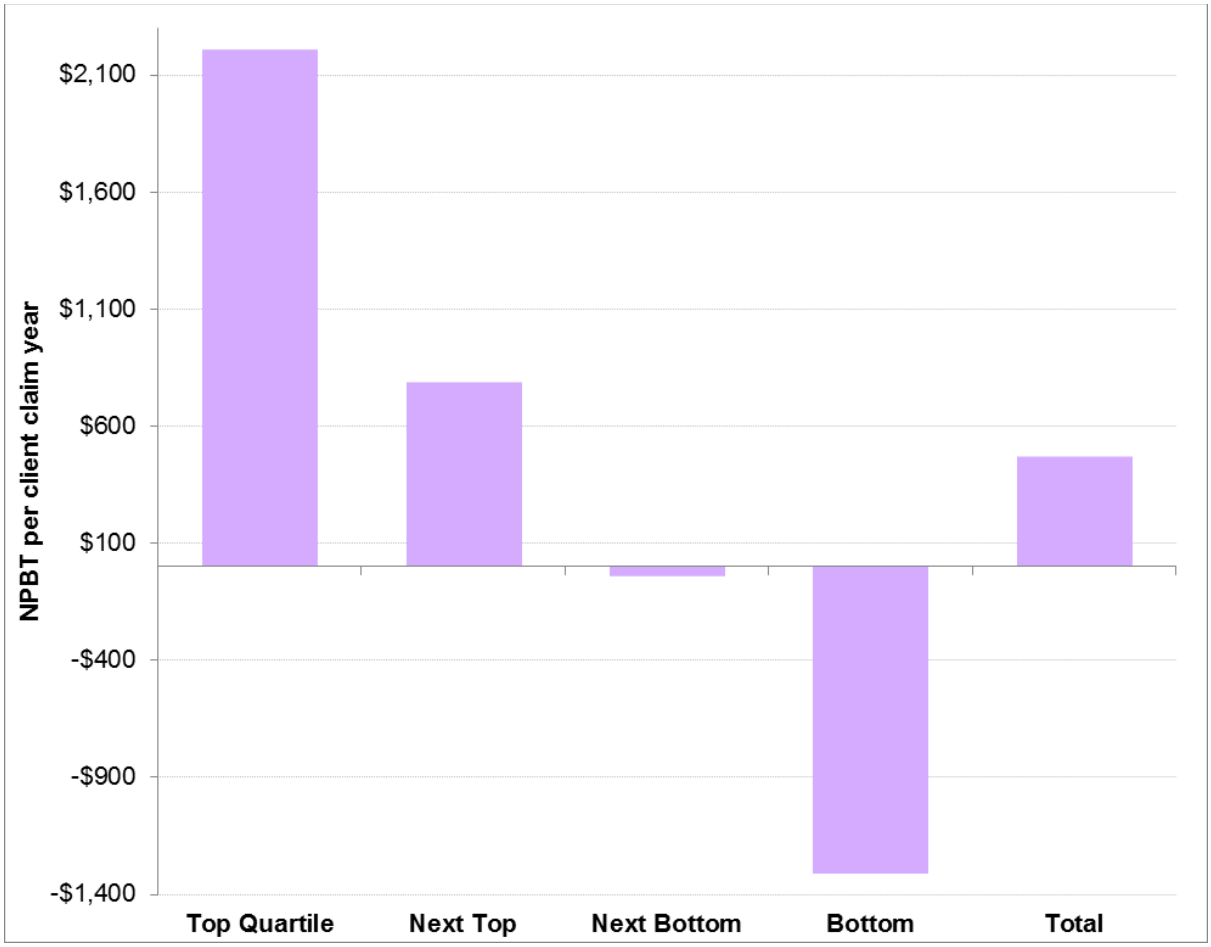
The NPBT results achieved in 2012-13 by for-profit providers are considerably higher than those of not-for-profit providers, with particularly stronger results in the top quartile.

Government providers:

- have reported poor results on average;
- are under-represented in the top quartile; and
- are over represented in the bottom quartile.

Chart 5.5 shows the NPBT quartile breakdowns for 2012-13. It shows the top quartile is performing significantly better than the rest of the home care sector.

Chart 5.5: Home Care Sector Net Profit Before Tax 2012-13



Tables 5.8, 5.9 and 5.10 provide a breakdown of quartile figures by ownership structure per package, ownership structure per consumer day and ownership per consumer per annum respectively.

Top quartile for-profit providers achieved stronger NPBT per package and per consumer day despite operating with lower total revenue compared with not-for-profit and Government providers. They achieved this by operating with the lowest total expenses.

Overall Government providers achieved poor results relative to for-profit and not-for-profit providers. While they received the highest level of Commonwealth funding per consumer per day, they received the lowest level of consumer contribution and had the highest level of expense per package and per consumer per day.

The not-for-profit and for-profit providers received similar levels of Commonwealth funding per consumer per day. For-profit providers had the lowest total expenses per consumer day ($40.37) compared with the not-for-profit providers ($41.13). Not-for-profit providers charged consumers higher levels of contribution per consumer day ($4.36) compared with for-profit providers ($3.84).

Table 5.8: Community Aged Care Packages Financial Results – 2012-13: Ownership Type – Per Package

	Top Quartile	Next Top	Next Bottom	Bottom	Total
Not for Profit					
No of Providers	79	78	70	71	298
Rev per Pkg	$14,499	$13,908	$14,512	$14,420	$14,313
Exp per Pkg	$12,568	$13,180	$14,541	$15,553	$13,835
NPBT Per Pkg	$1,931	$728	-$29	-$1,133	$478
For Profit					
No of Providers	13	11	14	10	48
Rev per Pkg	$13,908	$14,642	$14,717	$12,581	$14,042
Exp per Pkg	$10,768	$14,096	$14,766	$13,404	$13,260
NPBT Per Pkg	$3,140	$545	-$49	-$823	$782
Government					
No of Providers	14	17	21	25	77
Rev per Pkg	$14,653	$13,919	$14,195	$14,254	$14,199
Exp per Pkg	$11,852	$13,277	$14,266	$16,079	$14,390
NPBT Per Pkg	$2,801	$642	-$71	-$1,826	-$191
Total					
No of Providers	106	106	105	106	423
Rev per Pkg	$14,466	$13,942	$14,472	$14,307	$14,285
Exp per Pkg	$12,430	$13,228	$14,511	$15,502	$13,852
NPBT Per Pkg	$2,036	$714	-$39	-$1,195	$433

Table 5.9: Community Aged Care Packages Financial Results – 2012-13: Ownership Type – Per Consumer Day

	Top Quartile	Next Top	Next Bottom	Bottom	Total
Not for Profit					
No of Providers	79	78	70	71	298
Govt Care Subsidies	$38.28	$37.68	$37.56	$37.60	$37.81
Consumer Contrib.	$4.37	$3.97	$4.32	$4.83	$4.36
Tot. Expenses	$37.17	$39.76	$42.50	$46.31	$41.13
Net Profit Before Tax	$5.71	$2.20	-$0.08	-$3.37	$1.42
For Profit					
No of Providers	13	11	14	10	48
Govt Care Subsidies	$37.72	$38.60	$38.14	$37.28	$37.96
Consumer Contrib.	$3.20	$4.71	$3.48	$4.49	$3.84
Tot. Expenses	$33.99	$41.82	$42.08	$44.65	$40.37
Net Profit Before Tax	$9.91	$1.62	-$0.14	-$2.74	$2.38
Government					
No of Providers	14	17	21	25	77
Govt Care Subsidies	$39.93	$38.61	$39.25	$39.25	$39.18
Consumer Contrib.	$2.20	$1.91	$2.33	$2.85	$2.39
Tot. Expenses	$34.70	$38.78	$41.95	$47.70	$42.35
Net Profit Before Tax	$8.20	$1.87	-$0.21	-$5.42	-$0.56
Total					
No of Providers	106	106	105	106	423
Govt Care Subsidies	$38.30	$37.79	$37.93	$37.78	$37.95
Consumer Contrib.	$4.23	$3.85	$3.86	$4.59	$4.14
Tot. Expenses	$36.90	$39.79	$42.36	$46.40	$41.20
Net Profit Before Tax	$6.04	$2.15	-$0.11	-$3.58	$1.29

Table 5.10: Net Profit Before Tax Per Community Aged Care Package Per Consumer Per Annum by Ownership 2012-13

	Top Quartile	Next Top	Next Bottom	Bottom	Total
Not for Profit					
NPBT pcpa	$2,084	$802	-$31	-$1,231	**$519**
No of Providers	79	78	70	71	**298**
For Profit					
NPBT pcpa	$3,617	$590	-$51	-$1,000	**$869**
No of Providers	13	11	14	10	**48**
Government					
NPBT pcpa	$2,993	$684	-$76	-$1,977	**-$205**
No of Providers	14	17	21	25	**77**
Total					
NPBT pcpa	**$2,206**	**$784**	**-$41**	**-$1,306**	**$470**
No of Providers	**106**	**106**	**105**	**106**	**423**

5.4.1.2. Geographical Analysis

A break-down of NPBT by quartile and location is shown in Table 5.11.

City based providers of CACPs constitute 43 per cent of the sector while operating 28 per cent of services catering to 31 per cent of total home care consumers. They achieved the highest results in the top quartile and the highest average sector level.

In contrast, regional providers performed poorly on average, although around 52 per cent of these providers achieved a surplus in their NPBT results, while those in the bottom quartile performed particularly poorly.

Providers with services based in both city and regional locations are over represented in the top quartile at 36 per cent. These providers also achieved a better NPBT average compared with the sector average. Although they constitute only 13 per cent of providers in the sector, they run 46 per cent of services and cater to 52 per cent of total home care consumers.

Table 5.11: Net Profit Before Tax Per Consumer Per Annum by Location 2012-13

	Top Quartile	Next Top	Next Bottom	Bottom	Total
City					
NPBT prpa	$3,106	$766	-$32	-$952	**$659**
No of Providers	48	53	48	36	**185**
Regional					
NPBT prpa	$2,293	$575	-$85	-$2,668	**-$98**
No of Providers	38	38	49	57	**182**
City & Regional					
NPBT prpa	$1,862	$869	-$12	-$1,165	**$534**
No of Providers	20	15	8	13	**56**
Total					
NPBT prpa	**$2,206**	**$784**	**-$41**	**-$1,306**	**$470**
No of Providers	**106**	**106**	**105**	**106**	**423**

5.4.1.3. Results by Size

Overall, providers with between two to six services have the best overall results while providers with seven or more services are reporting better results than the overall sector average. Around 63 per cent of providers are operating single home care services, with the top quartile of these providers achieving the highest returns although their overall average is below the industry average and performance in the bottom quartile is significantly below others. Providers with seven or more facilities constitute only 8 per cent of total provider numbers but provide services to 48 per cent of total home care consumers.

Table 5.12 shows a break-down of provider NPBT by quartile and service number.

Table 5.12: Net Profit Before Tax Per Consumer Per Annum by Provider Size 2012-13

	Top Quartile	Next Top	Next Bottom	Bottom	Total
Single service					
NPBT prpa	$2,912	$731	-$42	-$2,343	**$301**
No of Providers	66	65	70	69	**270**
2 TO 6 service					
NPBT prpa	$2,538	$668	-$81	-$898	**$577**
No of Providers	29	33	27	28	**117**
7 & More service					
NPBT prpa	$1,863	$921	-$9	-$1,162	**$487**
No of Providers	11	8	8	9	**36**
Total					
NPBT prpa	**$2,206**	**$784**	**-$41**	**-$1,306**	**$470**
No of Providers	**106**	**106**	**105**	**106**	**423**

Table 5.13 below shows the size of providers in home care and indicates that providers with less than 25 packages are facing viability challenges.

Table 5.13: Net Profit Before Tax by Size

No of Packages	Not for Profit		For Profit	
	No of Providers	NPBT per pkg	No of Providers	NPBT per pkg
1 to 10	40	-$1,297	2	-$6,945
11 to 25	64	$73	14	-$57
26 to 50	60	$905	16	$931
51 and more	134	$479	16	$907

5.4.2. Stewart Brown 2012-13 Home Care Report[45]

The Stewart Brown *Aged Care Financial Performance Survey: Home Care Report 2013 Annual Results*[46] did not reveal significant movement in the results for home care package providers compared with 2011-12. The movements in CACP and EACH were very small with the EBITDA for CACP packages remaining steady at $960 and for EACH programmes declining by $60 to $7,390. The packages with the largest movement were the EACHD packages where EBITDA increased by $1,016 in 2012-13 to $9,779. This is shown in Table 5.14.

Stewart Brown concluded that the main driver of the increased level of profitability for EACHD packages was a reduction in staff costs due to a decline in the hours worked per EACHD client per week.

[45] The data collected by the Department is not detailed enough to prepare EBITDA result for Home Care packages. Accordingly we are unable to compare the profitability results for home care providers with the results obtained by Stewart Brown. The Improvement in the Collection of Data Project will look at this issue.

[46] Collated from a sample of 514 programmes covering 16,297 home care places.

Table 5.14: Home Care Sector - EBITDA 2012-13[47]

Programme Type	2011-12 $pcpa	2012-13 $pcpa	Change	
			$pcpa	%
CACP	960	960	-	-
EACH	7,450	7,390	-60	-0.8%
EACH-D	8,763	9,779	1,016	11.6%

5.5. Developments, Issues and Challenges

5.5.1. Overview

The home care sector is, similar to residential care, subject to significant reforms that will significantly impact and shape the sector over coming years. In part, these reforms have already commenced with new home care package levels available since August 2013 and CDC already applying to new home care packages.

ACFA has been asked by the Australian Government to examine the factors that are influencing financial performance across both the residential and home care sectors. ACFA intends to focus further on this work for home care in 2015.

5.5.2. 2013-14 Financial Results

While Departmental data on the 2013-14 results of home care providers is not yet available, some data is available from Stewart Brown's survey results so far in 2013-14. These show an improvement in profitability compared with the 30 June 2013 results.

For example, EBITDA for:

- Level 2 Home Care Packages (known as CACPs prior to 1 July 2013) was $1,334 at 31 March 2014, up from $960; and
- Level 4 Home Care Packages (combination of EACH and EACHD prior to 1 August 2013) was $8,966 at 31 March 2014, up from $8,188 as at 30 June 2013.

Stewart Brown noted in their 2013-14 quarterly reports that profits for Level 2 and Level 4 packages have been impacted by increases in administration expenses.[48] They acknowledge the increase in administration expenses may be a result of additional compliance with new standards in the industry or providers reassessing the actual costs to administer packages as they prepare to transition to CDC.

5.5.3. Greater Consumer Choice and Control

5.5.3.1. Continuity in Home Care

Since 1 August 2013 the structure of home care packages has changed, with packages now offered across four different levels ranging from a Level 1 package for those with low level needs to a Level 4 package for those with high needs. A separate Dementia supplement is now also paid for eligible consumers across all four new package levels. Table 5.15 below outlines how the previous CACP and

[47] Based on Stewart Brown data.

[48] Stewart Brown has not received sufficient data as at 31 March 2014 to comment on Level 1 and 3 packages.

EACH structure has transitioned into the new home care programme and the Government funding levels for each package type. The roll-out of the more graduated range of package levels should make it easier over time for more consumers to choose to be cared for in their own homes as their care needs increase.

Table 5.15: Home Care Package Threshold Changes

	2012-13	2013-14	
	Govt Package Subsidy $ per consumer per year	Govt Package Subsidy $ per consumer per year	$ Dementia & Cognition Supplement
Level 1 (basic)	n/a	$7,501	$752
CACP (low)/Level 2 (low)	$13,622	$13,644	$1,365
Level 3 (intermediate)	n/a	$30,003	$3,000
EACH (high)/Level 4 (high)	$45,534	$45,607	$4,563
EACHD Level 4	$50,217		

*Supplement indexed annually.

5.5.3.2. Projected Increase in Package Numbers

The supply of home care packages is rationed according to a population-based service provision target ratio. The target was increased as a result of the recent reforms from 25 packages per 1,000 people aged 70 or over to 45, to be achieved by 2021-22. New packages released each year are distributed through the ACAR process which aims to ensure an equitable distribution of packages across regions. The rationing of places also places an aggregate limit on Commonwealth expenditure. The current provision ratio is 27 home care packages per 1,000 people aged 70 or over.

The 2012-13 ACAR allocated 5,835 new CDC home care packages, as shown in Table 5.16. A break-down of these places by State and Territory can be found in Table M.1 in Appendix M.

Table 5.16: Number of Home Care Packages Allocated in the 2012-13 ACAR, as at 30 June 2013 by Level

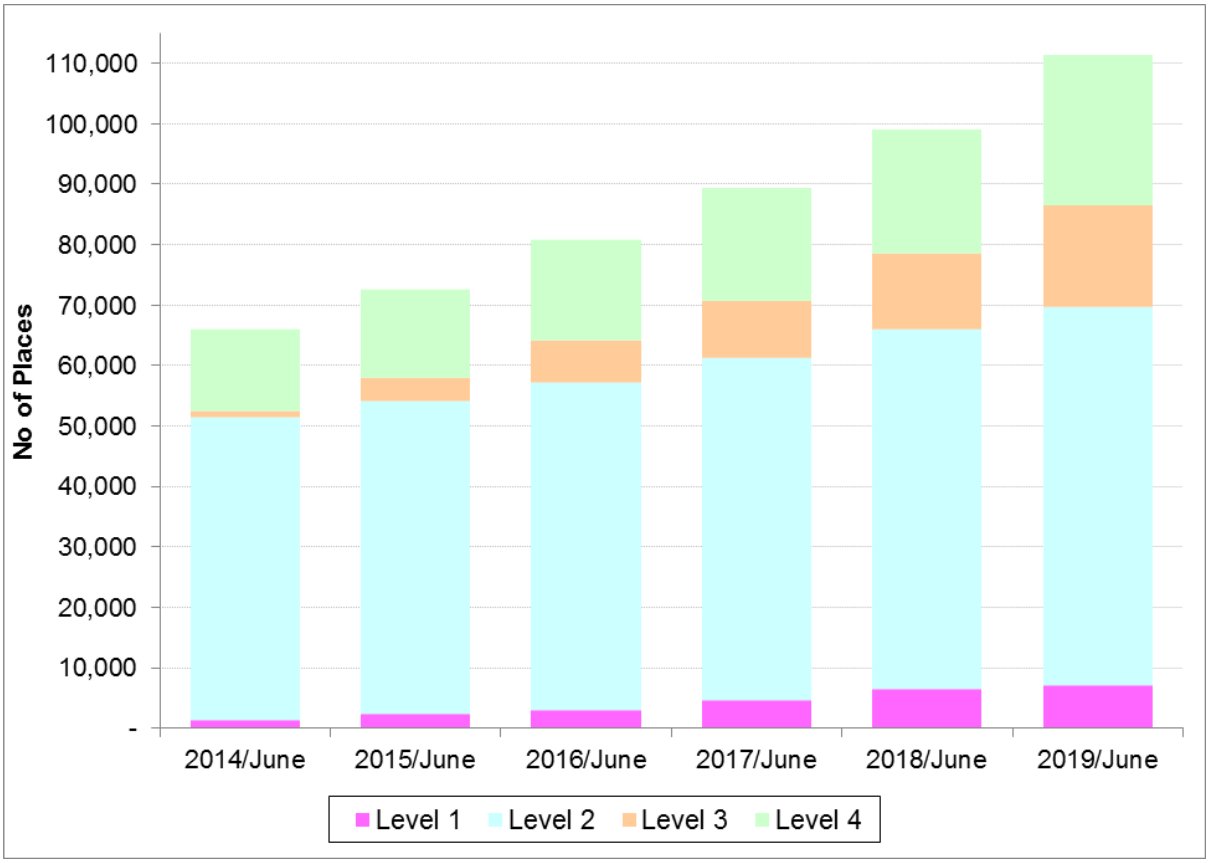
	Level 1	Level 2	Level 3	Level 4	Total
Australia	**1,303**	**2,997**	**1,010**	**525**	**5,835**

Source: 2012-13 Report on the Operation of the *Aged Care Act 1997.*

The 2014 ACAR has recently been opened with the Australian Government inviting applications for a further 6,653 home care packages through the round. All packages in the 2014 round will be offered on a CDC basis.

Over the next four years, the total number of home care packages across Australia is expected to grow from about 60,000 packages to around 100,000 packages, with the 2021-22 target being 140,000 home care packages by 2021-22.

Chart 5.6: Projected Growth in Home Care Places



5.5.3.3. Consumer Directed Care

The home care packages sector is facing a significant change to its operations with the ongoing roll-out of CDC, with all new home care packages being offered on a CDC basis and all existing packages required to be converted to CDC by 1 July 2015.

A key element of CDC is the requirement for Care Agreements to include agreed individual annual budgets and provision of monthly financial statements for each package itemising actual expenditure against budget. The increased involvement and transparency is expected to change the dynamics of the relationship between the provider and consumer, including consumers taking greater control over their individual budget and providers requiring appropriate systems for accounting for their costs and prices. The introduction of income tested fees in home care from 1 July 2014 may also see consumers take a more active role in their packages as they will see part of the funding as being directly funded by them.

It is expected that the shift to CDC will result in greater transparency, competition and efficiency within the home care sector but it may also be a challenging transition for some providers requiring a more sophisticated approach to financial management and administration of home care packages[49].

5.5.4. Increased Consumer Contributions

Prior to 1 July 2014 a consumer could be asked to pay a contribution or fee for a Home Care Package. For a consumer receiving the Age Pension, the maximum fee which could be charged was 17.5 per cent of the basic rate of the single pension. People on higher incomes could have been asked to pay additional fees (limited to 50 per cent of any income above the basic rate of single pension). While providers were able to collect these income tested fees from consumers, the majority chose not to. From 1 July 2014 new income tested fee arrangements in home care packages are expected to increase consumer contributions to home care.

Income tested fees will apply for new entrants to home care from 1 July 2014 whereby the amount of Commonwealth subsidy the provider receives on behalf of the package consumer will reduce based on the amount of the income tested fee they can be charged. To retain the same total revenue stream, providers will have to collect the income tested fee from the package consumers and accordingly it is expected income tested fees will now be commonly applied.

The new income tested fee arrangements overlay the existing basic fee arrangements, which will continue, whereby the provider may charge each package consumer, regardless of income, a basic daily fee (up to 17.5 per cent of the single age pension). The collection of this fee is, however, discretionary and does not result in a subsidy reduction. Because no subsidy reduction applies, many providers have also not been collecting the basic daily subsidy, or have been setting fees less than the maximum allowable.

The need to collect the income tested fee in order to avoid a revenue reduction may not only require many providers to put in systems for the collection of fees, but together with the introduction of individual budgets, will change the relationship between the package consumer and the provider as consumers become more value conscious. The purchasing by package consumers of services in addition to those that may be afforded from within the package will also need to be factored into administrative arrangements.

While these changes are expected to require a significant adjustment to the operations of many home care providers, they should improve responsiveness to consumer needs.

[49] The Government has funded COTA Australia to build the capability of aged care providers and consumers to adapt to this new service delivery model.

- the CDC Capacity Building Service aims to ensure that providers have the knowledge and capacity to implement CDC; and
- the Controlling My Own Life – Making the most of CDC project aims to ensure older people understand what CDC means and how they can use it.

5.5.5. 2014-15 Budget

Home care providers will receive a 2.4 per cent increase to subsidies and, where eligible, a 20 per cent increase to the viability supplement from 1 July 2014 as announced in the 2014-15 Budget. These increases are estimated to add around $161 million to home care provider revenues between 2014-15 and 2017-18.

5.5.6. Improving the Collection of Financial Data

Financial analysis of the home care sector is currently hampered by limited data. ACFA will be reporting on options to improve and streamline the collection of financial data from home care providers as part of the Australian Government's request that ACFA provide advice by 30 September 2014 on options to improve the collection of financial data from the aged care industry. As well as being important to ACFA's role of reporting on funding and financing of the aged care industry, the availability of reliable data will support a more transparent and evidence-based approach to the development of Australian Government aged care policies.

6. Home and Community Care

Contents

6.1. Introduction

In 2012-13 the Commonwealth assumed full policy, funding and administrative responsibility for Home and Community Care (HACC) Programme services for older consumers (ie people aged 65 years and over and 50 years and over for Aboriginal and Torres Strait Islander people) in all States and Territories except Victoria and Western Australia. Building on this substantial change, the Commonwealth will be assuming full funding and administrative responsibility for HACC services for older consumers in Victoria from 1 July 2015. The Australian Government is continuing to negotiate with Western Australia about the possible handover of the Western Australia HACC programme to the Commonwealth.

6.2. Snapshot

Table 6.1 provides a snapshot of the provision of Commonwealth funded HACC services.

Table 6.1: Snapshot of Commonwealth HACC Provision

	2011-12	2012-13	Change	
			Number	%
No of Providers[1]	1,043	1,041	-2	0.2%
No of Consumers	750,133[2]	756,148	9,644	0.8%
Commonwealth Funding	$1,502m	$1,623m	$121m	8.1%

[1] Does not include Victorian or WA providers.

[2] Includes 3,274 consumers of unknown age.

6.3. Home and Community Care Funding

In 2012-13 the Australian Government provided funding of $1.1 billion to the Commonwealth HACC Programme and $501 million to the jointly funded HACC Programmes in Victoria and Western Australia. The Commonwealth HACC Programme provided services to 486,159 older consumers through 1,041 providers, while the Victorian and Western Australian programmes supported 269,989[50] older consumers through 595 providers. Together, the Commonwealth, Victorian and Western Australian programmes provided services to 756,148 older consumers in 2012-13 with an average value of $2,300 in services.

Table 6.2 below shows the Commonwealth and State contribution and the number of older consumers supported by the Commonwealth along with the total older consumer proportions of the Victorian and Western Australian jointly funded HACC Programmes. It shows that approximately 75 per cent of the joint funding in the Victorian and Western Australian HACC Programmes was spent on older consumers.

[50] Victoria and WA also provide services to younger people with disabilities, but these are not included in this count.

Table 6.2: Commonwealth and State Contribution to Home and Community Care in 2012-13

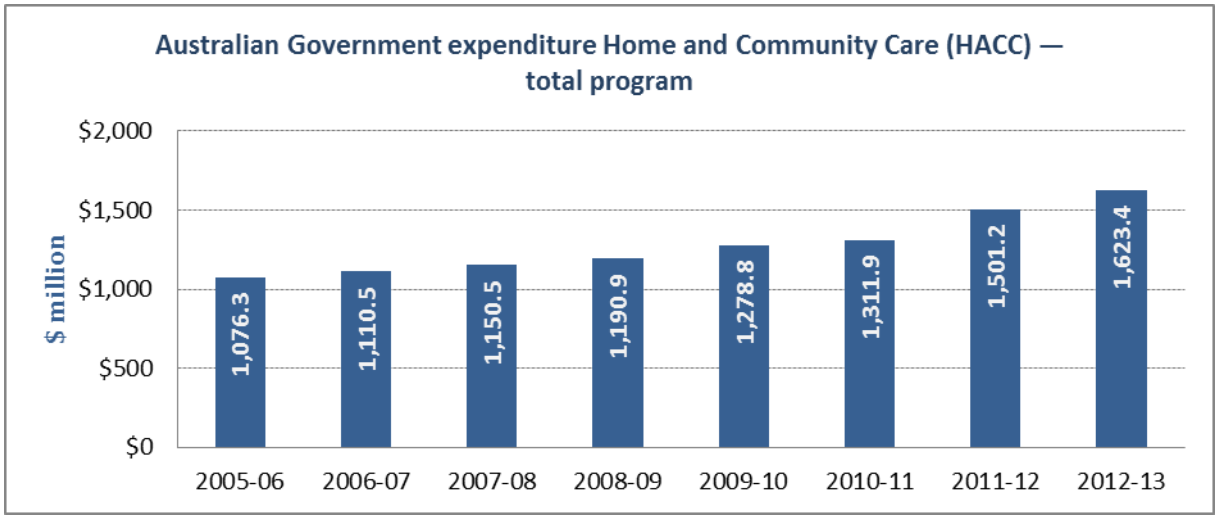
	Commonwealth $m	State $m	No of Providers	No of Consumers
Commonwealth HACC	1,122.6	-	1,041	486,159
HACC - AGED CARE - Victoria and WA[51]	373.8	247.3	595	269,989

Note: HACC information includes Victorian and WA providers and Commonwealth, Victorian and WA funding for eligible older consumers. Provision for younger people with disabilities through the Victorian and WA HACC programmes is not included.

HACC providers will receive a 2.4 per cent increase in funding as a result of the repurposing of the Workforce Supplement announced in the 2014 Budget, representing $31 million in 2014-15 ($183.9 million over four years).

As part of the 2014 Budget, the Australian Government also announced a reduction in the annual real rate of growth of funding for the Commonwealth Home Support Programme from 6 per cent to 3.5 per cent, to align funding growth with the annual growth in the population aged 65 and over. The 2014 Budget papers noted that the reduction in the annual growth rate would not translate to any individual person or provider having their current funding reduced.

Chart 6.1: Australian Government Expenditure Home and Community Care (Total Programme) - 2005-06 to 2012-13



Source: Report on Government Services 2013 and Report on Government Services 2014, Table 13.A.9

6.3.1. Service Providers by Type and Size

At 30 June 2013, there was a total of 1,041 Commonwealth funded HACC service providers. A break-down of these providers by organisation type is shown below in Table 6.3.

[51] Consumers over 65 years of age and over or 50 years of age and over for Aboriginal and Torres Strait Islander people.

Table 6.3: Commonwealth Home and Community Care Service Providers at 30 June 2013 by Organisation Type

	Not-for-profit	For-profit	Government	Total
Australia	**780**	**77**	**184**	**1,041**

Note: This table does not include VIC or WA HACC service providers.

6.3.2. Financial Data and Analysis

The HACC Programme collects extensive consumer, carer and care data through its Minimum Data Set, however, none of this information relates to cost of service provision.

While there is a paucity of data on the financial performance of HACC providers, to some extent it is a moot point. Many HACC services rely heavily on the support of volunteers for services such as the delivery of Meals on Wheels, providing transport to consumers and the provision of social support in the form of home visits. Like the majority of home care providers, HACC providers are not generally structured towards making a profit, with most aiming to maximise service provision within their available budget.

6.4. Commonwealth Home Support Programme

From 1 July 2015, the Australian Government will establish a national Commonwealth Home Support Programme. The new programme will consolidate all existing services providing basic home support – specifically the existing HACC Programme for older people, the National Respite for Carers Programme, the Day Therapy Centre's Programme and possibly the Assistance with Care and Housing for the Aged Programme. The key aim of consolidating these programmes is to increase service flexibility, reduce administrative costs and to allow greater integration with the Commonwealth's other aged care programmes to create a national aged care system.

Other features of the Home Support Programme will include nationally consistent assessment and eligibility criteria, a focus on reablement and wellness, greater contestability in service provision and a national fees policy. The programme is currently being developed in consultation with providers and consumers.

The Department recently released a discussion paper on the Home Support Programme which can be found on the Department's website (Commonwealth Home Support Programme - Discussion Paper).

6.4.1. Consumer Contributions

Fees paid by consumers for HACC services currently vary across States and Territories but adhere to the HACC Fees Policy which sets out principles providers must adhere to when charging consumers. In most cases, the consumer co-payments are minimal relative to total funding. The financial year 2012-13 was the first year data on consumer fees were collected and more information will be available in ACFA's 2014-15 Report.

Through the introduction of a nationally consistent fees policy, fees will move incrementally from a current national average of around 5 per cent of the cost of the service to 15 per cent nationally by 2017-18.

7. Access to Quality Care

Contents

7.1. Introduction

Ensuring access to appropriate care is a fundamental policy imperative. Australia is a large, thinly populated country so providing services where people want them (ie near their home or family) can be challenging. Remote and some rural areas will always be challenged by small population and workforce catchments, whereas urban areas will be challenged by the lack of available and appropriate sites in areas where older Australians live.

Additionally, because aged care services are rationed, regulations are required to ensure that available services are distributed fairly across the country in order to achieve equitable access. Aged care services are also targeted to ensure equitable access by special needs groups including, CALD, Indigenous people, people living with dementia and the homeless.

For the consumer, price itself is not likely to be a significant barrier to access because the Australian Government subsidises services for those who cannot afford to pay the full price. The Government takes capacity to pay into account when formulating fee policies and applies annual and lifetime caps on care contributions. Australia's high level of home ownership (nationally 63.7 per cent and 71.6 per cent for 60-89 year olds) provides the majority of people with the means to pay for the accommodation component of residential aged care – with the supported residents ratio and accommodation supplement aiming to assure access for those with low means.

7.2. Snapshot

The utilisation of the aged care system in 2012-13 is shown in Table 7.1. While estimates of demand (unmet need) for aged services are not available and can be hard to quantify, national occupancy rates for home and residential care suggest that, regional variations aside, care is generally available when needed. The use of occupancy as a proxy for unmet need for HACC services is not possible because HACC funding is allocated on a provider, rather than a consumer basis.

Table 7.1: Utilisation of Aged Care System- as at 30 June 2013

	HACC	Home Care	Residential Care
Capacity No. Places	n/a	60,308	186,278
Utilisation No. Places	756,148[1]	56,515	173,094[2]
Occupancy	n/a	92.0%	92.7%

[1]HACC figure based on consumers, not places.

[2]Utilisation of residential care places includes permanent and respite residents.

7.3. Supply

The Australian Government controls the supply of subsidised aged care services by specifying a national provision target of subsidised operational aged care places for every 1,000 people aged 70 years or over, known as the aged care provision target ratio. The population-based provision formula ensures that the supply of services increases in line with the ageing of the population.

The provision ratio target was first set in 1985 at 100, increased to 108 places in 2004-05, and further increased in 2007 to 113 operational places per 1,000 people aged 70 years or over (to be achieved by 2011). The proportion of different types of care places offered was also adjusted in 2007 from

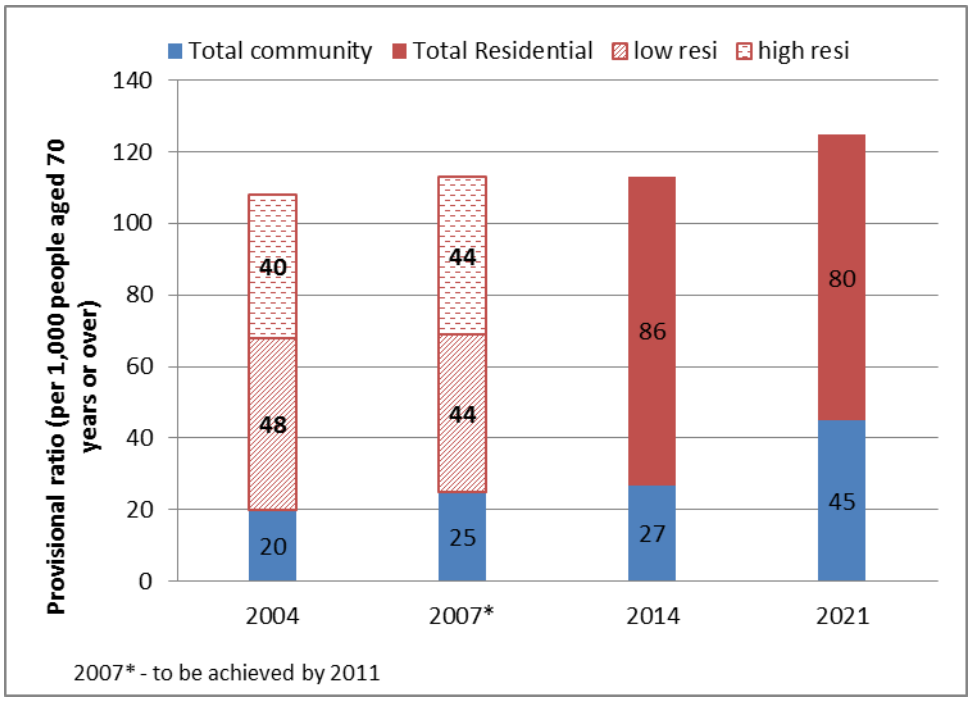
40 to 44 places for high level residential care, from 48 to 44 places for low level residential care and from 20 to 25 places for home care for every 1,000 people aged 70 years or over. Successive adjustments to the overall target have seen a steady increase in the target for home care places.

Under the recent reforms, the overall target provision ratio was further increased from 113 operational places per 1,000 people aged 70 years or over to 125 places by 2021–22. Within this overall provision ratio, the target for home care packages will increase from 25 to 45, and residential target will reduce from 88 to 80. Chart 7.1 shows the planned increase in operational aged care places between now and 2021.

Each year, new aged care places are made available for allocation through the ACAR, having regard to the service provision target ratios, population projections provided by the ABS, and the current level of service provision.

The allocation of new places seeks to achieve a balance in the provision of services between metropolitan, regional, rural and remote areas, as well as between people needing different levels and types of care.

Chart 7.1: Planned increase in Provisional Ratio, 2004 – 2021 (per 1,000 people aged 70 years or over)



7.3.1. Residential Care

7.3.1.1. Residential Care Places

At 30 June 2013, there were 186,278 operational residential care places in Australia. On 30 June 2013, 136,848 residents were receiving permanent residential high care while 32,120 were receiving permanent residential low care. The increase in residential aged care residents and operational places in 2012-13 was 1.2 per cent and 0.9 per cent respectively. The 1.2 per cent increase in residential operational places compares with annual average growth of 1.7 over the previous five years. Time series data on the number and growth in residential aged care residents and places is provided at Table N.1 in Appendix N, with a break-down for 2013 by provider type provided in Table N.4 in Appendix N.

7.3.1.2. Changing Resident Profile

Around 67 per cent of providers operate services that predominantly target residents with high care needs, while 29 per cent operate services with a mixture of high and low care residents, and 4 per cent predominantly target residents with low care needs.

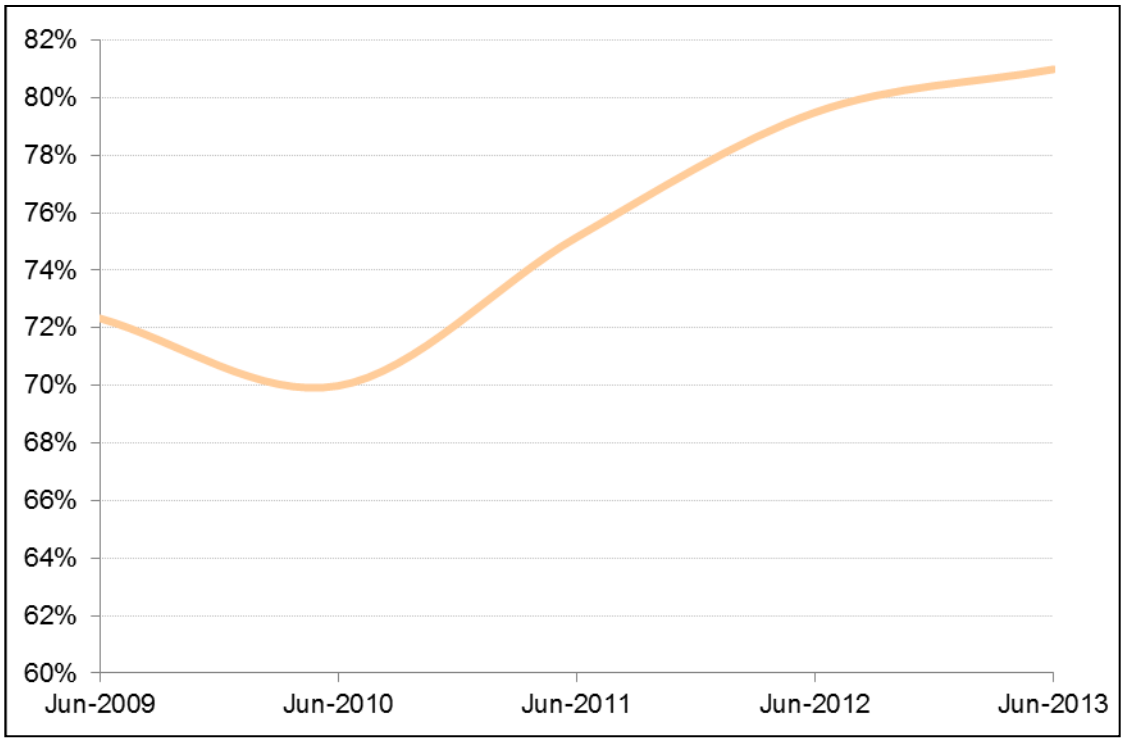
This continues the trend of recent years away from low care and mixed care services, as shown by the increase between 2006-07 and 2012-13 in the proportion of providers targeting mainly high care residents from 45 per cent to 67 per cent. Further information on this can be found in Table N.2 of Appendix N.

In 2012–13, 81 per cent of operational residential care places were occupied by high care residents, an increase from 70 per cent in 2009-10. Further, 65 per cent of admissions in 2012-13 were high care residents, compared with 59 per cent in 2011-12. This trend towards high care residents becoming an increasing proportion of the residential aged care population is a result of a number of factors including:

- ageing in place;
- the increasing availability of home care services allowing people to remain in their own homes for longer;
- the higher turnover of high care residents; and
- the business strategies of providers.

Chart 7.2 shows the proportion of people with high care needs in aged care homes has been increasing.

Chart 7.2: Trend in High Care Permanent Residents, 2008-09 to 2012-13



Note: On 1 January 2010, the definition for high care under the ACFI was changed. This resulted in a structural shift in the proportion of high care residents reducing by 6.6 percentage points.

Additionally, the proportion of residents in residential age care from a CALD background is steadily increasing. Between 2007 and 2013, the proportion of CALD residents in high care increased from 15.7 per cent to 18.3 per cent. Similarly over the same period, the proportion in low care residents increased from 12 per cent to 13.5 per cent.

7.3.1.3. Supported Residents

The Australian Government aims to ensure access by supported residents by paying providers an accommodation supplement for each supported resident. In addition, because services are rationed, the Government also seeks to discourage providers from having fewer than 40 per cent supported residents in each home by reducing the accommodation supplement by 25 per cent. The Government also applies minimum supported resident ratios in each region, non-achievement of which may result in compliance action.

As at 30 June 2013, the nationwide proportion of supported residents (excluding extra service) was 43.5 per cent, compared with 38.2 per cent in 2011-12 and 37.9 per cent in 2010-11.

Around one third of aged care homes (mostly not-for-profits) always have a supported resident ratio exceeding 40 per cent, while around another third (mostly for-profits) never achieve the 40 per cent ratio needed to obtain the higher accommodation supplement. The other third of homes fluctuate, sometimes being well below the ratio, and at other times being above it. Over the longer term, the

proportion of supported residents has tended to sit just below 40 per cent. Table 7.2 summarises the mix by ownership and location.

Table 7.2: Proportion of Services by Location, Ownership of Home Type and State/Territory Distributed Across Bands of Supported Resident Ratios, 2012-13

Distribution Type	Supported Resident Ratio					Total
	0%	1%-19%	20%-39%	40%-59%	60%-100%	
LOCATION						
Major City	4.4%	9.7%	28.1%	42.6%	15.3%	100.0%
Regional Areas	0.6%	3.8%	32.5%	52.8%	10.4%	100.0%
Remote Areas	1.75%	0.00%	21.1%	29.8%	47.4%	100.0%
OWNERSHIP						
For-Profit	9.3%	11.8%	27.7%	38.3%	13.0%	100.0%
Not-For-Profit	0.2%	5.4%	30.8%	48.9%	14.7%	100.0%
Government	0.0%	5.8%	27.6%	52.0%	14.5%	100.0%
STATE/ TERRITORY						
NSW	3.9%	5.4%	30.8%	46.7%	13.3%	100.0%
VIC	3.0%	11.4%	33.0%	41.6%	11.0%	100.0%
QLD	1.8%	6.4%	23.6%	52.7%	15.6%	100.0%
WA	2.5%	6.2%	23.1%	45.5%	22.7%	100.0%
SA	3.0%	5.3%	29.9%	47.7%	14.0%	100.0%
TAS	1.28%	5.1%	34.6%	48.7%	10.3%	100.0%
ACT	0.00%	12.0%	48.0%	40.0%	0.0%	100.0%
NT	0.00%	0.0%	0.0%	6.7%	93.3%	100.0%
TOTAL	**3.0%**	**7.3%**	**29.5%**	**46.0%**	**14.2%**	**100.0%**

7.3.2. Home Care

Commonwealth home care packages provide care and support to enable older people to remain living independently in their own home and community. Throughout 2012-13, 63,365 people received support through a CACP, 13,042 people received care through an EACH package and 6,488 people received care through an EACHD package. These numbers exceed the total number of packages, as once a person stops receiving care due to changed circumstances, another person will be able to utilise that package within the same financial year.

As a result of the recent reforms which increased the national service provision target, the number of operational home care packages is set to increase by about 80,000 to around 140,000 packages by 2021-22, with 6,653 new places available in the 2014 ACAR. This will assist more people to access care while remaining in their own homes for as long as possible.

As discussed in Chapter 5: Home Care, the 2014-15 Budget noted that the Government will bring forward the allocation of a number of home care places to allow for a more consistent annual release of operational home care places across the period 2014‑15 to 2017‑18, noting that this measure is Budget neutral over the forward estimates.

7.3.3. Home and Community Care

As noted earlier in Chapter 5, in 2012-13 a total of 756,148 older consumers received services through the Commonwealth, Victorian and Western Australian HACC Programmes.

As part of the 2014 Budget, the Australian Government announced a reduction from 2018-19 of the annual real rate of growth of funding for the CHSP from 6 per cent to 3.5 per cent, to align the growth in services with the annual growth in population aged 65 and over.

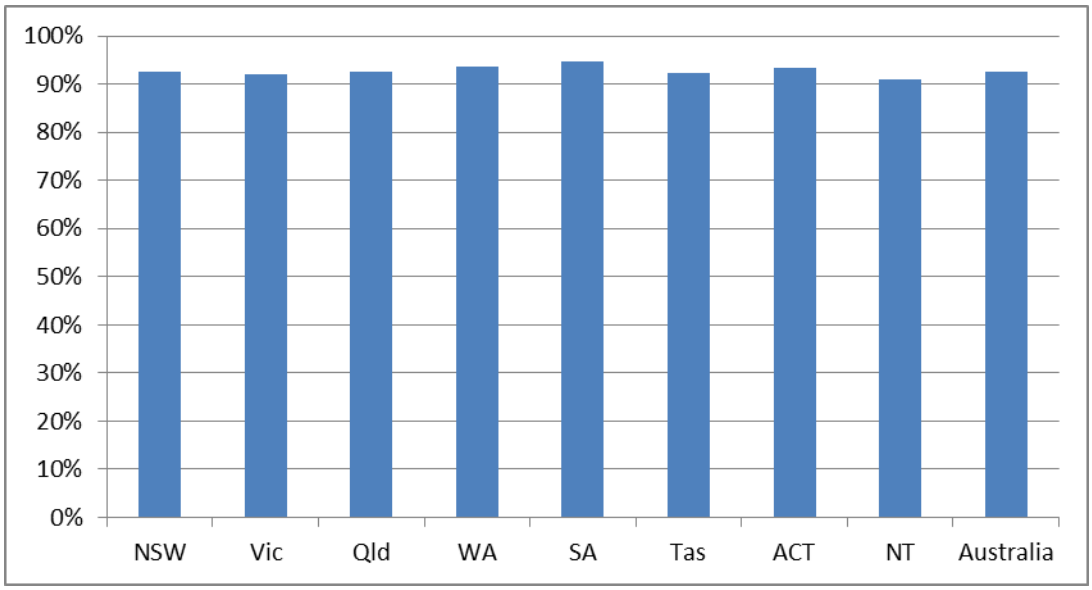
7.4. Demand

7.4.1. Residential Care

Data on demand (and unmet need) for residential aged care is not available, however, occupancy and waiting times for services offer reasonable proxies.

Occupancy rates[52] in residential aged care were on average 92.7 per cent in 2012-13, with only small variations from State to State. This is shown in Chart 7.3.

Chart 7.3: Residential Care Occupancy Rates in Aged Care by State and Territory, 2013[53]



Occupancy rates have been declining steadily. They peaked in 2002 at 96.8 per cent when the residential provision ratio was 81.6 compared with an occupancy rate of 92.7 per cent at 30 June 2013.

Average occupancy for for-profit providers in 2012-13 (90.5 per cent) was lower than not-for-profit providers (94.2 per cent).

Data on the time between a person being assessed as eligible for residential care and entering care, indicates that in 2012-13 some 18.1 per cent of people entering care did so within a week of being

[52] The occupancy rate is calculated by dividing the number of resident bed nights by the number of operational places.
[53] ROACA data.

assessed by ACAT, 43.9 per cent did so within a month, and 69.2 per cent within three months. This continues a steady downward trend in entry times. Those awaiting entry are generally still in their own homes or hospital.

It should be noted that an eligible assessment does not necessarily mean that a person wishes to immediately access residential care. Additionally, those who enter residential care may need to organise the sale of assets in order to pay an accommodation bond and many people are happy to wait until a place becomes available in either their local area or near one of their children.

There have been improvements in the wait time for residents entering aged care from hospital. In 2007-08, a non-indigenous person requiring residential aged care would wait 14.6 days per 1,000 patient days in hospital which had reduced to 11.2 days in 2011-12 (2012-13 figures are not yet available).

Table 7.3 shows that there are stark differences in the entry period when a person has their ACAT assessment in an acute hospital setting compared with when they are at home. The entry period is markedly longer for a person with a high ACAT approval where the contact was in the community compared to a person with a low ACAT approval assessed in the community. This is likely to reflect the lower admission urgency for people still in their own home who are likely to be accessing some home support from either the Government or relatives.

Table 7.3: Median Entry Period (Days) for First Permanent Admission, by ACAT Level, Face to Face Contact Setting and Supported Resident Status, 2012-13

ACAT level	Face to face contact setting	Non-supported residents	Supported residents	All
High	Acute Hospital	16.6	17.5	17.0
	Private Residence / Other Community	133.5	130.9	132.3
Low	Acute Hospital	30.3	29.0	29.8
	Private Residence / Other Community	98.3	85.2	92.7

As indicated earlier, residential aged care places are increasingly being utilised by residents with high care needs – shown in Table N.9 in Appendix N. The average age of people entering and living in permanent residential aged care has increased from 83 and 84 respectively in 2008-09 to 83.3 and 84.4 in 2012-13, as shown in Table N.10 in Appendix N.

The *Aged Care Act 1997* allows 'ageing in place' whereby a resident may remain in the same residential aged care service as his or her care needs increase from low level to high level, subject to the service being able to meet the higher care needs of the resident. This is contributing to the changing care profile of people in services. During the period 2004-05 to 2012-13, there was a steady increase in the proportion of people who stayed in the same service when changing from low care to high care, from 71.5 per cent to 91.0 per cent.

At 30 June 2013, there were 68,200 supported residents[54] in residential care accounting for 44 per cent of the non-extra services resident population. The proportion of non-extra service first admissions that were supported residents has remained relatively consistent at approximately 42 per cent over the period 2008-09 to 2012-13.

Supported residents at admission tend to be younger than non-supported residents. At first permanent admission in 2012-13, the average age of a supported resident was 81.1 years compared with 84.5 for non-supported residents.

At 30 June 2013, on average, Indigenous Australians and people born in non-English speaking countries had lower rates of use of aged care residential services (21.0 and 41.2 per 1,000 of the relevant aged care target populations respectively), compared with the population as a whole (52.0 per 1,000).

7.4.2. Home Care

As with residential care, data on demand (unmet need) is not available, but occupancy rates provide a reasonable proxy.

Occupancy rates for CACP, EACH and EACHD packages averaged 92 per cent during 2012-13, ranging from 92.4 per cent and 92.9 per cent for CACPs and EACH respectively to 85 per cent for EACHD. This is shown in Table 7.4, with occupancy rates by State/Territory are shown in Chart 7.4.

Table 7.4: Occupancy Rates of Community Aged Care Package, Extended Aged Care at Home and Extended Aged Care at Home Dementia Packages, as at 30 June 2013[55]

	CACP	EACH	EACHD[1]	Total Occupancy
Total Number of Packages	47,158	8,798	4,354	
Australia	92.4%	92.9%	85.0%	92.0%
Major City	92.7%	94.1%	84.7	92.3%
Regional	94.2%	93.3%	88.8%	93.7%
Remote	79.3%	78.6%	64.8%	78.9%

[1] 2 EACHD places were not operational.

[54] For the purposes of this paper, supported residents are considered as those residents who are eligible for Government support toward the cost of their accommodation. This group of residents includes the current group of supported residents whose eligibility is determined through an aged care asset test, and the grand parented categories of concessional and assisted residents.

[55] ROACA data.

Chart 7.4: Home Care Occupancy Rates in Aged Care by State and Territory, 2013[56]

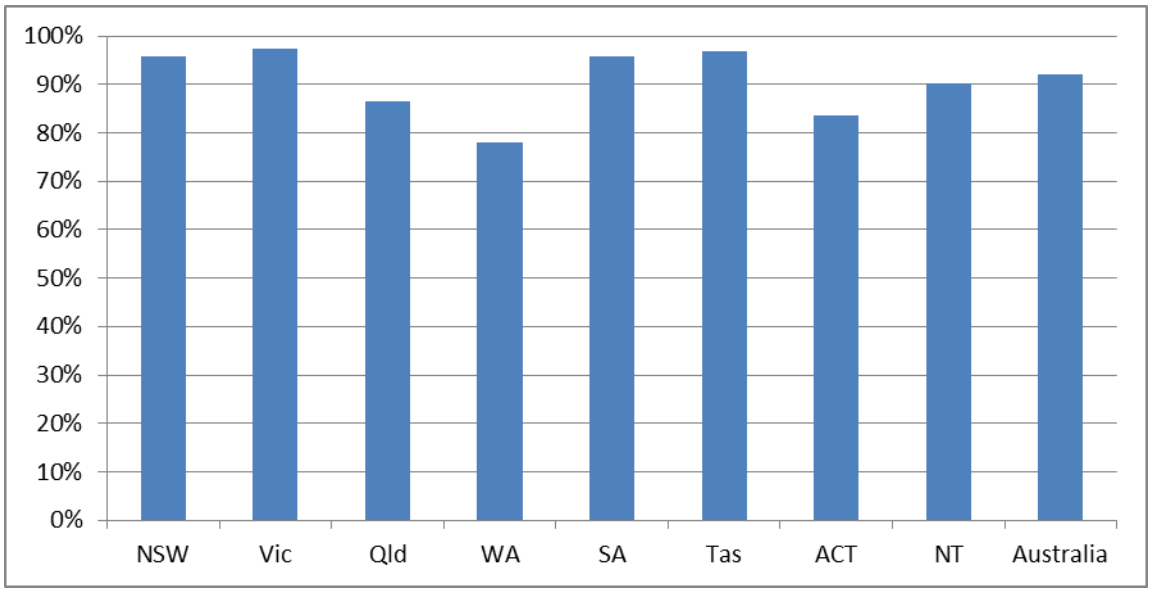


Table 7.5 shows the utilisation rates of Indigenous people and CALD consumers in comparison with the general population.

Table 7.5: Home Care Packages Utilisation, 30 June 2006-2013

Packages	CACP	EACH	EACHD	Total
Australia				
June 2006	17.8	1.3	0.8	19.4
June 2013	20.7	3.8	1.9	26.4
Indigenous				
June 2006	26.6	0.4	-	49.8
June 2013	24.6	2.2	0.6	48.4
CALD				
June 2014	14.1	2.5	1.3	60.6
June 2013	14.0	2.7	1.4	59.3

Indigenous people and people born in non-English speaking countries continue to have lower average rates of use of aged care services in 2012-13 than the population as a whole. These rates have been relatively unchanged since 2006. Several factors need to be considered in interpreting these results:

- cultural differences can influence the extent to which people born in non-English speaking countries use different types of services;
- cultural differences and geographic location can influence the extent to which Indigenous people use different types of services; and
- the availability of informal care and support can influence the use of aged care services in different population groups.

[56] ROACA data.

7.4.3. Home and Community Care

Data on unmet need for HACC services is not available and would be hard to quantify. Additionally, drawing a line between essential and non-essential services for activities such as community transport and social activities could be fraught. HACC services generally make their own assessments of local need and allocate available resources and volunteers accordingly.

Nationally, the number of Indigenous HACC recipients per 1,000 Indigenous Australians aged 50 years or over was 208.5 compared with the target of 222.8 per 1,000. Cultural differences and geographic location can influence the extent to which Indigenous Australians use different types of services.

The number of CALD HACC recipients per 1,000 people aged 65 years or over from non-English speaking countries was 212.9, compared with a target of 222.8 per 1,000. Cultural differences and access to culturally and linguistically appropriate care can influence the extent to which people born in non-English speaking countries use different types of services.

7.5. Developments, Issues and Challenges

While these trends would seem to indicate that current supply and demand for residential aged care places are not too far apart, the more important issue is how well they will match in 5-10 years. Given the significant capital investment, planning lead times and regulatory approval processes required to open new residential aged care accommodation, it generally takes providers up to four years to bring new capacity online.

The Australian Government is also seeking to improve access to services that cater for the needs of consumers with severe and complex behaviours. As a result, a number of new supplements to assist with the provision of appropriate care have been introduced.

7.5.1. Increase in the Supply of Places

The 2014 ACAR invited applications from providers to establish 9,330 new residential aged care places, 6,653 new home care places, and applications for up to $103 million in capital grants to renew or build new residential services.

The number of home care places released continues to grow as total supply moves towards the new provision target of 45 places by 2021-22. The places advertised for release in the 2014 ACAR are a 14 per cent increase over the allocation in the 2012-13 ACAR and an eight-fold increase over the 2011 ACAR.

Despite the policy to reduce the target provision ratio for residential care from 88 to 80 places by 2021-22, the structural ageing of the population means that the number of residential places released through the ACAR continues to grow, with the places advertised for release in the 2014 ACAR being 20 per cent greater than the 2012-13 ACAR allocation.

7.5.2. Access by Supported Residents

From 1 July 2014, there will be changes to accommodation payment arrangements. The changes include a move to more market based accommodation prices and a 55 per cent increase in the daily accommodation supplement to $52.49 for supported residents living in homes that have been significantly refurbished or built since 20 April 2013, subject to provider undertakings that refurbished rooms will be available for supported residents.

In view of the changes, the Australian Government has asked ACFA to monitor access by supported residents and to report by 31 December 2015 on cost neutral mechanisms to ensure access to care for supported residents, including reviewing the supported resident ratio.

To assist with monitoring the impact on access, ACFA has prepared a Data Book on current access trends. This Data Book, which can be found at Appendix P, provides an overview of current access trends for supported and non-supported residents in residential aged care. It describes the number and distribution of residents by supported status, examines entry times for residents and provides detailed data on the supported resident cohort.

7.5.3. Veterans' Supplements

Two new supplements to improve access to services that cater for the needs of veterans with complex behaviours were introduced in 2013, specifically:

- the Veterans' Supplement in Home Care Packages; and
- the Veterans' Supplement in Residential Care.

The Veterans' Supplement in home care is payable at a rate 10 per cent of the basic subsidy payable per eligible veteran, and is paid directly to the Home Care provider. In 2013-14, the Veterans' Supplement in residential care facility was $6.57 per day per eligible veteran.

As at 30 June 2014, 1225 veterans (1,075 in residential aged care and 150 in home care) were having the Supplement paid to providers on their behalf.

7.5.4. Dementia Supplements

Two new supplements to improve access to services that cater for the needs of consumers with dementia were introduced in 2013, specifically:

- the Dementia and Cognition Supplement in Home Care Packages; and
- the Dementia and Severe Behaviours Supplement in Residential Care.

It quickly became apparent, however, that the Dementia and Severe Behaviours Supplement in residential care was not operating as intended and it was discontinued. This is discussed further in Chapter 4: Residential Care.

7.5.5. Assisting people who have insecure housing or are homeless or at risk of homelessness

As part of the 2014 Budget, the Australian Government increased all payment rates of the Viability Supplement by 20 per cent. This will benefit services providing specialist care to older people who are homeless or at risk of homelessness and Aboriginal and Torres Strait Islander peoples, in addition

to aged care providers in regional Australia. This increase in the Viability Supplement is in addition to normal indexation.

A new Homeless Supplement was also introduced in 2013 to better support aged care homes that in recognition of additional costs incurred by aged care homes that specialise in caring for people with a history of, or at risk of, homelessness. The supplement provides $15.29 per day for each resident of eligible aged care homes. This funding is in addition to the funding provided under the Viability Supplement.

From January 2013 until 30 June 2015, the Australian Government is providing an additional $4.18 million to expand the Assistance with Care and Housing for the Aged Programme (ACHP) in regional and remote areas. An additional 15 ACHP services are being funded, bringing the number of ACHP services to 55.

8. Workforce

Contents

8.1. Context

Recruiting and retaining sufficient numbers of appropriately skilled staff is crucial for any organisation or industry, and will be an ongoing challenge in aged care. The two largest components of the aged care workforce are nurses and personal care workers. Both of these groups are in high demand, with aged care having to compete with hospitals for nurses and disability service providers for care workers. That said, while many industries such as retail, manufacturing, tourism and mining services are struggling or contracting, aged care is expanding. As the baby boomer generation begins to access aged care services in coming years, aged care is one industry where there will be no shortage of available jobs.

8.2. Snapshot

As outlined in last year's report, the 2012 Aged Care Workforce Survey found:.

- the median age of workers in the residential aged care industry is 47 years, however, the proportion of new hires which are aged 34 years or younger has increased from 29 per cent in 2003 to 36 per cent in 2012;
- the median age in community care is 50 years;
- between 2003 and 2007, there was a significant change in percentage of residential aged care workers born outside of Australia, rising from 25 to 33 per cent. However there has not been the same growth in the period between 2007 and 2012, where the proportion was 34 per cent;
- the growth in workers born outside Australia does not align with the language requirements of the current CALD consumer profile and poses some difficulties with language barriers;
- the proportion of Aboriginal and Torres Strait Islander people in the residential aged care workforce is marginally lower than the broader population, but is around the same as the broader population in the community aged care workforce;
- the majority of workers in residential care are Personal Care Workers and Community Care Workers in community care;
- aged care workers have a higher percentage of post-secondary qualifications than the national average;
- the 2012 National Aged Care Workforce Census and Survey collected data on volunteers who provide services in residential aged care facilities such as companionship, entertainment and social activities and found on average there are up to 10 volunteers per facility, with each volunteer contributing an average of 4.8 hours per fortnight. In community care, there are on average 27 volunteers per outlet, with each volunteer averaging 4.6 hours per fortnight; and
- the distribution of volunteers is fairly consistent except in remote areas.

Table 8.1 shows direct care employees in the residential aged care and community aged care workforce, by occupation as reported in 2012 (estimated headcount and per cent).

Table 8.1: Care Workers in Aged Care by Occupation

Occupation	Residential Aged Care Headcount	Community Aged Care Headcount	Total
Personal Care Attendant (PCA)	100,312	-	100,312
- ratio to total (%)	*68.2*		41.7
Community Care Worker (CCW)	-	76,046	76,046
- ratio to total (%)		*81.4*	31.6
Registered Nurse (RN)	21,916	7,631	29,547
- ratio to total (%)	*14.9*	*8.2*	12.3
Enrolled Nurse (EN)	16,915	3,641	20,556
- ratio to total (%)	*11.5*	*3.9*	8.5
Allied Health Professional (AHP)	2,648	3,921	6,569
- ratio to total (%)	*1.8*	*4.2*	2.7
Allied Health Assistant (AHA)	5,001	1,919	6,920
- ratio to total (%)	*3.4*	*2.1*	2.9
Nurse Practitioner	294	201	495
- ratio to total (%)	*0.2*	*0.2*	0.2
TOTAL	**147,086**	**93,359**	**240,445**
	100%	***100%***	**100%**

8.3. Developments, Issues and Challenges

8.3.1. Overview

The high demand for workers in the aged care industry presents a number of challenges and opportunities for providers. Those providers' who can create attractive workplaces, offer competitive wages and working conditions and offer development opportunities for their staff will be the most successful in attracting and retaining the mix of workers needed to ensure quality services and viability. One of the key components in developing such an organisation is to attract good managers who see their workforce as an asset, not a cost, and who workers want to work for.

The high demand also presents a challenge for Governments and training institutions to ensure a sufficient supply of appropriately qualified workers.

8.3.2. Aged Care Industry Workforce Strategy

As part of the 2014-15 Budget, the Australian Government committed to undertake a stocktake and evaluation of all the aged care workforce development programmes it funds. The aim is to identify any gaps in funding support and any areas of duplication. The outcomes of the stocktake will inform the preparation of an Aged Care Industry Workforce Strategy in 2014-15.

8.3.3. Workforce Remuneration

From the first full pay period after 1 July 2014 the pay rate under the relevant Award for a Registered Nurse (Level 1 on pay point 8 and thereafter) was $977.10 per week, for an Enrolled Nurse it was $799.50 per week and for a Certificate III qualified Personal Care Worker Grade 3 (Aged Care Employee Level 4) it was $746.20 per week. As detailed in ACFA's Inaugural Report, the 2012

Census and Survey data suggests that approximately 75 per cent of residential aged care employees and 60 per cent of community aged care employees are covered by some form of enterprise agreement and are paid above the award rate.

Nurses working in aged care generally tend to be paid less than those working in hospitals. The ANMF's latest (December 2013 to February 2014) quarterly sector comparison based on 785 agreements operating in the residential aged care sector estimates that at the Registered Nurse Level 1 there is a difference on average of almost $210 per week or 17 per cent nationally. The Department also monitors the wage rates of the aged care workforce on an ongoing basis, currently analysing 73 agreements that apply to 57 Commonwealth funded aged care providers. The Department's comparative analysis results in a smaller difference of approximately $136 per week or about 10 per cent nationally.

As announced in the 2014 Budget, the Australian Government is folding the $1.5 billion allocated to the Workforce Supplement by the previous Government back into general funding for aged care providers.

8.3.4. National Aged Care Workforce Survey

Since 2003, the Australian Government has funded a National Aged Care Workforce Census and Survey approximately every four years, with the last survey conducted in 2012 by the NILS at Flinders University.

There were a number of positives within the findings of the 2012 Survey, particularly around qualifications and job satisfaction. More than 80 per cent of all residential aged care staff indicated they intended to continue working for their current employer over the next 12 months. Only 5 per cent were considering leaving the industry. The aged care direct care workforce is now more skilled than at any point over the past 10 years, with 88 per cent of residential care workers (compared to 80 per cent in 2007) and 86 per cent of community care workers (compared to 79 per cent in 2007) having post-school qualifications.

The survey results also pointed to some challenges for the aged care industry. Job satisfaction is high across all areas except for pay. Three quarters of aged care homes and half of community services reported skill shortages in one or more occupation, with the three main reasons being a lack of specialist knowledge, slow recruitment, and geographical location. Filling vacancies is difficult for many providers, particularly for Registered Nurse positions. Providers in rural and remote areas also experience some difficulty in filling positions across all occupations.

The Australian Government is bringing the next survey forward to 2015, which will allow ACFA to begin building some trend data on aged care workforce issues.

8.3.5. National Disability Insurance Scheme

Aged care (in particular home care and support) and disability services often draw on the same pool of workers. Preparing the disability sector workforce for the full implementation of the NDIS will require a national effort across all aspects of workforce development and coordination with similar sectors such as the aged care.

With this in mind, the Australian Government is working with States and Territories, through the Disability Reform Council, to develop a National Disability Workforce Strategy. The development of the Strategy will include consideration of the interactions between the disability workforce and related sectors such as aged care.

ACFA believes this is an important piece of work and is looking forward to seeing what synergies in staff training and development are identified across the two sectors.

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Appendix A – ACFA Membership

ACFA position	Name	Organisation
Chairman	Ms Lynda O'Grady	Managing Director Advanced Management Services
Deputy Chair	Professor Graeme Hugo	Director Australian Population and Migration Research Centre Department of Geographical and Environmental Studies The University of Adelaide
Member	Mr Ian Yates	Chief Executive COTA Australia
Member	Mr Nicolas Mersiades	Director Aged Care Catholic Health Australia
Member	Ms Sally Evans	Head of Retirement AMP
Member	Mr Graham Hodges	Deputy Chief Executive Officer ANZ Banking Group
Member	Mr Gary Barnier	Managing Director Opal Aged Care
Member	Ms Mary Patetsos	Director Aged Care Housing Group
Member	Ms Lee Thomas	National Secretary Australian Nursing and Midwifery Federation
Representative – Department of Social Services	Ms Carolyn Smith	Acting Deputy Secretary Ageing and Aged Care Stream
Representative – The Treasury	Mr Robert Montefiore-Gardner	Senior Advisor Social Policy Division
Representative – Aged Care Pricing Commissioner	Ms Kim Cull	Aged Care Pricing Commissioner

Appendix B – Work Completed by ACFA to Date

Task	Key Date
Definition of 'significant refurbishment' to qualify for a higher accommodation supplement.	Final ACFA advice to Minister on 21 November 2012. Government announced its position on 21 December 2012.
The framework for setting accommodation payments in residential aged care.	Final ACFA advice to Minister on 28 November 2012. Government announced its position on 21 December 2012. Further advice on method for determining a RAD and a DAP using a MPIR to Minister on 17 May 2013. Government announced its position on 23 May 2013.
Estimation of the possible impacts on revenue and balance sheet funding from changes to accommodation payment arrangements.	ACFA's advice and KPMG modelling provided to Minister on 22 May 2013. Government released advice and modelling on 23 May 2013.
ACFA Report on the financing of the aged care sector.	30 June 2013
Data Book on Supported and Non-Supported Residents	30 April 2014

Appendix C – Committee Principles 2014

Committee Principles 2014

I, Mitch Fifield, Assistant Minister for Social Services, make the following principles.

Dated 19 June 2014

Mitch Fifield
Assistant Minister for Social Services

OPC60563 - A

Federal Register of Legislative Instruments F2014L00799

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Federal Register of Legislative Instruments F2014L00799

Part 1—Preliminary

1 Name of principles

These principles are the *Committee Principles 2014*.

2 Commencement

These principles commence on 1 July 2014.

3 Authority

These principles are made under section 96-1 of the *Aged Care Act 1997*.

4 Definitions

In these principles:

Act means the *Aged Care Act 1997*.

Aged Care Financing Authority means the committee established under paragraph 96-3(1)(a) of the Act.

Aged Care Financing Authority member:

(a) means a member of the Aged Care Financing Authority; and

(b) includes the Chair and the Deputy Chair of the Authority;

but does not include a representative mentioned in paragraph 9(d) or (e) or the Aged Care Pricing Commissioner.

Federal Register of Legislative Instruments F2014L00799

Part 2—Aged Care Financing Authority

5 Purpose of this Part

For section 96-3 of the Act, this Part provides for matters in relation to the Aged Care Financing Authority, including the following:

(a) its functions;
(b) its constitution;
(c) appointment of its members;
(d) remuneration of its members;
(e) disclosure of members' interests;
(f) termination of appointments.

6 Functions

(1) The functions of the Aged Care Financing Authority are as follows:
  (a) at the request of the Minister, to provide advice to the Minister, in relation to any specific issues relating to the funding and financing of aged care services;
  (b) to provide advice to the Minister, by 30 June of each year, on the impact of funding and financing arrangements on:
    (i) the viability and sustainability of the aged care sector; and
    (ii) the ability of care recipients to access quality aged care; and
    (iii) the aged care workforce;
  (c) to consider any other matters referred to the Authority by the Minister, and make recommendations to the Minister on those matters, within the times specified by the Minister.

(2) The advice mentioned in paragraph (1)(b) must deal with the impact of:
  (a) revenue, cost and productivity movements in the aged care sector; and
  (b) accommodation payments and fees for additional services that are charged by approved providers for aged care services.

(3) In performing its functions, the Aged Care Financing Authority must consult the following:
  (a) providers of aged care services, or their representatives;
  (b) recipients of aged care services, or their representatives;
  (c) the aged care workforce, or their representatives;
  (d) bodies or organisations that provide funding or finance for aged care services;
  (e) any other bodies or organisations that the Authority considers appropriate.

(4) The Aged Care Financing Authority must publish, on the Authority's website, a copy of any advice or recommendation given to the Minister in the performance of the Authority's functions. The advice or recommendation must be published within 28 days after it was given to the Minister.

7 Directions by Minister

(1) The Minister may give the Aged Care Financing Authority written directions about:

(a) the way in which the Authority is to carry out its functions; and

(b) procedures to be followed in relation to meetings.

Note: For variation and revocation, see subsection 33(3) of the *Acts Interpretation Act 1901*.

(2) The Minister must not give the Aged Care Financing Authority directions about the content of any advice, information or recommendation that may be given by the Authority to the Minister.

(3) Directions given by the Minister under subsection (1) must relate to administrative matters only and be of a general nature.

(4) The Aged Care Financing Authority must comply with a direction given by the Minister under subsection (1).

(5) A direction given under subsection (1) is not a legislative instrument.

(6) In the absence of any directions under subsection (1), the Aged Care Financing Authority may determine its own procedures.

8 Annual report

(1) The Aged Care Financing Authority must, as soon as practicable after the end of each financial year, prepare and give to the Minister a report on the operations of the Authority during that year.

(2) As soon as practicable after giving the report to the Minister, the Aged Care Financing Authority must publish a copy of the report on the Authority's website.

9 Constitution

The Aged Care Financing Authority consists of the following:

(a) a Chair;

(b) a Deputy Chair;

(c) up to 10 other members;

(d) a representative of the Department administered by the Minister administering the Act;

(e) a representative of the Department administered by the Treasurer;

(f) the Aged Care Pricing Commissioner.

Note: The representatives mentioned in paragraphs (d) and (e) and the Aged Care Pricing Commissioner are not Aged Care Financing Authority members (see the definition of ***Aged Care Financing Authority member*** in section 4).

10 Appointment of members

(1) Each Aged Care Financing Authority member is to be appointed by the Minister by written instrument.

(2) An Aged Care Financing Authority member holds office for the period specified in the instrument of appointment. The period must not exceed 3 years.

Note: An Aged Care Financing Authority member may be reappointed: see section 33AA of the *Acts Interpretation Act 1901*.

(3) An Aged Care Financing Authority member holds office on a part-time basis.

(4) A person is not eligible for appointment as an Aged Care Financing Authority member (other than the Chair or the Deputy Chair) unless the Minister is satisfied that the person has expertise or experience in at least one of the following fields:

(a) equity finance;
(b) debt finance;
(c) aged care consumer issues;
(d) aged care workforce issues;
(e) the provision of not-for-profit aged care services;
(f) the provision of for-profit aged care services;
(g) any other appropriate field.

11 Acting appointments

Chair

(1) The Minister may appoint a person to act as the Chair of the Aged Care Financing Authority:

(a) during a vacancy in the office of the Chair of the Authority (whether or not an appointment has previously been made to the office); or
(b) during any period, or during all periods, when the Chair of the Authority:
(i) is absent from duty or from Australia; or
(ii) is, for any reason, unable to perform the duties of the office.

Deputy Chair

(2) The Minister may appoint a person to act as the Deputy Chair of the Aged Care Financing Authority:

(a) during a vacancy in the office of the Deputy Chair of the Authority (whether or not an appointment has previously been made to the office); or
(b) during any period, or during all periods, when the Deputy Chair of the Authority:
(i) is absent from duty or from Australia; or
(ii) is, for any reason, unable to perform the duties of the office.

Other members

(3) The Minister may appoint a person to act as an Aged Care Financing Authority member (other than the Chair or the Deputy Chair):

(a) during a vacancy in the office of an Aged Care Financing Authority member (other than the Chair or the Deputy Chair), whether or not an appointment has previously been made to the office; or

(b) during any period, or during all periods, when an Aged Care Financing Authority member (other than the Chair or the Deputy Chair):
  (i) is absent from duty or from Australia; or
  (ii) is, for any reason, unable to perform the duties of the office.

(4) A person is not eligible for appointment to act as an Aged Care Financing Authority member (other than the Chair or the Deputy Chair) unless the Minister is satisfied that the person has expertise or experience in at least one of the fields mentioned in subsection 10(4).

Note: For rules that apply to acting appointments, see sections 33AB and 33A of the *Acts Interpretation Act 1901*.

12 Remuneration

(1) An Aged Care Financing Authority member is to be paid the remuneration and allowances that are determined, in writing, by the Minister.

(2) However, an Aged Care Financing Authority member is not entitled to be paid remuneration if he or she holds an office or appointment, or is otherwise employed, on a full-time basis in the service or employment of:
  (a) a State; or
  (b) a corporation (a ***public statutory corporation***) that:
    (i) is established for a public purpose by a law of a State; and
    (ii) is not a tertiary education institution; or
  (c) a company limited by guarantee, where the interests and rights of the members in or in relation to the company are beneficially owned by a State; or
  (d) a company in which all the stock or shares are beneficially owned by a State or by a public statutory corporation.

Note: A similar rule applies to an Aged Care Financing Authority member who has a similar relationship with the Commonwealth or a Territory (see subsection 7(11) of the *Remuneration Tribunal Act 1973*).

13 Resignation

(1) An Aged Care Financing Authority member may resign his or her appointment by giving the Minister a written resignation.

(2) The resignation takes effect on the day it is received by the Minister or, if a later day is specified in the resignation, on that later day.

14 Disclosure of interests to the Minister

An Aged Care Financing Authority member must give written notice to the Minister of all interests, pecuniary or otherwise, that the member has or acquires and that conflict or could conflict with the proper performance of the member's functions.

15 Disclosure of interests to the Aged Care Financing Authority

(1) An Aged Care Financing Authority member who has an interest, pecuniary or otherwise, in a matter being considered or about to be considered by the Authority must disclose the nature of the interest to a meeting of the Authority.

(2) The disclosure must be made as soon as possible after the relevant facts have come to the member's knowledge.

(3) The disclosure must be recorded in the minutes of the meeting of the Aged Care Financing Authority.

16 Termination of appointment

(1) The Minister may terminate the appointment of an Aged Care Financing Authority member:
  (a) for misbehaviour; or
  (b) if the member:
    (i) is unable to perform the duties of his or her office because of physical or mental incapacity; or
    (ii) is absent, without reasonable excuse, from 3 consecutive meetings of the Authority; or
    (iii) fails, without reasonable excuse, to comply with section 14 or 15.

(2) The Minister must terminate the appointment of an Aged Care Financing Authority member if the member:
  (a) becomes bankrupt; or
  (b) applies to take the benefit of any law for the relief of bankrupt or insolvent debtors; or
  (c) compounds with his or her creditors; or
  (d) makes an assignment of his or her remuneration for the benefit of his or her creditors.

17 Other terms and conditions

An Aged Care Financing Authority member holds office on the terms and conditions (if any) in relation to matters not covered by these principles that are determined, in writing, by the Minister.

Appendix D – ACFA Operating Framework

Aged Care Financing Authority

Operating Framework

January 2014

This Operating Framework is to be read in conjunction with the Committee Principles 2013 that apply to the Aged Care Financing Authority.

Objectives

1. The Australian Government's objectives for the aged care financing arrangements are to:
   - support access, quality care, flexibility and choice for care recipients including those with special needs and living in rural and remote areas;
   - recognise that accommodation is essentially a personal responsibility, so that care recipients with sufficient means should pay a reasonable price corresponding to the value of the accommodation services that they receive, with appropriate safeguards for people who are marginalised, disadvantaged or have modest means;
   - enable efficient aged care providers to:
     - provide quality care for their care recipients, while being appropriately rewarded for the operational risks inherent in operating an aged care business; and
     - make a return on investment that is sufficient to ensure that investment will continue to be made in the aged care industry at the rate needed to meet the demand for services;
   - ensure that the cost of aged care remains sustainable for the Australian taxpayer;
   - support a stable and skilled workforce that can meet the growing demand for aged care services;
   - minimise the regulatory burden placed upon aged care providers;
   - maximise competition while ensuring appropriate consumer protection; and
   - ensure that the availability, affordability and quality of aged care services meet the broader community's expectations.
2. The new financing regulatory arrangements are being established to:
   - provide independent advice to the Government on pricing and financing issues across the aged care sector, which achieves an appropriate balance between the objectives of the aged care financing arrangements set out in paragraph (1) above; and

- ensure that care recipients of services funded through the *Aged Care Act 1997* receive value for:
  - the Accommodation Payments they pay to their Approved Provider; and
  - any fees they pay to their Approved Provider for additional amenities or services not covered by the relevant Schedule of Specified Care and Services.

Roles and responsibilities

3. This section sets out the roles and responsibilities of the various parties with respect to:
   - Determining pricing policy and subsidy rates;
   - Providing independent advice to the ***Assistant Minister for Social Services*** *(*the ***Minister***) on pricing policy;
   - Approving the fees that aged care providers are permitted to levy, where those fees are regulated by the *Aged Care Act 1997*; and
   - Ensuring consumers are informed and supported.

Determining pricing policy and subsidy rates

4. The ***Minister*** will determine pricing policy across the aged care sector, including subsidy rates and the regulation of fees, based on the advice of the ***Aged Care Financing Authority*** (***ACFA***) and in line with the aged care legislation.

Providing independent advice to the Minister on pricing policy

5. As detailed in the *Committee Principles 2013,* ***ACFA***[57] will provide advice to the ***Minister*** by 30 June each year on:
   - the impact of funding and financing arrangements on: the viability and sustainability of the aged care sector; the ability of care recipients to access quality aged care; and the aged care workforce. This will include advice on the impact of:
     - revenue, cost and productivity movements in the aged care sector; and
     - accommodation payments and fees for additional services that are charged by approved providers for aged care services.
6. ***ACFA*** will also consider, and make recommendations to the ***Minister*** on, any other matters referred by the ***Minister*** to ***ACFA*** for consideration, within the timeframes set down by the ***Minister***.
   - The matters which the Government has referred to the ***ACFA*** for review (as at December 2013) are listed at Schedule A.
7. The ***Department of Social Services*** (the ***Department***) will act as secretariat to ***ACFA*** and will assist ***ACFA*** in undertaking its responsibilities as set out in paragraphs (5) and (6) above by undertaking or commissioning research and analysis as requested by the ***ACFA***.

[57] Under item 5 advice will include consideration in regard to special needs groups including rural and remote services, the homeless, Indigenous Australians and people of Culturally and Linguistically Diverse background.

Ensuring consumers are informed and supported

8. The ***Department*** will be responsible for:

   - providing timely, user friendly and transparent information to older Australians, and their carers, on the fees and charges that care recipients may be asked to pay in aged care services, through the *My Aged Care* website and other channels;
   - handling complaints from aged care recipients about fees and charges; and
   - taking compliance action against Approved Providers that are funded through the *Aged Care Act 1997* and that do not comply with their Approved Provider responsibilities with respect to fees and charges.

Operations of ACFA

9. In undertaking its responsibilities ***ACFA*** will ensure that:

   - Its advice is evidence based. To this end, ***ACFA*** may;
     - ask the ***Department*** to undertake or commission relevant research and analysis; and
     - consider relevant research and analysis provided by other parties.
   - Its operations are transparent;
     - any recommendations it makes to the ***Minister*** under paragraphs (5) and (6) above, together with the analysis and assumptions on which the recommendations are based, are published on the web within 28 days of providing the recommendations to the ***Minister***; and
     - ***ACFA*** will publish any research commissioned.
   - It consults widely with the aged care sector as outlined in the *Committee Principles 2013*. To this end, members may, in undertaking their responsibilities, confer with, or seek assistance from, any person or body; and
   - It undertakes its responsibilities in a timely fashion.

Schedule A – Matters Referred to ACFA for Consideration

The following matters are referred to ***ACFA*** for consideration:

a) Advice on the impact of the accommodation payment changes on aged care providers and residents:

   i) annually in its report to Government due by 30 June each year; and

   ii) at the end of each month in the first six months of the implementation of the reforms commencing on 31 July 2014 and ending on 31 December 2014, and then at the end of each quarter during 2015;

      (1) This advice should include in particular the number and distribution of care recipients choosing Refundable Accommodation Deposits and Daily Accommodation Payments and consideration of the impacts on different types of providers (eg. current low care only providers, small providers and rural providers). The advice should also include consideration of the impact of the different means tests that apply to different asset types.

b) Advice on the impacts of the changes to means testing arrangements in home care and residential care:

   i) Annually in its report to Government due by 30 June each year; and

   ii) At the end of each month in the first six months of the implementation of the reforms commencing on 31 July 2014 and ending on 31 December 2014, and then at the end of each quarter during 2015;

      (1) The advice should examine the impacts of the changes on take-up and access to care and the impacts of the design of the fee scales on care recipient welfare in both residential and home care. In particular it should examine any changes in the number of persons entering different types of care with a specific focus on different income groups, particularly part pensioners subject to the 50% home care taper rate. The advice will include considering whether there is any evidence that the fee scales are creating barriers to access for some client groups (such as self-rationing) and if so how these could be addressed.

c) 30 June 2014, 2015 and 2016 – advice on the impact of the transitional support arrangements to assist providers prepare for and manage the transition to the new accommodation payments system in residential aged care.

d) When formulating the advice requested in sections (a), (b) and (c) above, ***ACFA*** will consider the impact on rural, regional and remote aged care providers. This consideration will include the remoteness, size (in bed numbers) and current mix of low/high care places across these providers.

e) 30 September 2014 - advice on cost effective options to improve the collection of the appropriate financial data from aged care providers, including options to rationalise financial reporting requirements.

f) 31 December 2014 – advice on the key factors that are influencing the financial performance of aged care providers, including a focus on what is driving the performance of the better performing providers relative to those who are not performing as well and what could be done to improve performance. The advice will first consider residential care providers and later home care providers and will include consideration of issues affecting rural, regional and remote providers. Initial advice is required by 31 December 2014 with a

focus on residential care providers, with the timing of a final report to be settled at that time.

g) 31 December 2015 – advice on cost neutral mechanisms to ensure access to care for supported residents, including reviewing the efficiency, effectiveness, and appropriate level of:

   i) the supported resident ratio for each aged care planning region; and

   ii) the '40 per cent' rule for the Accommodation Supplement.

   As part of this advice ***ACFA*** will provide a data book on current access trends by 30 April 2014.

h) 30 June 2016 – advice to inform the 5 year review of the aged care reforms, with particular regards to funding, financing and pricing issues affecting the matters specified for review in section 4 of the *Aged Care (Living Longer Living Better) Act 2013*. In particular, this advice will focus on such issues as they relate to means testing, fees, accommodation prices, access and workforce. In relation to advice on workforce issues, ***ACFA's*** advice should focus on identification of issues affecting the long term demand, supply and quality of the aged care workforce, with an emphasis on the impact of financial and funding considerations on demand, supply and quality and advice on options to support a stable and skilled workforce to meet the growing demand for aged care services.

Appendix E – Notes Diagram 1

- The flow chart is composed from the GPFRs 2012-13, the 2012-13 ROACA, the SACH and the Department's payment system data for the year 2012-13.
- The information in the flow chart pertaining to consumers is based on only those providers who have given their GPFRs and therefore, it may not be fully interpretive of the entire aged care industry.
- The information about residential care providers is obtained from GPFRs prepared by providers of residential aged care under the *Aged Care Act 1997* as part of the eligibility requirements for the CAP.
- The comprehensiveness of the financial information contained in GPFRs varies from provider to provider. In addition, the accounting standards are subject to interpretation and it is possible that interpretations may differ between providers and between auditors. In addition, the Department's interpretation of the accounting data provided in the GPFRs has not been verified with the aged care providers.
- The information pertaining to Australian Government subsidies is extracted from payment system data that is based on the life cycle of the residents and updated periodically. Therefore it can contain differences due to reconciliation between the amounts of entitlement period and claim date period.
- The consumer information is extracted from the SACH survey data which is a voluntary participation by the aged care providers and therefore can contain errors which can compromise the quality issues.
- The other funding source/income source item is used as a balancing item to reconcile with the total revenue of the industry as per given GPFRs for 2012-13.
- Due to information from multiple sources, the number of providers differ in calculation of consumer funding and Australian Government funding as the amounts of consumer funding are based on those providers who have given their GPFRs.
- The total accommodation bond amount is extracted from the Department's records and not the GPFRs. The bond amounts provided in the GPFRs has not been verified with residential aged care providers.
- The donations, loans and investment amounts received by the residential aged care providers is not necessarily complete as these amounts are given voluntarily by the providers in their GPFRs.
- The financial information of other components of total liabilities in the GPFRs (i.e. other than bonds, loans and Zero Real Interest Loans) is not necessarily complete as it is given voluntarily by the residential aged care providers.

Appendix F – Residential Care Funding Sources

Table F.1 - Summary of Subsidy and Supplements in Residential Aged Care, 2012-13

Types of Payments	$m
Basic Subsidies	
Permanent residents	7,561.6
Respite residents	168.0
CAP	674.9
Sub-total	***8,404.5***
Primary Care Supplements	
Oxygen	14.6
Enteral feeding	8.3
Payroll Tax	178.8
Respite Incentive	14.9
Sub-total	***216.6***
Hardship	
Hardship	3.4
Sub-total	***3.4***
Accommodation Supplements	
Hardship	3.7
Accommodation Supplements	525.2
Transitional Accommodation Supplements	58.3
Concessional (G)	101.7
Accommodation Charge Top-up (G)	6.9
Pension (G)	83.8
Sub-total	***779.6***
Viability Supplement	
Viability	28.6
Sub-total	***28.6***
Supplements relating to grandparenting	
Transitional	11.3
Charge Exempt	1.3
Resident Contribution Top-up	5.2
Other	69.5
Basic Daily Fee	1.5
Sub-total	***88.8***
Reductions	
Income tested	-329.5
Other reductions	0.0
Sub-total	***-329.5***
TOTAL	**9,192**

Note: G refers to grand-parenting

Appendix G – Viability of Total Sector, 2012-13

	Not For Profit	For Profit	Government	Total
Provider Count	545	380	109	1,034
EBITDA per resident claim year	$7,159	$12,683	-$591	$8,660
CAPITAL STRUCTURE				
Assets prpa	$167,434	$202,787	$202,782	$181,737
No of Bonds	39365	25307	2011	66683
Avg Bond prpa	$198,159	$244,744	$149,587	$214,374
Net Worth prpa	$69,744	$33,453	$156,018	$61,509
Net Wrk Cap	-$38,949	-$69,821	-$4,664	-$49,822
N.Curr Liab as % of Assets.	20.1%	22.7%	14.9%	20.8%
Bonds as % of Assets	46.8%	55.1%	19.1%	48.5%
Net Wth as % Assets	41.4%	16.4%	75.7%	33.6%
VIABILITY				
Current Ratio	0.52	0.48	0.92	0.51
Interest Coverage	12.80	5.49	-10.33	7.03
NPBT Margin	2.8%	9.1%	-14.3%	4.3%
Occupancy	94.4%	90.9%	91.6%	93.0%
%EBITDA to T. Assets	4.3%	6.3%	-0.2%	4.8%
%EBITDA to Net Worth	10.5%	37.9%	-0.1%	14.3%
Bond Asset Cover (T.A.)	2.14	1.82	5.24	2.06

Notes: For the calculation of financial ratios, a provider is excluded where only a part of the financial information required for each ratio is given in the segment note. As a result the number of providers may differ between each metric/ratio, providers may not be the same in every ratio and results may not fully represent the sector. Due to differences in provider numbers, the results here may not match tables from 4.15 to 4.19. Please refer to the notes outlined in Appendices E and K regarding data quality.

Appendix H – Viability of Not-For-Profit Providers, 2012-13

	NOT FOR PROFIT				
	Top Quartile	**Next Top**	**Next Bottom**	**Bottom**	**Total**
Provider Count	82	153	165	145	545
EBITDA per resident claim year	$19,125	$9,990	$4,410	-$2,556	$7,159
CAPITAL STRUCTURE					
Assets prpa	$203,080	$172,234	$157,150	$152,325	$167,434
No of Bonds	3988	17729	12165	5483	39365
Avg Bond prpa	$186,409	$209,759	$194,740	$176,786	$198,159
Net Worth prpa	$110,435	$62,652	$70,876	$58,640	$69,744
Net Wrk Cap prpa	$12,732	-$56,256	-$32,666	-$36,792	-$38,949
N.Curr Liab as % of Assets.	19.9%	19.3%	19.8%	22.9%	20.1%
Bonds as % of Assets	37.0%	51.4%	46.5%	41.5%	46.8%
Net Wth as % Assets	54.4%	36.3%	44.5%	38.3%	41.4%
VIABILITY					
Current Ratio	1.19	0.40	0.54	0.54	0.52
Interest Coverage	29.05	19.79	9.49	-3.55	12.80
NPBT Margin	17.5%	6.0%	-0.7%	-9.2%	2.8%
Occupancy	94.8%	94.9%	94.2%	93.4%	94.4%
%EBITDA to Assets	9.4%	5.8%	2.8%	-1.5%	4.3%
%EBITDA to Net Worth	17.3%	16.1%	6.4%	-4.0%	10.5%
Bond Asset Cover (T.A.)	2.70	1.94	2.15	2.41	2.14

Notes: For the calculation of financial ratios, a provider is excluded where only a part of the financial information required for each ratio is given in the segment note. As a result the number of providers may differ between each metric/ratio, providers may not be the same in every ratio and results may not fully represent the sector. Due to differences in provider numbers, the results here may not match tables from 4.15 to 4.19. Please refer to the notes outlined in Appendices E and K regarding data quality.

Appendix I – Viability of For-Profit Providers, 2012-13

	FOR PROFIT				
	Top Quartile	Next Top	Next Bottom	Bottom	Total
Provider Count	164	96	74	46	380
EBITDA per resident claim year	$20,203	$9,661	$4,799	-$8,157	$12,683
CAPITAL STRUCTURE					
Assets P.R.P.A	$230,095	$162,856	$196,093	$205,935	$202,787
No of Bonds	12156	6922	3933	2296	25307
Avg Bond prpa.	$247,266	$218,587	$270,098	$266,820	$244,744
Net Worth prpa	$48,512	$24,455	$23,472	-$6,853	$33,453
Net Wrk Cap prpa	-$73,512	-$60,138	-$71,609	-$87,435	-$69,821
N.Curr Liab as % of Assets.	27.4%	12.5%	22.2%	22.7%	22.7%
Bonds as % of Assets	50.7%	52.4%	67.5%	71.6%	55.1%
Net Wth as % Assets	21.0%	14.9%	12.0%	-3.3%	16.4%
VIABILITY					
Current Ratio	0.45	0.50	0.52	0.50	0.48
Interest Coverage	6.55	5.25	3.94	-5.81	5.49
NPBT Margin	15.3%	6.8%	2.5%	-14.6%	9.1%
Occupancy	91.7%	91.6%	87.5%	89.8%	90.9%
%EBITDA to Assets	8.8%	5.9%	2.4%	-4.0%	6.3%
%EBITDA to Net Worth	41.6%	39.6%	20.4%	119.0%	37.9%
Bond Asset Cover (T.A.)	1.97	1.91	1.48	1.40	1.82

Notes: For the calculation of financial ratios, a provider is excluded where only a part of the financial information required for each ratio is given in the segment note. As a result the number of providers may differ between each metric/ratio, providers may not be the same in every ratio and results may not fully represent the sector. Due to differences in provider numbers, the results here may not match tables from 4.15 to 4.19. Please refer to the notes outlined in Appendices E and K regarding data quality.

Appendix J – Viability of Government Providers, 2012-13

	GOVERNMENT				
	Top Quartile	**Next Top**	**Next Bottom**	**Bottom**	**Total**
Provider Count	13	9	20	67	109
EBITDA per resident claim year	$18,023	$9,153	$4,113	-$11,958	-$591
CAPITAL STRUCTURE					
Assets prpa	$183,218	$158,546	$280,331	$174,333	$202,782
No of Bonds	183	112	650	1066	2011
Avg Bond prpa	$160,356	$109,971	$154,488	$148,912	$149,587
Net Worth prpa	$156,508	$115,146	$221,405	$123,525	$156,018
Net Wrk Cap prpa	$70,691	$47,282	-$13,148	-$10,830	-$4,664
N.Curr Liab as % of Assets.	14.2%	23.4%	10.6%	18.4%	14.9%
Bonds as % of Assets	25.4%	16.2%	15.0%	22.3%	19.1%
Net Wth as % Assets	85.4%	72.6%	79.0%	68.7%	75.7%
VIABILITY					
Current Ratio	5.90	3.12	0.77	0.82	0.92
Interest Coverage	N/a	28.43	9.08	-44.32	-10.33
NPBT Margin	17.1%	3.2%	-14.9%	-21.4%	-14.3%
Occupancy	87.4%	94.9%	94.0%	91.8%	91.6%
%EBITDA to Assets	9.8%	5.8%	1.5%	-6.7%	-0.2%
%EBITDA to Net Worth	11.5%	7.9%	1.9%	-9.6%	-0.1%
Bond Asset Cover (T.A.)	3.93	6.18	6.69	4.49	5.24

Notes: For the calculation of financial ratios, a provider is excluded where only a part of the financial information required for each ratio is given in the segment note. As a result the number of providers may differ between each metric/ratio, providers may not be the same in every ratio and results may not fully represent the sector. Due to differences in provider numbers, the results here may not match tables from 4.15 to 4.19. Please refer to the notes outlined in Appendices E and K regarding data quality.

Appendix K – Notes to Segment Analysis

Residential Care

- The information about residential aged care providers is obtained from GPFRs prepared by providers of residential aged care under the *Aged Care Act 1997* as part of the eligibility requirements for the CAP.
- The segment information contains financial information for only those services that were operational as at 30 June 2013 and therefore, averages are not fully representative of the entire residential aged care sector.
- The comprehensiveness of the financial information contained in GPFRs varies from provider to provider. The accounting standards are also subject to interpretation and it is possible that interpretations may differ between provider and between auditors. In addition, the Department's interpretation of the accounting data provided in the GPFRs has not been verified with the aged care providers. Analysis of financial data is affected by incomplete and aggregated data provided in the segment notes of the GPFRs.
- The data quality at the segment level is subject to each provider's allocation rules which are not fully disclosed in the GPFRs of the providers and therefore may not necessarily reflect the true income, expenses, assets and liabilities of the residential aged care segment.
- Care needs to be taken when interpreting the averages as detailed segment information is not mandatory and may be inconsistent in quality and level if details. As a result it may not fully represent industry averages.
- For the calculation of financial ratios, a provider is excluded where only a part of the financial information required for each ratio is given in the segment note. As a result the number of providers may differ between each metric/ratio, providers may not be the same in every ratio and results may not fully represent the industry.
- The averages and financial ratios presented in the analysis are based on those providers who have given residential aged care segment information in their GPFRs.
- The inconsistent treatment of certain items in the balance sheet (eg accommodation bonds - which can be treated as a current liability, non-current liability or both) impacts the liquidity metrics and other sustainability ratios such as current ratio.
- The Return on Assets and Return on Equity/Net worth ratios are a simple measure of proportion of EBITDA earning to Total Assets and Net worth respectively. It does not relate to the evaluation of capital financing measurements of the industry.
- Since many of the providers have given "finance expenses/costs", which may contain other expense items in addition to interest expense, the average EBITDA estimate may be overstated.
- The averages pertaining to the accommodation bonds are based on bonds data that is not cleaned or sorted and does not include entry contributions.

Home Care

- The financial information about Home Care level 2 (Community Aged Care Packages (CACP) service) programmes is obtained from electronic Financial Accountability Reports (FARs) prepared by providers of Home Care Level 2 services under the requirement of Community Care Deed of Agreement and Community Care Grant Agreement.
- The analysis does not include the financial information of Level 4 (Extended Aged Care at Home and Extended Aged Care at Home-Dementia) programmes and only includes the financial data for Level 2 programme as its sample was available in a useable strength for deriving the necessary analysis and measurements.
- The averages and financial ratios of the Home Care services are presented for the first time and include only those services that have provided their FARs. As such there are some services that were operational as at 30 June 2013 but did not give their FAR. Therefore the averages and other financial metrics/ratios may not be fully representative of the entire Home Care Level 2 Sector.
- By themselves, the FARs are not audited reports, but apparently an extract of limited information from the GPFRs of the Home Care Providers. The FAR are required to contain a statement signed by an independent accountant about the truth and correctness of the financial information given but most of the FARs do not hold such certification implying that the financial information given in the FAR may contain some qualification towards its fairness.
- The FARs data is not cleanable as the source information from where the FAR information is presumed to be extracted is not available with the Department.
- As a mandatory requirement, the organisation's balance sheet is required to be submitted with the FAR but most of the FARs did not complied with this requirement. Due to this reason, the assets and liabilities position of the Home Care Level 2 services cannot be assessed.
- Significant discrepancies occur in the FAR statements creating an impact on the overall average results of the sector. For example, there are instances where only total expenses are given instead of giving item wise details of Direct care and Other expenses. This results in inconsistency in various metrics and measurements of the analysis at micro level.
- Most of the FAR statements contain arithmetic errors pertaining to mismatch of the income and expense totals given in the FARs with the summing of individual income and expense items. Such discrepancies may have over/under estimated the averages and may not fully represent the sector.
- Instances occur where the income and expense totals are written in opposite signs in FARs which creates an ambiguity in making surplus profit providers into loss making providers. Such instances are not verifiable in the absence of cleaning process of the data. Due to this reason, it is possible that in real terms there may be more providers in surplus profit than the number of providers derived from available data.
- The Department's interpretation of the accounting data information provided in the FARs has not been verified by the Home Care Providers.
- The sector EBITDA cannot be measured as there are some items (including depreciation expense) that cannot be claimed in FARs due to policy grounds.
- Most of the FARs are purported to contain negative income items and positive expense items. In the absence of data cleaning process, such instances may have under/overestimated the averages of total income and total expenses of the sector.

- The NPBT of sector may not be fully representative as the total income earned by the service and total expenses paid by a service are not disclosed in the FAR to its entirety.
- Numerous FARs have added some income/expense items (like loss on sale of assets) that cannot be claimed in FAR on policy grounds and may have been aggregated in the other income/expense total. Under such situation, these items cannot be separated from the overall sector average measurements and therefore, may not fully represent the sector results that are required to be measured under policy guidelines.
- Some FARs have added previous year/future year income or expense amounts to the current year period amounts due to which the average results for current period may over/under represent the sector results.
- There are number of FARs in which the Community Care Grants are added with the Community Care Subsidy amount (which is to be kept separate as per FAR guidelines sent to the providers). As a result of this possibility, the average income of the sector may be overestimated and may not fully represent the sector.
- The financial data of some of the FARs are not included in the analysis because their organisational and administrative details given in their FARs do not match with the Department's official records.
- A limited number of financial metrics/ratios are measureable from the useable data due to incomprehensive details provided in the FARs.
- The comprehensiveness of the financial information contained in the FARs varies from provider to provider. The accounting standards are subject to interpretation and it is possible that interpretations may differ between provider and their auditors. Analysis of financial data is affected by incomplete and aggregated data provided in the FARs of these providers/services.
- The data quality is subject to each provider's allocation rules which are not fully disclosed in the FARs and therefore may not necessary reflect the true income and expense of the Home Care service facility.
- For the calculation of ratios, a provider is excluded when only a part of the financial information is given that cannot become useful to measure a financial ratio/proportion. Due to this reason, the numbers of providers differ in each metric/ratio. It is also possible that any provider that is included in the measurement of one ratio may not be included in the measurement of another ratio. This further implies that the ratios may not fully represent the entire sector.

Appendix L – Financing Structures and Balance Sheet Ratios

Table L.1 - Distribution of Average Accommodation Bonds 2012-13, by Ownership and Earnings Before Interest, Taxes, Depreciation and Amortisation Quartile

Distribution of Accommodation Bonds 2012-13 By Ownership and EBITDA Quartile					
	Top Quartile	*Next Top*	*Next Bottom*	*Bottom*	**Total**
Not-for-profit					
Provider count	82	153	165	145	**545**
Number of providers that held bonds	72	146	155	132	**505**
Proportion of permanent residents that paid bond in facilities, where bonds were held.	41.00%	42.87%	37.86%	36.70%	40.10%
Average bond per resident	$186,409	$209,759	$194,740	$176,786	$198,159
For-profit					
Provider count	164	96	74	46	**380**
Number of providers that held bonds	123	77	56	37	**293**
Proportion of permanent residents that paid bond in facilities, where bonds were held.	49.59%	40.48%	55.19%	55.96%	47.89%
Average bond per resident	$247,266	$218,587	$270,098	$266,820	$244,744
Government					
Provider count	13	9	20	67	**109**
Number of providers that held bonds	9	8	17	52	**86**
Proportion of permanent residents that paid bond in facilities, where bonds were held.	31.39%	24.72%	28.03%	29.29%	28.75%
Average bond per resident	$160,356	$109,971	$154,488	$148,912	$149,587
Total					
Provider count	**259**	**258**	**259**	**258**	**1034**
Number of providers that held bonds	**204**	**231**	**228**	**221**	**884**
Proportion of permanent residents that paid bond in facilities, where bonds were held.	**46.89%**	**42.04%**	**40.28%**	**38.99%**	**42.21%**
Average bond per resident	**$231,427**	**$211,775**	**$210,874**	**$196,798**	**$214,374**

Table L.2 provides the distribution of new bonds by value of a bond received by providers in 2012-13 by ownership.

Table L.2 - Distribution of New Bonds 2012-13, by Ownership

Distribution of New Bonds 2012-13 – by Ownership						
	Under $250,000	*$250,000 - $499,999*	*$500,000 - $749,999*	*$750,000 - $999,999*	*$1,000,000 and above*	**TOTAL**
	%	*%*	*%*	*%*	*%*	**%**
Not For Profit	49.3	41.3	8.2	0.9	0.2	100
For Profit	30.9	53.5	12.4	2.0	1.2	100
Government	63.7	32.4	3.8	0.2	0.0	100
TOTAL	42.3	46.0	9.8	1.4	0.6	100

Chart L.1 shows the change in the distribution of new bonds by value of a bond received by providers according to ownership type between 2010-11 and 2012-13.

Chart L.1 - Change in Distribution of New Bonds 2010-11 to 2012-13, by Ownership

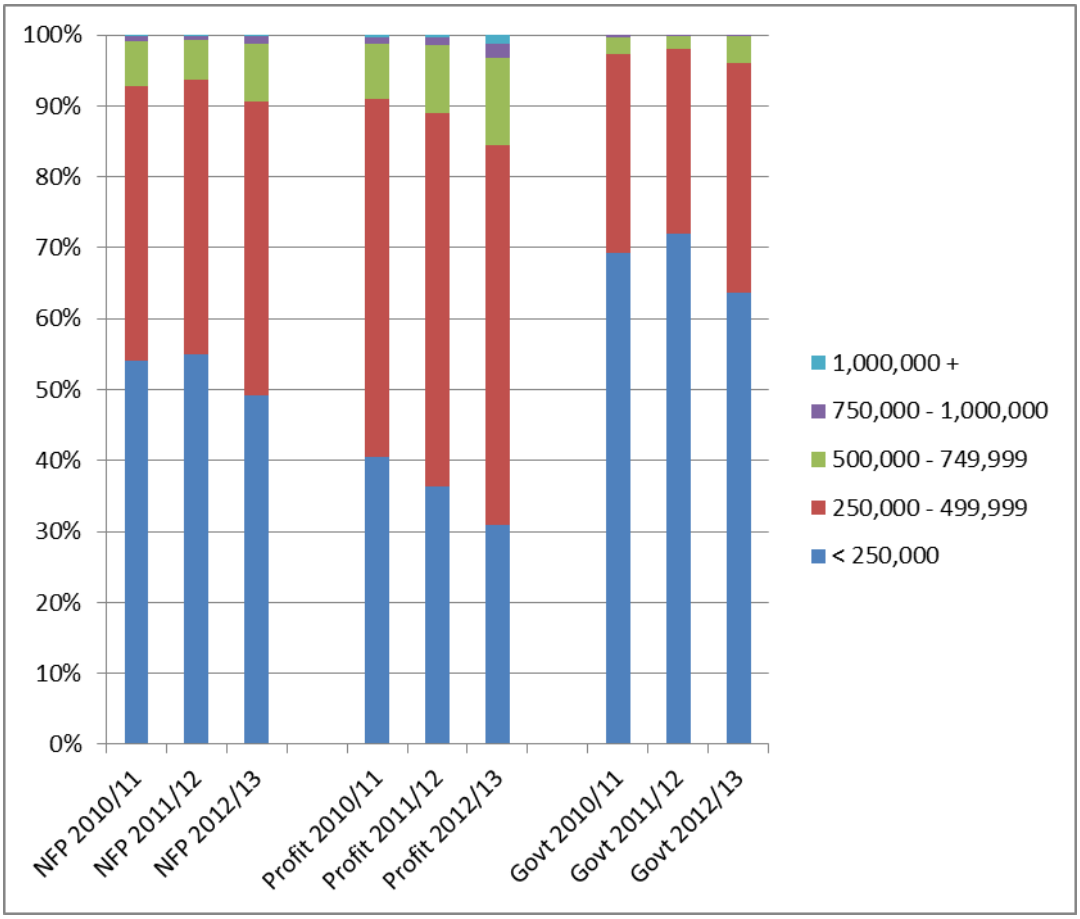


Table L.3 provides the distribution of new bonds by value of a bond received by providers in 2012-13 by location.

Table L.3 - Distribution of New Bonds 2012-13, by Location

Distribution of New Bonds 2012-13 – by Location						
	Under $250,000 *%*	*$250,000 - $499,999* *%*	*$500,000 - $749,999* *%*	*$750,000 - $999,999* *%*	*$1,000,000 and above* *%*	**TOTAL %**
Major City	34.1	51.0	12.4	1.7	0.8	100
Regional Areas	65.6	31.8	2.3	0.3	0.0	100
Remote Areas	91.5	6.4	2.1	0.0	0.0	100
TOTAL	42.3	46.0	9.8	1.4	0.6	100

Chart L.2 shows the change in the distribution of new bonds by value of a bond received by providers according to location type between 2010-11 and 2012-13.

Chart L.2 - Change in Distribution of New Bonds 2010-11 to 2012-13, by Location.

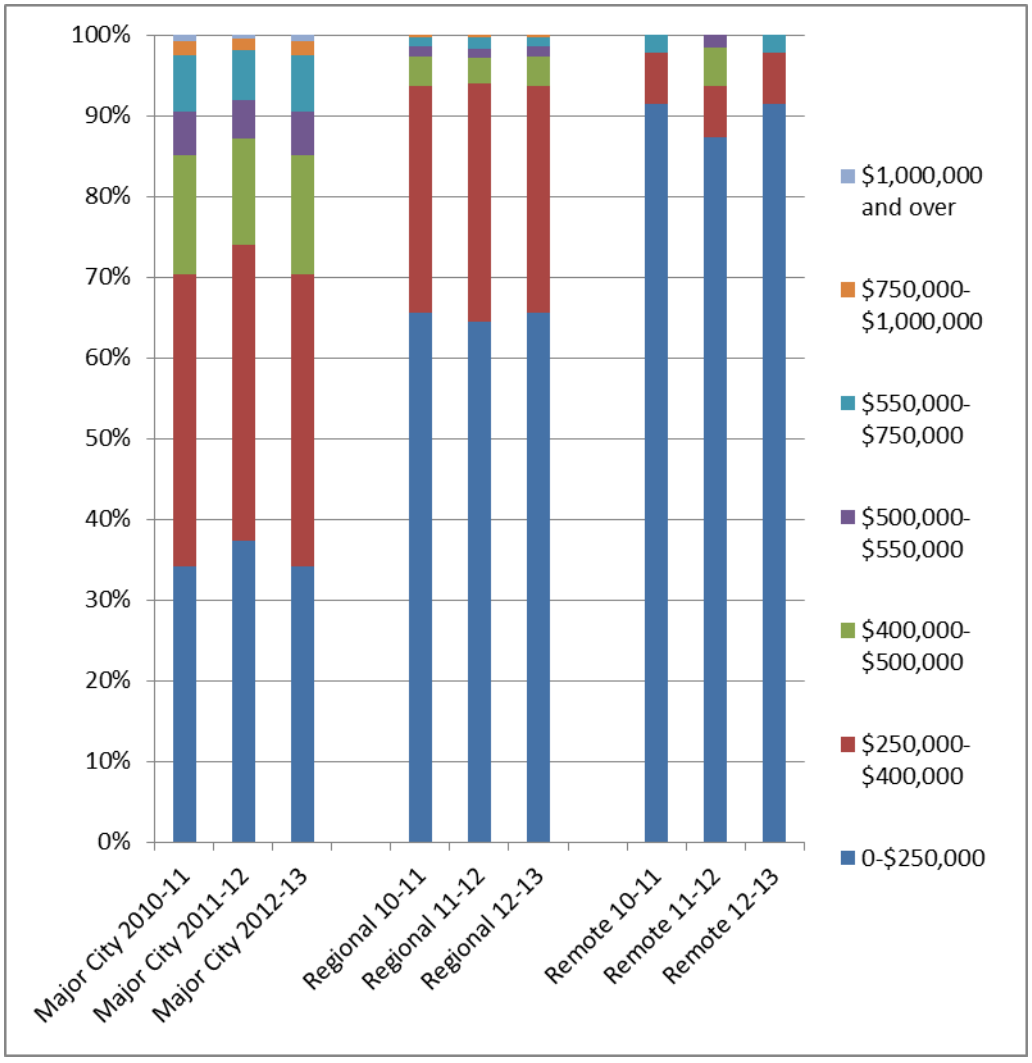


Table L.4 provides the distribution of new bonds by value of a bond received by providers in 2012-13 by the size of the facility.

Table L.4 - Distribution of New Bonds 2012-13, by Value of Bond and Size of Facility

Distribution of New Bonds 2012-13 – by Value of Bond and Size of Facility						
Size of facility by no. of places	*Under $250,000* *%*	*$250,000 - $499,999* *%*	*$500,000 - $749,999* *%*	*$750,000 - $999,999* *%*	*$1,000,000 and above* *%*	**TOTAL** **%**
1 to 19	68.6	27.3	3.3	0.8	0.0	100
20 to 49	57.7	33.9	7.3	0.5	0.6	100
50 to 99	43.0	45.4	9.7	1.3	0.7	100
100 and above	35.5	51.3	10.9	1.8	0.5	100
TOTAL	42.3	46.0	9.8	1.4	0.6	100

Chart L.3 shows the change in the distribution of new bonds by value of a bond received by providers according to the size of the facility between 2010-11 and 2012-13.

Chart L.3 - Change in Distribution of New Bonds 2010-11 to 2012-13, by Size of Facility

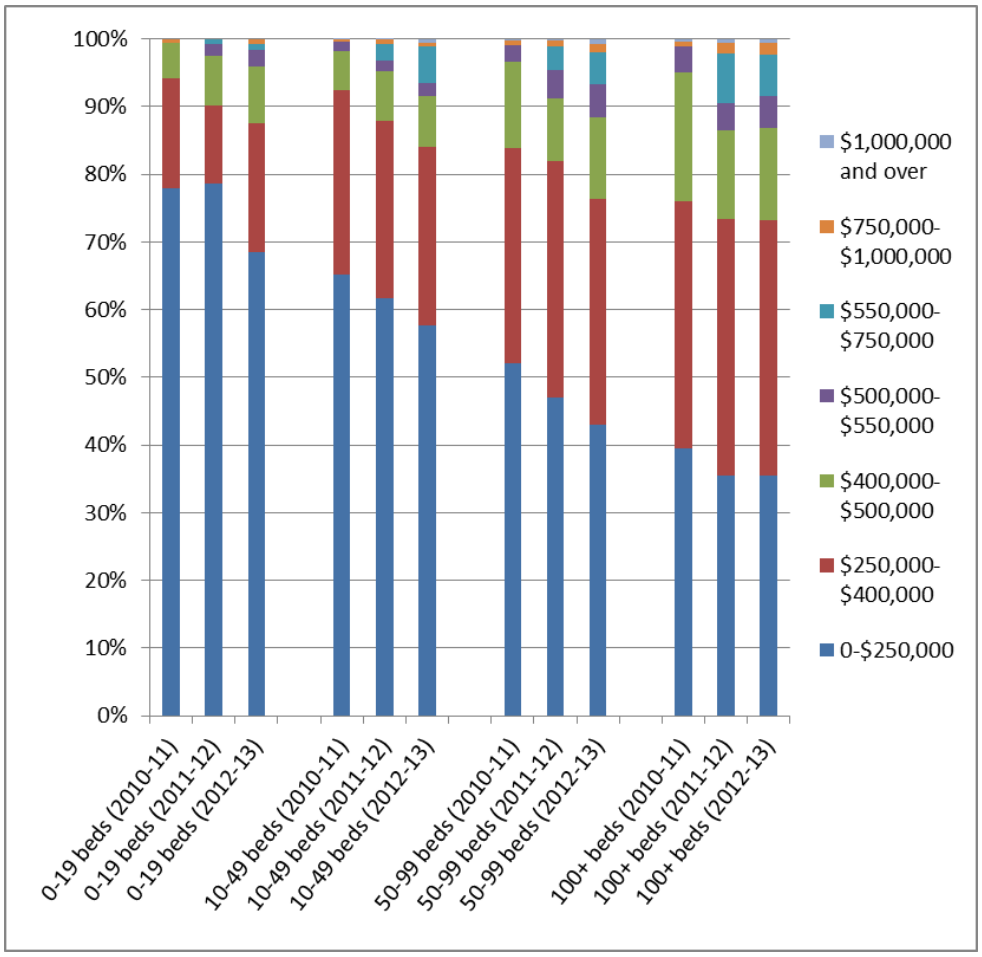


Table L.5 provides the distribution of new bonds by value of a bond received by providers in 2012-13 by State and Territory.

Table L.5 - Distribution of New Bonds 2012-13, by State and Territory

Distribution of New Bonds 2012-13 – by State and Territory						
	Under $250,000 %	*$250,000 - $499,999 %*	*$500,000 – $749,999 %*	*$750,000 - $999,999 %*	*$1,000,000 and above %*	**TOTAL %**
NSW	43.2	43.9	10.4	1.5	0.9	100
VIC	38.7	48.0	11.1	1.8	0.5	100
QLD	47.3	47.8	4.3	0.5	0.1	100
WA	54.5	38.0	6.9	0.5	0.0	100
SA	35.2	52.8	9.8	1.4	0.7	100
TAS	66.8	32.4	0.8	0.0	0.0	100
ACT	16.7	50.0	33.3	0.0	0.0	100
NT	15.9	44.7	35.9	1.9	1.6	100
TOTAL	42.3	46.0	9.8	1.4	0.6	100

Appendix M – Home Care

Table M.1: Number of Allocated Home Care Packages in the 2012-13 Aged Care Approval Round, as at 30 June 2013 by Level

State/Territory	Level 1	Level 2	Level 3	Level 4	Total
NSW	485	1,075	375	210	**2,145**
VIC	350	854	272	150	**1,626**
QLD	245	780	210	65	**1,300**
WA	30	30	10	10	**80**
SA	135	200	100	71	**506**
TAS	50	50	35	15	**150**
ACT	0	0	0	0	**0**
NT	8	8	8	4	**28**
Australia	**1,303**	**2,997**	**1,010**	**525**	**5,835**

Table M.2: Operational Home Care Community Aged Care Package Places, other than Flexible Care Places, by Provider Type, as at 30 June 2013, by State and Territory

State/ Territory	Not-for-profit	For-profit	Government	Total
NSW	13,756	810	1,032	**15,598**
VIC	8,738	520	2,512	**11,770**
QLD	7,683	543	310	**8,536**
WA	3,621	640	375	**4,636**
SA	3,449	140	419	**4,008**
TAS	981	100	89	**1,170**
ACT	646	45	0	**691**
NT	399	108	242	**749**
Australia	**39,273**	**2,906**	**4,979**	**47,158**
% of Total	**83.30%**	**6.20%**	**10.50%**	**100.00%**

Table M.3: Operational Home Care Extended Aged Care at Home Places, by Provider Type, as at 30 June 2013, by State and Territory

State/ Territory	Not-for-profit	For-profit	Government	Total
NSW	1,998	224	26	**2,248**
VIC	1,434	59	255	**1,748**
QLD	1,745	54	19	**1,818**
WA	1,502	355	45	**1,902**
SA	421	16	10	**447**
TAS	159	23	4	**186**
ACT	329	0	0	**329**
NT	84	36	0	**120**
Australia	**7,672**	**767**	**359**	**8,798**
% of Total	**87.20%**	**8.70%**	**4.10%**	**100.00%**

Table M.4: Operational Home Care Extended Aged Care at Home (Dementia) Places, by Provider Type, as at 30 June 2013, by State and Territory

State/ Territory	Not-for-profit	For-profit	Government	Total
NSW	899	81	13	**993**
VIC	704	12	91	**807**
QLD	961	47	0	**1,008**
WA	769	230	0	**999**
SA	215	5	8	**228**
TAS	83	17	9	**109**
ACT	158	0	0	**158**
NT	32	18	0	**50**
Australia	**3,821**	**410**	**121**	**4,352**
% of Total	**87.70%**	**9.50%**	**2.80%**	**100.00%**

Table M.5: Operational Home Care Places by Organisation Type as at 30 June 2013

State/ Territory	Religious	Charitable	Community Based	Private For Profit	State Gov't	Local Gov't	Territory Gov't	Total
NSW	6,429	6,528	3,724	1,115	539	656	0	18,991
VIC	5,473	3,451	2,021	591	1,722	1,155	0	14,413
QLD	5,292	2,982	2,132	644	258	203	0	11,511
WA	2,455	3,086	351	1,233	263	316	0	7,704
SA	1,249	2,318	581	161	345	114	0	4,768
TAS	506	386	380	140	90	27	0	1,529
ACT	253	675	205	45	0	0	0	1,178
NT	341	71	163	162	0	254	2	993
Australia	**21,998**	**19,497**	**9,557**	**4,091**	**3,217**	**2,725**	**2**	**61,087**

(a) Location of places are based on the service delivery area.

(b) Includes CACP, EACH, EACHD and flexible community care places (MPS, Innovative Care and under the National Aboriginal and Torres Strait Islander Flexible Aged Care Programme).

Table M.6 shows operational community care places by organisation type and remoteness as at 30 June 2013.

Table M.6: Operational Home Care Places by Organisation Type and Remoteness as at 30 June 2013

	Religious	Charitable	Community Based	Private For Profit	State Gov't	Local Gov't	Territory Gov't	Total
Major Cities of Australia	16,080	14,681	5,998	3,185	769	1,140	0	41,853
Inner Regional Australia	4,126	3,264	2,411	389	1,400	537	0	12,127
Outer Regional Australia	1,446	1,431	854	407	664	559	0	5,361
Remote Australia	189	89	126	68	285	101	0	858
Very Remote Australia	157	32	168	42	99	388	2	888
Australia Total	**21,998**	**19,497**	**9,557**	**4,091**	**3,217**	**2,725**	**2**	**61,087**

(a) Places are based on the physical address of the services and may not correspond to where the care is delivered.
(b) Includes CACP, EACH, EACHD and flexible community care places (MPS, Innovative Care and under the National Aboriginal and Torres Strait Islander Flexible Aged Care Programme).

Appendix N – Access to Care

Table N.1: Number and Growth in Residential Aged Care Residents and Places

	2009	*2010*	*2011*	*2012*	*2013*
Total operational places	175,225	179,749	182,302	184,570	186,278
- Growth		*2.6%*	*1.4%*	*1.2%*	0.9%
Total residents	158,863	162,611	165,276	167,009	168,968
- Growth		*2.4%*	*1.6%*	*1.0%*	*1.2%*
Residents aged 70 or over	147,153	150,820	153,176	155,057	156,674
- Growth		*2.5%*	*1.6%*	*1.2%*	*1.0%*
Residents aged 85 or over	88,003	91,445	93,838	96,042	98,175
- Growth		*3.9%*	*2.6%*	*2.3%*	*2.2%*

Source: DoHA (2013a) and DoHA calculations; *2008-09 to 2012-13 ROACA* 1997.

Table N.2: Operators by Type of Care

	2006-07 *%*	*2007-08* *%*	*2008-09* *%*	*2009-10* *%*	*2010-11* *%*	*2011-12* *%*	*2012-13* *%*
High care	45	48	55	56	56	64	67
Mixed care	39	39	38	37	37	30	29
Low care	16	13	7	7	7	6	4
TOTAL	100	100	100	100	100	100	100

Note: The distribution of providers by care type is based on the proportion of 70 per cent or more days of care provided to high care residents.

Table N.3: Number of First Admissions into Permanent Residential Aged Care, by Care Type and Extra Service Status and as a Proportion of Total Admissions in 2012-13[58]

	High care	*Low care*	TOTAL
Extra services	3,630	1,380	**5,010**
	6.3%	*2.4%*	***8.6%***
Non-extra services	31,561	21,351	**52,912**
	54.5%	*36.9%*	***91.4%***
All admissions	35,191	22,731	**57,922**
	60.8%	*39.2%*	***100%***

[58] Departmental data.

Table N.4: Total Number of Individuals Receiving Aged Care Services, 2013, with a Break-Down by Provider Type (Profit, Not-For-Profit, Government) [59]

	Total Operational Places	Number of Residents in care		
		All Residents	*Residents aged 70 or more years*	*Residents aged 85 or more years*
Not for Profit	108,536	100,398	93,775	59,894
For Profit	67,470	59,380	54,861	33,706
Australian Government	10,272	9,190	8,038	4,575
Total	186,278	168,968	156,674	98,175

Table N.5: Occupancy Rate in Aged Care by State and Territory , 2012-13.

State/Territory	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Australia
Residential aged care	92.6%	92.1%	92.6%	93.6%	94.7%	92.4%	93.5%	91.1%	92.7%
CACP	96.1%	97.2%	85.0%	78.6%	95.5%	97.1%	85.6%	90.2%	92.4%
EACH	95.6%	98.2%	93.6%	83.3%	97.5%	96.8%	88.9%	93.5%	92.9%
EACHD	93.6%	97.5%	86.1%	64.7%	97.3%	94.2%	62.8%	81.8%	85.0%
Total home care	95.9%	97.4%	86.5%	77.9%	95.8%	96.8%	83.6%	90.2%	92.0%

Table N.6: Trends and Variations in Occupancy by Location

Year	2007	2008	2009	2010	2011	2012	2013
Major cities	94.1%	93.4%	92.6%	92.1%	92.8%	92.7%	92.6%
Inner regional	95.5%	94.4%	94.1%	93.7%	94.1%	93.6%	93.3%
Outer regional	95.6%	93.7%	92.7%	91.9%	92.3%	91.7%	92.2%
Remote	91.4%	87.5%	88.4%	89.5%	90.9%	90.8%	90.3%
Very remote	79.8%	80.2%	79.5%	80.9%	88.3%	82.3%	81.2%

[59] ROACA data.

Table N.7: Number of Home Care Packages and Residential Care Operational Places

Type of Care		2008	2009	2010	2011	2012	2013
CACP	Packages	39,552	40,195	42,634	45,096	46,518	47,158
EACH	Packages	4,244	4,478	5,587	8,150	8,503	8,798
EACHD	Packages	1,996	2,036	2,583	3,995	4,180	4,352
Home Care Level 1	N/a	N/a	N/a	N/a	N/a	N/a	N/a
Home Care Level 3	N/a	N/a	N/a	N/a	N/a	N/a	N/a
Total for Home Care Packages		**45,792**	**46,709**	**50,804**	**57,241**	**59,201**	**60,308**
Residential	Operational places	171,832	175,225	179,749	182,302	184,570	186,278

Source: 2007-08 to 2012-13 Reports on the Operations of the Aged Care Act 1997.

Table N.8: Utilisation of Residential Aged Care Places

Utilisation as at 30 June	Proportion of Residential Care Places Utilised for High Care (%)	Proportion of Residential Care Places Allocated as Low Care, Utilised for High Care (%)
2013	74.6	57.6
2012	73.0	54.6
2011	69.2	48.9
2010	62.5	37.6
2009	66.3	42.9
2008	68.6	45.1
2007	64.9	37.4

Source: Reports on the Operations of the *Aged Care Act 1997* (2006-07 to 2012-13).

Table N.9: Average Age of People Living and Entering Permanent Residential Aged Care

Period	Average Age at First Admission to Permanent Residential Aged Care (All Admissions During the Year)	Average Age of Permanent Residential Aged Care Residents as at 30 June
2012-13	83.3	84.4
2011-12	83.3	84.4
2010-11	83.2	84.2
2009-10	83.1	84.1
2008-09	83.0	84.0

Table N.10: Occupancy in Residential Aged Care Facilities by Organisation Type 2012-13

Organisation Type	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Australia
Not- for-profit	93.7%	93.6%	94.4%	96.3%	96.1%	92.9%	92.3%	91.1%	94.2%
For- profit	90.2%	91.1%	90.1%	89.0%	91.0%	90.5%	98.1%	-	90.5%
State/ local government	93.8%	91.8%	84.8%	95.3%	94.0%	83.6%	-	-	91.3%
All organisation types	92.6%	92.1%	92.6%	93.6%	94.7%	92.4%	93.5%	91.1%	92.7%

Appendix O – Published Prices

Table O.1 provides a distribution by value of RAD prices according to location, with RAD prices being significantly lower in regional and remote areas.

Table O.1: Distribution of Refundable Accommodation Deposit Published Prices as at 1 July 2014, by Location

Distribution of Refundable Accommodation Deposit Published Prices as at 29 July 2014 – by Location*								
RAD	<= $250,000	$250,001-$300,000	$300,001-$400,000	$400,001-$500,000	$500,001-$550,000	$550,001-$750,000	$750,001-$1 million	> $1 million
DAP	<= $45.82	$45.82-$54.99	$54.99-$73.32	$73.32-$91.64	$91.64-$100.81	$100.81-$137.47	$137.47-$183.29	>$183.29
Major-Cities	33.4%	34.3%	51.2%	32.5%	24.6%	6.3%	3.3%	1.2%
Regional	38.7%	42.0%	52.0%	15.2%	10.4%	0.5%	0.0%	0.0%
Remote	82.3%	30.6%	19.4%	4.8%	6.5%	0.0%	0.0%	0.0%

* Rows may total to greater than 100% since some services offer room types across a range of price bands.

Table O.2 provides a distribution by value of RAD prices according to State and Territory. The ACT is the clear outlier in terms of published prices above $550,000. The ACT has long been the only jurisdiction where bond prices have deviated significantly from real estate prices, a phenomenon probably resulting from the higher average income of its residents.

Table O.2 - Distribution of Refundable Accommodation Deposit Published Prices as at 1 July 2014, by State and Territory

Distribution of Refundable Accommodation Deposit Published Prices as at 29 July 2014 – by State and Territory*								
RAD	<= $250,000	$250,001-$300,000	$300,001-$400,000	$400,001-$500,000	$500,001-$550,000	$550,001-$750,000	$750,001-$1 million	> $1 million
DAP	<= $45.82	$45.82-$54.99	$54.99-$73.32	$73.32-$91.64	$91.64-$100.81	$100.81-$137.47	$137.47-$183.29	>$183.29
NSW	39.8%	40.4%	45.1%	21.3%	16.0%	5.3%	2.4%	0.9%
VIC	20.2%	34.9%	51.8%	27.7%	27.3%	5.5%	3.2%	1.2%
QLD	46.4%	34.0%	53.3%	24.4%	12.4%	1.8%	0.7%	0.0%
WA	35.0%	29.5%	56.8%	29.1%	22.6%	3.0%	1.3%	0.9%
SA	46.3%	41.9%	58.8%	31.3%	11.8%	0.7%	0.4%	0.0%
TAS	74.7%	50.6%	50.6%	17.7%	16.5%	0.0%	0.0%	0.0%
ACT	12.0%	20.0%	32.0%	52.0%	36.0%	12.0%	8.0%	0.0%
NT	75.0%	25.0%	0.0%	25.0%	25.0%	0.0%	0.0%	0.0%

* Rows may total to greater than 100% since some services offer room types across a range of price bands.

Table O.3 provides a distribution by value of RAD prices according to the size of the aged care home. This shows that smaller homes have published lower RAD prices, which is most likely a reflection of their location in regional and remote areas where real estate prices are lower.

Table O.3 - Distribution of Refundable Accommodation Deposit Published Prices as at 1 July 2014, by Size of Service

Distribution of Refundable Accommodation Deposit Published Prices as at 29 July 2014 – by Facility Size*								
RAD	<= $250,000	$250,001-$300,000	$300,001-$400,000	$400,001-$500,000	$500,001-$550,000	$550,001-$750,000	$750,001-$1 million	> $1 million
DAP	<= $45.82	$45.82-$54.99	$54.99-$73.32	$73.32-$91.64	$91.64-$100.81	$100.81-$137.47	$137.47-$183.29	>$183.29
1-19	43.8%	17.8%	28.1%	6.8%	13.0%	0.0%	0.0%	0.0%
20-49	36.6%	33.0%	44.3%	16.5%	11.9%	1.6%	1.3%	0.5%
50-99	34.8%	39.9%	53.5%	27.0%	20.5%	3.3%	1.2%	0.4%
100+	38.0%	41.9%	60.0%	39.8%	27.1%	9.7%	5.3%	1.8%

* Rows may total to greater than 100 per cent since some services offer room types across a range of price bands.

Appendix P – Supported and Non-Supported Resident Data Book

Supported and Non-Supported Residents Data Book

PURPOSE

Under its operating framework, the Aged Care Financing Authority is required to provide advice by 31 December 2015, to the Assistant Minister for Social Services on cost neutral mechanisms to ensure access to care for supported residents, including reviewing the efficiency, effectiveness, and appropriate level of:

- the supported resident ratio for each aged care planning region; and
- the '40 per cent' rule for the Accommodation Supplement.

A requirement of this project is that ACFA deliver a data book on current access trends to the Assistant Minister by 30 April 2014.

This data book provides an overview of the current access trends for supported and non-supported residents in residential aged care. It describes the number and distribution of residents by supported status, it examines entry period for residents – the elapsed time between assessment by Aged Care Assessment Team (ACAT) and entry into residential care - and describes the proportion of residents within aged care services who are supported residents.

Background

A principle underlying the aged care means testing is that people who can afford to contribute to the cost of their care should do so, and those that cannot afford to pay should not be denied access to services. Accommodation is considered a personal expense, however, in line with the above principle, the Government has a safety net for those who cannot afford to pay.

For the purposes of this paper, supported residents are considered as those residents who are eligible for Government support toward the cost of their accommodation. This group of residents includes the current group of supported residents whose eligibility is determined through an aged care asset test, and the grandparented categories of concessional and assisted residents. Details on the eligibility for each of these groups are given in Appendix B.

In order to support access for supported residents the Government uses a three pronged policy approach which comprises: paying an accommodation supplement in respect of supported residents, setting minimum regional target ratios for supported residents that providers are required to meet, and making the payment of the maximum accommodation supplement conditional on having at least 40 per cent of supported residents in a facility.

The aged care reforms commencing 1 July 2014 will not alter these broad policy parameters, however there are changes to the way in which eligibility is determined for Government support towards the cost of accommodation and an increase in the maximum accommodation supplement payable for some residents. From 1 July 2014 eligibility to receive Government assistance with accommodation will be determined upon a combined assessment of income and assets, in line with the new means testing rules. The Government will increase the maximum accommodation supplement payable to aged care facilities that are either newly built or significantly refurbished on or after 20 April 2012 from approximately $34 to $52. Further information on the current arrangements and the impacts of the aged care reforms is provided at D.

Executive Summary

At 30 June 2013, there were 68,200 supported residents in residential care accounting for 44 per cent of the non-extra services resident population (Table 1). The proportion of non-extra service first admissions that were supported residents has remained relatively consistent at approximately 42 per cent over the period 2008-09 to 2012-13 (Table 2).

For each aged care planning region, there is a minimum target ratio for supported and concessional residents to total residents, based on regional socio-economic indices. The lowest regional target ratio is 16 per cent and the highest is 40 per cent. In 2012-13, the achieved regional ratios exceeded the legislated regional ratios in all regions by a significant margin (Appendix A).

Supported residents at admission tend to be younger than non-supported residents. At first permanent admission in 2012-13, the average age of a supported resident is 81.1 years compared to 84.5 for non-supported residents (Table 4).

Non supported residents are more likely to live alone prior to entering care than supported residents and supported residents are more likely to be partnered (Tables 5 & 6). A person is more likely to be a supported resident if they have a partner as the former home is exempt from the asset test if a spouse, or other protected person, is living in it.

Although supported resident status is determined solely based on the aged care asset test, far fewer supported residents were self-funded retirees compared to non-supported residents (1% cf 10%) (Table 7). Most supported and non-supported residents received a government pension in 2012-13.

One possible measure for assessing whether supported residents experience barriers to accessing care is to look at the period of elapsed time between when a person has an ACAT assessment and when they enter care. However, this measure has limitations as it measures the period of time elapsed prior to entering care but it does not identify why this time has elapsed. While in 2012-13 there is a marked difference in entry period between different ACAT settings (ACAT assessment in an acute hospital setting compared to when they are at home) which could be driven by a number of factors, there is little difference between supported residents and non-supported residents access to care in either high or low care settings (Table 9).

The distribution of services across bands of supported resident ratios (i.e. 1%-19%, 20%-39% etc) has been considered at a disaggregated level (by geographic region, organisational structure and State/Territory) (Table 10). Even with significant differences in supported resident ratios between services, the vast majority (approximately 90 per cent) of services within each level of disaggregation have supported resident ratios above 20 per cent in 2012-13. Given the maximum accommodation supplement payment is only made to homes with a supported resident ratio of 40 per cent or higher it is interesting there is not stronger clustering of services operating just above the 40 per cent supported resident ratio (Chart4).

While there are a considerable number of services that exhibit inconsistent patterns to the intake of supported resident over time, fluctuating above, below and across the 40 per cent level, 36 per cent of services have not dropped the supported resident ratio below 40% during the entire period

considered (2009-10 to 2012-13) while, 33 per cent of services have consistently had a supported resident ratio below 40 per cent throughout the same period (Table 11).

Next Steps

The ACFA will provide advice by 31 December 2015, to the Assistant Minister for Social Services on cost neutral mechanisms to ensure access to care for supported residents, including reviewing the efficiency, effectiveness, and appropriate level of:

- the supported resident ratio for each aged care planning region; and
- the '40 per cent' rule for the Accommodation Supplement.

How many supported residents are there?

Table I provides a cross-sectional snapshot of the number of supported (including concessional and assisted residents) and non-supported residents as at 30 June.

Table 1: Number of supported and non-supported residents (excluding extra service residents), by ACAT level 30 June 2013

ACAT level	Supported residents	Non-supported residents	Total	Proportion that are supported
High	42,290	44,392	86,682	48.8%
Low	25,943	44,115	70,058	37.0%
Total	68,233	88,507	156,740	43.5%

ACAT levels refers to the ACAT assessment current at the time of entry into care. High level ACAT assessments are those that have not been limited to low care.

Of those in care that had a high level ACAT[60] (as a proxy for care level at entry) 49 per cent were supported residents; this compares to 37 per cent for those with a low level ACAT. The differences between high care and low care in the in situ population are driven by a similar split at admission (Table 2). It is useful to look at low care separately as the new accommodation payment arrangements are closer in form to the current low care accommodation bond arrangement than the high care accommodation arrangements.

Table 2 gives the proportion of first admissions in the period that were for supported residents entering high care, low care and in total.

Table 2: Proportion of non-extra service first admissions that were supported residents, 2008 to 2013

ACAT level	2008/2009	2009/2010	2010/2011	2011/2012	2012/2013
High	47%	47%	47%	47%	45%
Low	37%	35%	35%	36%	34%
Total	42%	42%	42%	42%	41%

A breakdown of the supported resident ratio by aged care planning region is given at Appendix A

Table 3 provides an alternative view to the tables above by looking at the supported resident ratio by State and Territory. The supported resident ratio is based on the non-extra service resident days for a period that were provided to supported residents.

Table 3: Supported Resident Ratio, by State/Territory 2012-13

NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Australia[1]
43.5%	39.9%	46.8%	46.9%	45.9%	43.6%	39.1%	73.8%	43.7%

Note: 1. Australia figure derived by weighting by resident population for each jurisdiction

Characteristics of Supported Residents:

Table 4 shows the marked difference in the age of supported residents compared to non-supported residents. Supported residents are younger when first entering permanent aged care.

[60] ACAT levels refers to the ACAT assessment current at the time of entry into care. High level ACAT assessments are those that have not been limited to low care.

Table 4: Average age at first permanent admission, by ACAT level, sex and supported resident status, 2012-13

ACAT level	Sex	Non-supported residents	Supported residents	All
High	Male	82.4	79.4	80.9
	Female	85.0	81.9	83.7
	All	84.0	80.7	82.5
Low	Male	84.0	80.0	82.4
	Female	85.8	83.3	85.0
	All	85.3	82.0	84.1
All	Male	82.9	79.5	81.3
	Female	85.3	82.3	84.2
	All	84.5	81.1	83.1

Chart 1 shows the difference in the age of supported residents compared to non-supported residents. The top graph shows data for high care and the bottom graph, low care.

Chart 1: Average age at first permanent admission, by ACAT level, supported resident status, 2012-13

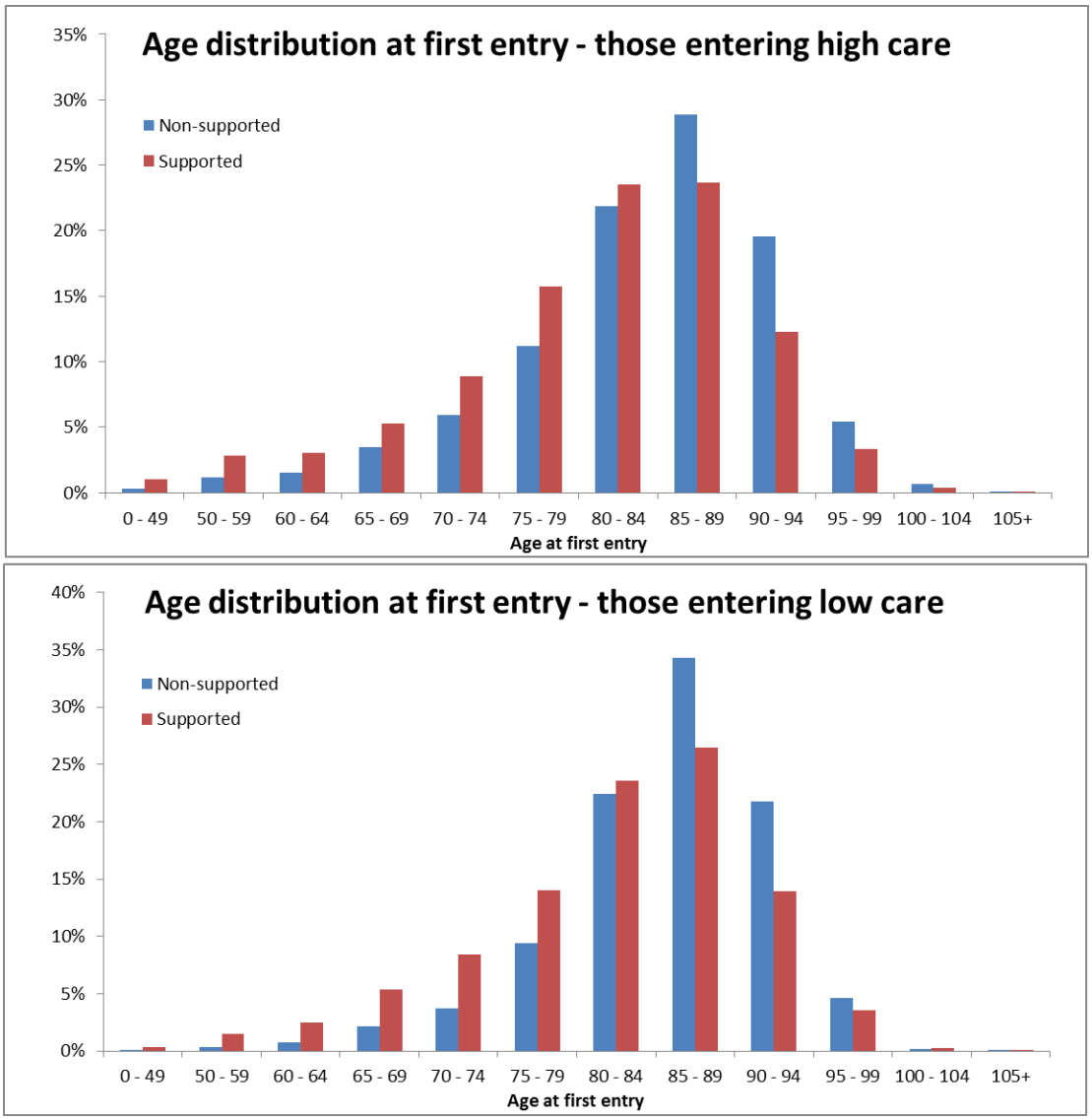


Table 5 Distribution[1] of partnered status, by ACAT level and supported resident status, 2012-13

ACAT level	Partnered status	Non-supported residents	Supported Residents	All
High	Partnered	33%	53%	42%
	Unpartnered	66%	46%	57%
Low	Partnered	20%	28%	23%
	Unpartnered	79%	71%	77%
All	Partnered	28%	46%	35%
	Unpartnered	71%	54%	64%

Note: [1] These do not total to 100% due to removing inadequately described categories

Tables 5 and 6 show the marked differences in the marital status and living arrangements of supported and non-supported residents. Non-supported residents are more likely to live alone than supported residents and supported residents are more likely to be partnered.

Table 6: Distribution[1] of living arrangements prior to first admission, by ACAT level and supported resident status, 2012-13

ACAT level	Living arrangements	Non-supported residents	Supported residents	All
High	Lives alone	50%	24%	39%
	Lives with family	47%	72%	58%
	Lives with others	2%	3%	3%
Low	Lives alone	73%	52%	66%
	Lives with family	25%	43%	31%
	Lives with others	1%	4%	2%
All	Lives alone	59%	33%	48%
	Lives with family	38%	63%	48%
	Lives with others	2%	3%	2%

Note: [1] These do not total to 100% due to removing inadequately described categories

Whilst the supported resident status is determined solely based on the aged care asset test, the positive correlation between income and assets is clear when looking at the income source of supported residents compared to non-supported residents.

Table 7 aggregates residents by income source (Government pension (by source) and self-funded retirees). Residents can also decide to forgo having an income test in which case they are classified as means not disclosed. Most residents in both groups received a Government pension.

Table 7: Distribution of resident's income source, by ACAT level and supported resident status, 2012-13

ACAT level	Income source	Non-supported residents	Supported Residents	All
High	Self funded retiree	10%	1%	6%
	Department of Veterans' Affairs	16%	12%	14%
	Centrelink	65%	86%	74%
	Income not disclosed	9%	1%	5%
Low	Self funded retiree	8%	1%	6%
	Department of Veterans' Affairs	21%	14%	18%
	Centrelink	64%	84%	70%
	Income not disclosed	8%	1%	6%
All	Self funded retiree	9%	1%	6%
	Department of Veterans' Affairs	18%	12%	16%
	Centrelink	65%	85%	73%
	Income not disclosed	8%	1%	5%

Access to care – entry period:

Chart 2 gives the distribution in entry period by ACAT level differentiating between supported and non-supported residents.

Chart 2: Entry period, by ACAT level, supported resident status, 2012-13

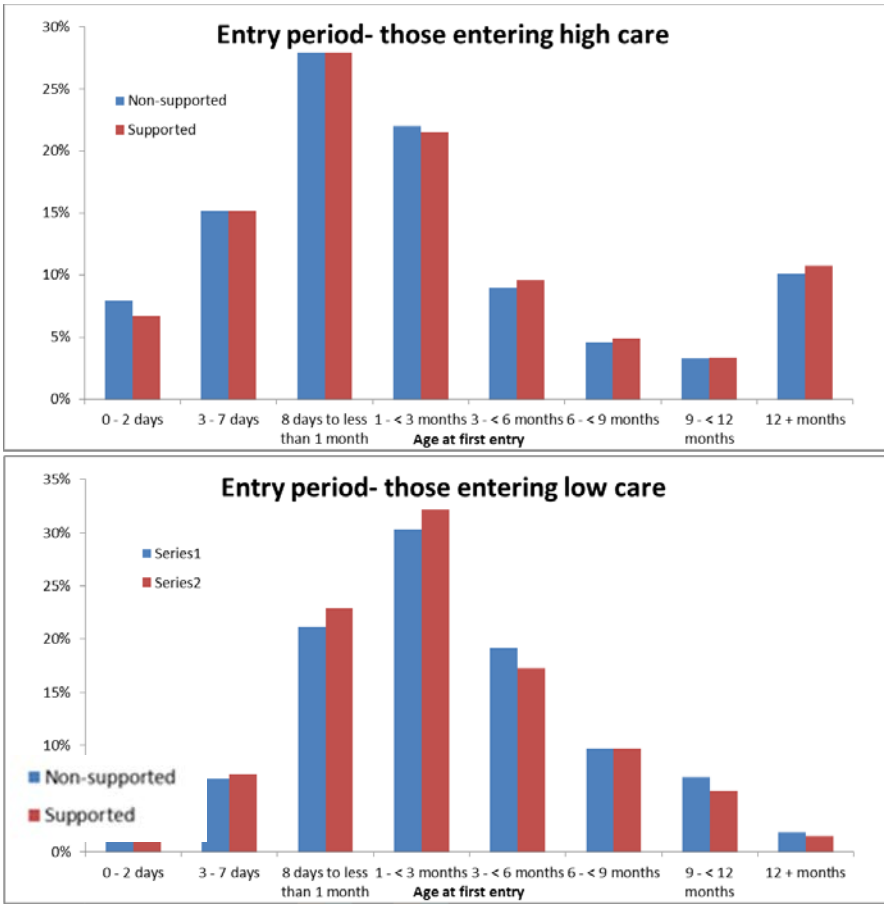


Table 8 shows the variation that occurs in the entry period depending on ACAT level and living arrangement prior to entry. The entry period for high care is roughly the same for people that live alone. For those that live with family that enter high care and across both of these categories for low care the entry period for supported residents is shorter than that for non-supported residents.

Table 8: Median entry period for first permanent admission, by ACAT level, living arrangement prior to entry and supported resident status, 2012-13

ACAT level	Living arrangements	Non-supported residents	Supported residents	All
High	Lives alone	25.6	25.6	25.6
	Lives with family	45.5	38.3	41.5
Low	Lives alone	61.9	55.0	60.0
	Lives with family	78.6	67.9	73.4

Table 9 shows that there are stark differences in the entry period when a person has their ACAT assessment in an acute hospital setting compared to when they are at home. The entry period is markedly longer for a person with a high ACAT approval where the contact was in the community compared to a person with a low ACAT approval assessed in the community; this could be driven by a number of factors but there is little difference between supported residents and non-supported residents.

Table 9: Median entry period for first permanent admission, by ACAT level, Face to face contact setting and supported resident status, 2012-13

ACAT level	Face to face contact setting	Non-supported residents	Supported residents	All
High	Acute Hospital	16.6	17.5	17.0
	Private Residence / Other Community	133.5	130.9	132.3
Low	Acute Hospital	30.3	29.0	29.8
	Private Residence / Other Community	98.3	85.2	92.7

Distribution of services with supported residents:

Table 10 indicates the distribution of services across bands of supported resident ratios. The proportion of services in each band are shown based on remoteness, ownership of home type and State/Territory of service.

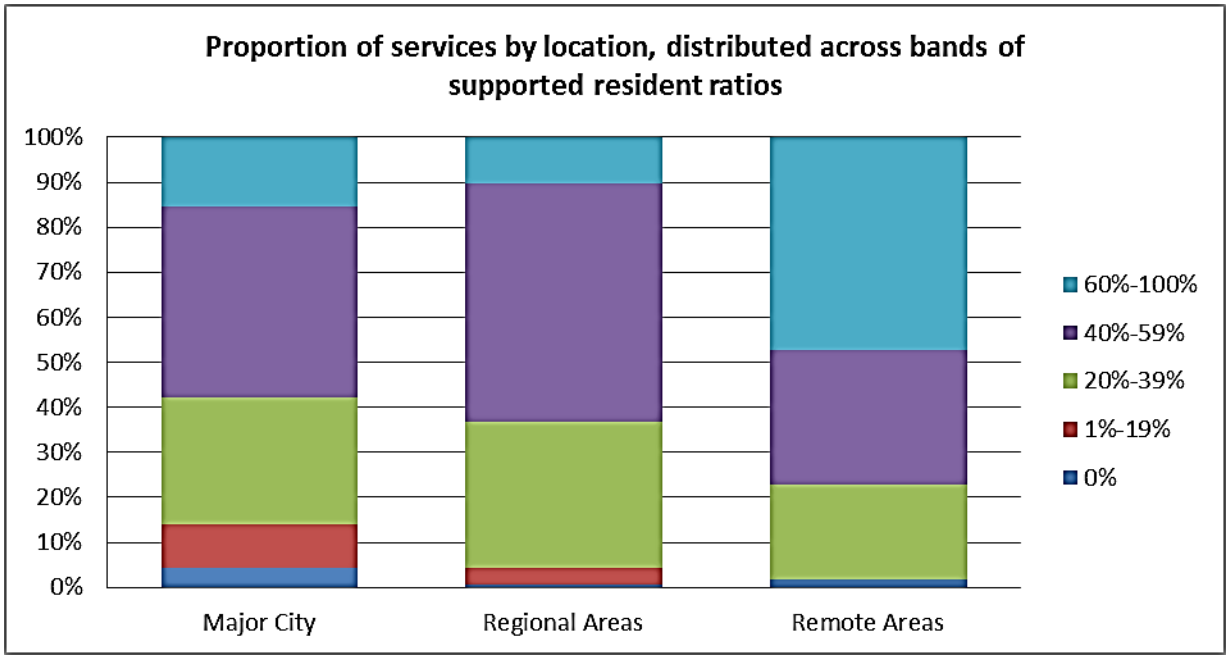
The three parts of Chart 3 graphically represent the data contained in Table 10.

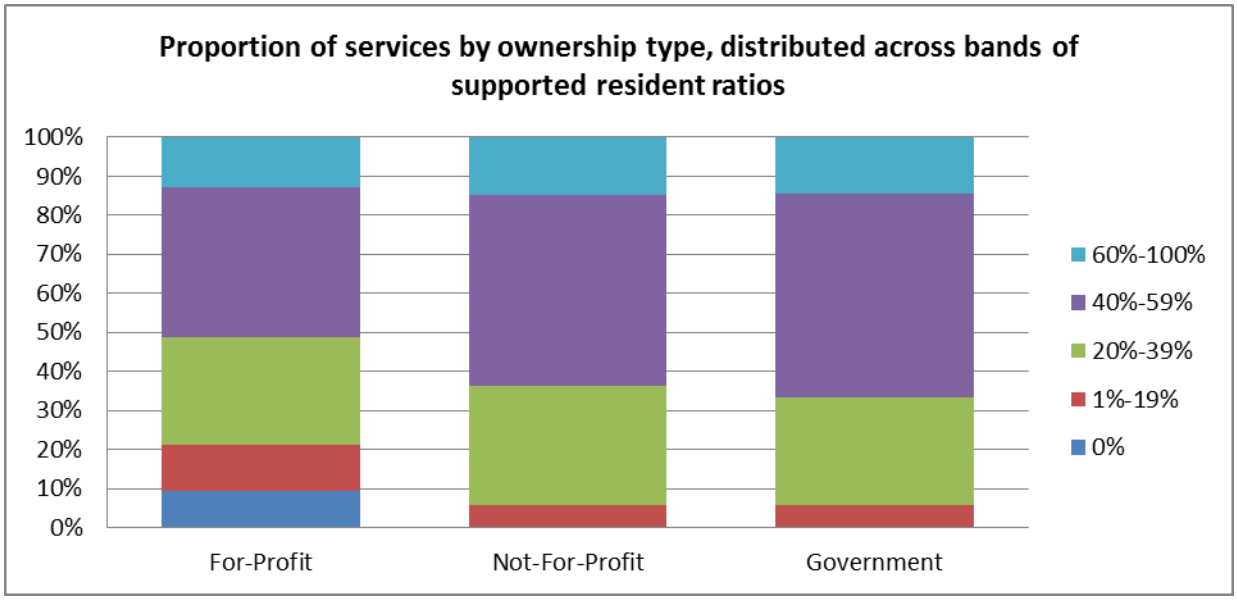
While the vast majority of services (approximately 90 per cent) have supported resident ratios above 20 per cent, there are variations depending on location and/or ownership type. For profit organisations demonstrate the broadest distribution across the bands of supported resident ratios, as do services in Major Cities. Setting the unique situations in the NT aside, there exists some variation between States/Territories in relation to the proportion of services having high levels of supported resident ratios.

Table 10: Proportion of services by Remoteness, ownership of home type and state/territory distributed across bands of supported resident Ratios, 2012-13

Distribution Type	Supported resident ratio					Total
	0%	1%-19%	20%-39%	40%-59%	60%-100%	
Location						
Major City	4.4%	9.7%	28.1%	42.6%	15.3%	100.0%
Regional Areas	0.6%	3.8%	32.5%	52.8%	10.4%	100.0%
Remote Areas	1.8%	0.0%	21.1%	29.8%	47.4%	100.0%
Ownership						
For-Profit	9.3%	11.8%	27.7%	38.3%	13.0%	100.0%
Not-For-Profit	0.2%	5.4%	30.8%	48.9%	14.7%	100.0%
Government	0.0%	5.8%	27.6%	52.0%	14.5%	100.0%
State/Territory						
NSW	3.9%	5.4%	30.8%	46.7%	13.3%	100.0%
VIC	3.0%	11.4%	33.0%	41.6%	11.0%	100.0%
QLD	1.8%	6.4%	23.6%	52.7%	15.6%	100.0%
WA	2.5%	6.2%	23.1%	45.5%	22.7%	100.0%
SA	3.0%	5.3%	29.9%	47.7%	14.0%	100.0%
TAS	1.3%	5.1%	34.6%	48.7%	10.3%	100.0%
ACT	0.0%	12.0%	48.0%	40.0%	0.0%	100.0%
NT	0.0%	0.0%	0.0%	6.7%	93.3%	100.0%
TOTAL	**3.0%**	**7.3%**	**29.5%**	**46.0%**	**14.2%**	**100.0%**

Chart 3: Proportion of services by remoteness, ownership of home type State/Territory distributed across bands of supported resident ratios, 2012-13





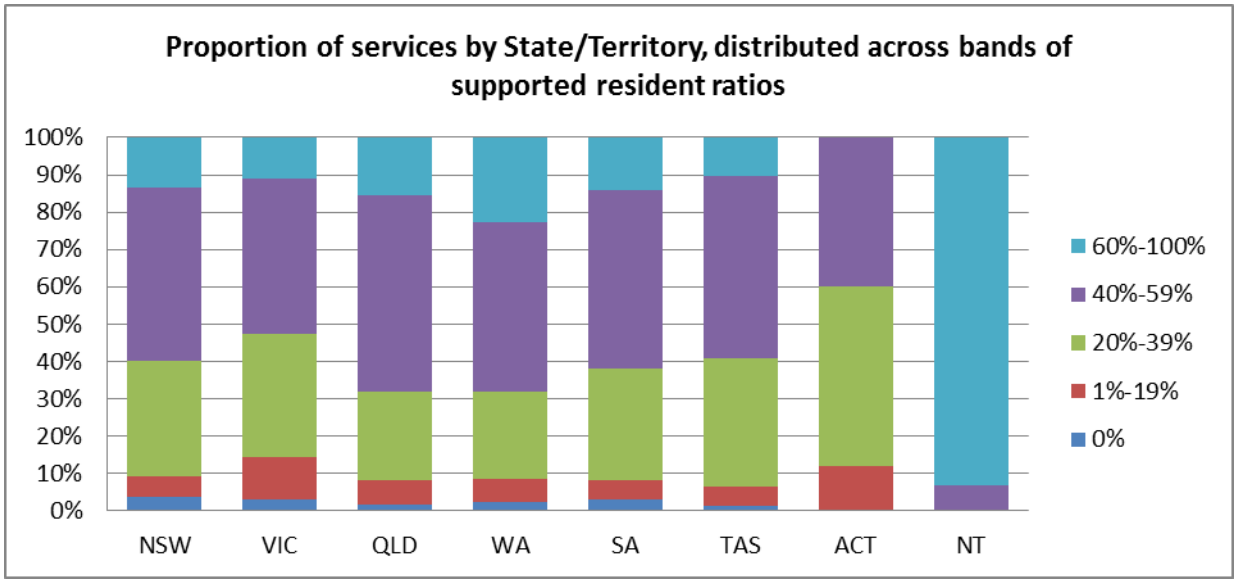
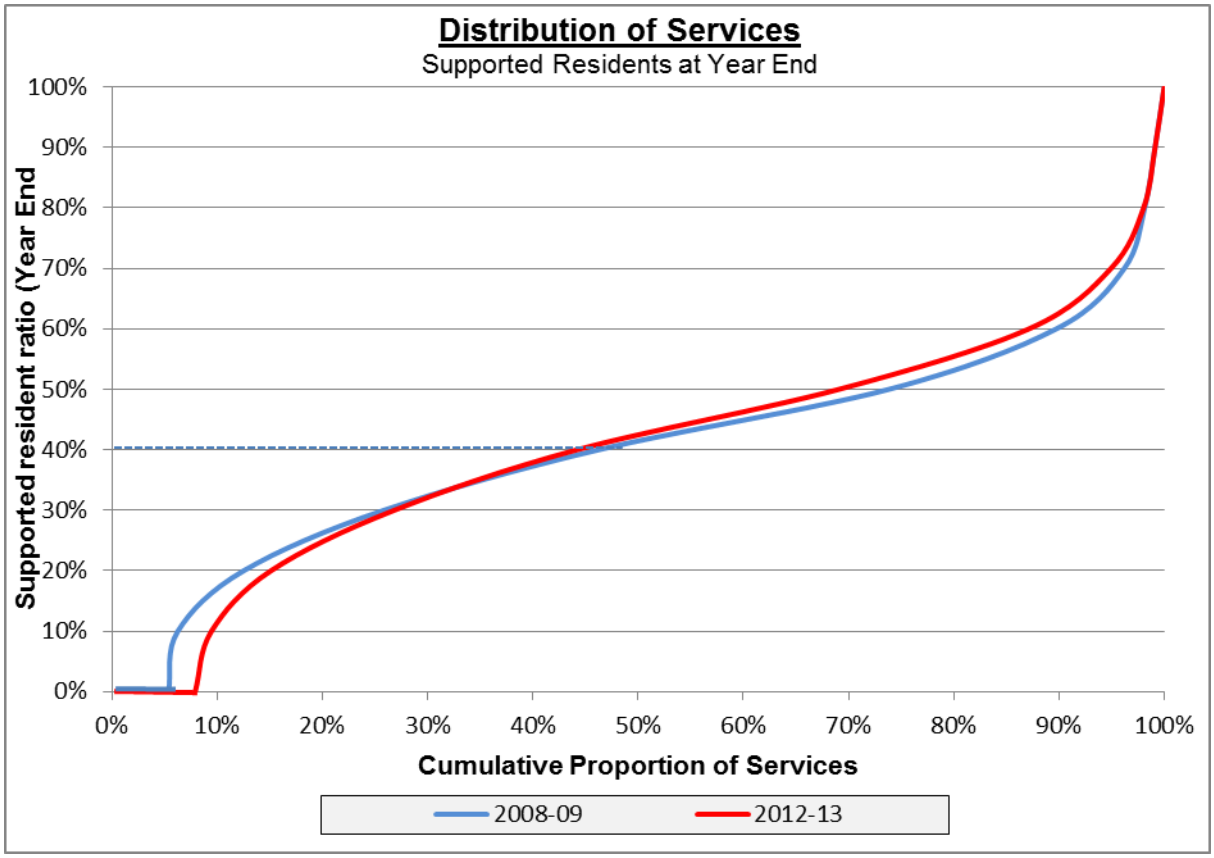


Chart 4 provides a graphical representation of services, ranked in ascending order by the proportion of supported residents within each service at the end of the year. Overall, the pattern remained fairly consistent between 2008-09 and 2011-12.

Chart 4: Services in ascending order of the proportion of supported residents as at year end, 2008-09 and 2012-13



Services with Supported Residents:

Table 11 provides a breakdown of intake patterns by services, differentiating between those services that maintain consistent patterns of intake over the period 2009-10 to 2012-13 and those that exhibited inconsistent patterns (Table 11: Supported resident ratios at admission, Table 12: Supported resident ratio at year end).

Sub-categories within those services that displayed consistent patterns are those that consistently increased the supported resident ratio, those that consistently decreased the supported resident ratio and those that maintained the same level of supported resident (changes within +/- 2.5 per cent are considered consistent).

Sub-categories within those services that displayed inconsistent patterns are also displayed (changes in the supported resident ratio greater than 2.5 per cent). These sub-categories are based on the movement in the last year (i.e. 2011-12 to 2012-13).

Table 11: Distribution of services with supported residents, showing intake patterns for the service, at Admission 2012-13

Intake pattern of the service			Supported resident ratio for 2012-13 at admission						
			Below/Equal to 40%				Above 40%		
2009-10 TO 2010-11	**2010-11 TO 2011-12**	**2011-12 TO 2012-13**	**Remained below 40% SRR**	**Crossed 40% SRR**	**Maintained 40% SRR**	**Dropped below 40% SRR**	**Crossed 40% SRR**	**Maintained 40% SRR**	
Consistent Patterns									
SAME	SAME	SAME	70	-	-	-	-	3	73
INC	INC	INC	19	-	-	-	13	84	116
DEC	DEC	DEC	54	-	1	27	-	23	105
Fluctuating within +/- 2.5%			55	2	2	12	4	43	118
Inconsistent Patterns									
- Increase from last year			334	16	-	-	372	423	1,145
- Unchanged from last year			113	-	-	-	-	29	142
- Decrease from last year			290	-	28	411	-	417	1,146
Total			**935**	**18**	**31**	**450**	**389**	**1,022**	**2,845**
			33%	*1%*	*1%*	*16%*	*14%*	*36%*	*100%*

*SRR – Supported Resident Ratio

While there are a considerable number of services that exhibit an inconsistent pattern to the intake of supported residents (2,433 services, equating to ~ 85 per cent of services) these patterns do not necessarily fluctuate around the 40 per cent threshold. 36 per cent of services have not dropped the supported resident ratio below 40% during the entire period considered (2009-10 to 2012-13) while, 33 per cent of services have kept their supported resident ratio below 40 per cent throughout the same period (Table 11). The remaining third of services have fluctuated above and below an intake of 40 per cent supported residents.

In 2012–13, a total of $587.2 million was paid to approved providers as supplements for accommodation costs for residents who were unable to meet the full cost of their accommodation (2012-13 Report on the Operations of the *Aged Care Act 1997*, Table 30, P44).

Table 12: Accommodation Supplement ($m) 2009-10 to 2012-13

Accommodation Supplement ($m)			
2009-10	2010-11	2011-12	2012-13
$ 276.50	$ 411.20	$ 525.90	$ 587.20

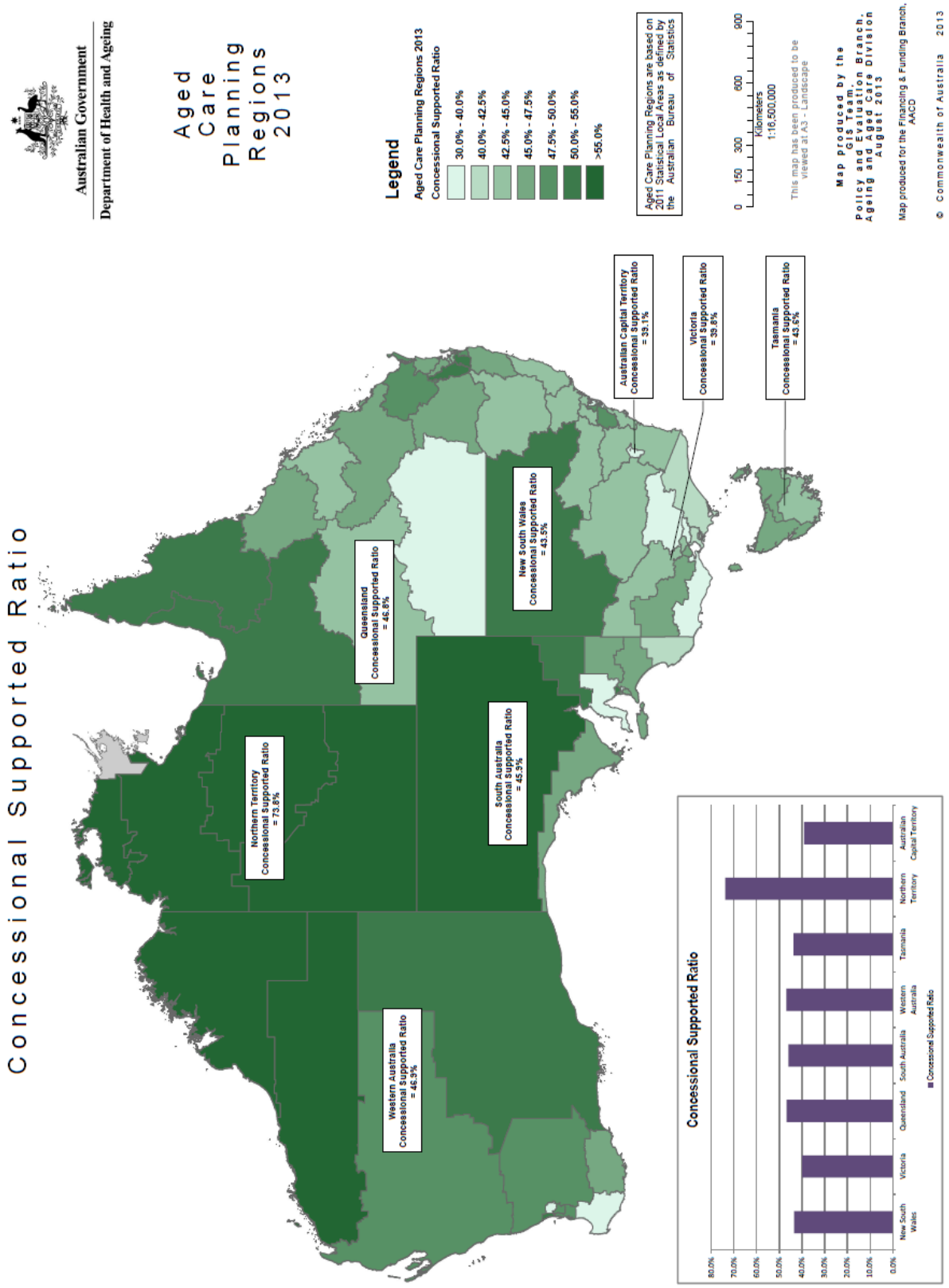
Source: Report on the Operations of the *Aged Care Act 1997*, 2012-13, Table 30, P44 (Accommodation Supplement + Transitional Accommodation Supplement + Hardship Accommodation).

Appendix A

Supported resident ratio, by Aged Care Planning Region, 2012-13

State/Territory	Region	Regional Ratio	Achieved Ratio
ACT	ACT	19.00%	39.23%
	Central Coast	19.80%	43.39%
	Central West	20.50%	43.89%
	Far North Coast	17.10%	45.50%
	Hunter	21.60%	43.10%
	Illawarra	27.00%	44.34%
	Inner West	28.60%	52.27%
	Mid North Coast	17.90%	43.42%
	Nepean	23.80%	45.05%
	New England	18.30%	44.72%
	Northern Sydney	16.00%	32.78%
	Orana Far West	21.00%	50.90%
	Riverina/Murray	18.60%	43.23%
	South East Sydney	19.50%	39.06%
	South West Sydney	26.70%	49.62%
	Southern Highlands	19.10%	45.22%
	Western Sydney	29.80%	48.44%
New South Wales		21.58%	43.81%
	Alice Springs	40.00%	83.43%
	Barkly	40.00%	93.08%
	Darwin	27.00%	69.71%
	Katherine	33.80%	95.65%
Northern Territory		36.16%	76.38%
	Brisbane North	16.00%	43.48%
	Brisbane South	17.80%	43.72%
	Cabool	26.30%	46.36%
	Central West	19.50%	41.66%
	Darling Downs	18.10%	45.99%
	Far North	22.10%	55.01%
	Fitzroy	24.30%	46.98%
	Logan River Valley	31.20%	52.56%
	Mackay	17.80%	43.54%
	North West	26.00%	52.92%
	Northern	25.00%	47.50%
	South Coast	17.80%	50.26%
	South West	18.10%	35.38%
	Sunshine Coast	17.00%	46.62%
	West Moreton	21.40%	51.60%
	Wide Bay	20.20%	49.0%
Queensland		21.16%	47.12%
	Eyre Peninsula	23.00%	47.34%
	Hills, Mallee & Southern	18.80%	45.26%
	Metropolitan East	21.70%	37.54%
	Metropolitan North	27.70%	54.45%
	Metropolitan South	20.20%	47.41%
	Metropolitan West	23.50%	46.21%
	Mid North	19.50%	53.25%

State/Territory	Region	Regional Ratio	Achieved Ratio
	Riverland	22.00%	49.28%
	South East	21.20%	42.46%
	Whyalla, Flinders & Far North	27.50%	61.68%
	Yorke, Lower North & Barossa	16.80%	39.54%
South Australia		21.99%	46.44%
	North Western	19.50%	48.20%
	Northern	18.70%	42.64%
	Southern	17.90%	43.58%
Tasmania		18.70%	44.36%
	Barwon–South Western	18.60%	37.50%
	Eastern Metro	16.70%	33.48%
	Gippsland	18.20%	40.87%
	Grampians	18.20%	45.81%
	Hume	18.50%	38.36%
	Loddon-Mallee	18.20%	42.82%
	Northern Metro	23.40%	42.89%
	Southern Metro	18.20%	40.14%
	Western Metro	24.70%	47.05%
Victoria		19.41%	40.15%
	Goldfields	24.40%	50.91%
	Great Southern	21.80%	46.17%
	Kimberley	40.00%	84.99%
	Metropolitan East	23.10%	48.32%
	Metropolitan North	21.50%	41.72%
	Metropolitan South East	22.60%	48.31%
	Metropolitan South West	22.60%	48.73%
	Mid West	20.10%	50.69%
	Pilbara	40.00%	89.02%
	South West	19.00%	48.43%
	Wheatbelt	17.20%	50.42%
Western Australia		24.75%	47.22%


Australian Government
Department of Health and Ageing
Aged Care Planning Regions 2013
Legend
Aged Care Planning Regions 2013
Concessional Supported Ratio
30.0% - 40.0%
40.0% - 42.5%
42.5% - 45.0%
45.0% - 47.5%
47.5% - 50.0%
50.0% - 55.0%
>55.0%
Aged Care Planning Regions are based on 2011 Statistical Local Areas as defined by the Australian Bureau of Statistics
0 150 300 600 900
Kilometers
1:16,500,000
This map has been produced to be viewed at A3 - Landscape
Map produced by the Gis Team, Policy and Evaluation Branch, Ageing and Aged Care Division August 2013
Map produced for the Financing & Funding Branch, AACD
© Commonwealth of Australia 2013
Concessional Supported Ratio
Australian Capital Territory Concessional Supported Ratio = 39.1%
Victoria Concessional Supported Ratio = 39.8%
Tasmania Concessional Supported Ratio = 43.5%
New South Wales Concessional Supported Ratio = 43.5%
Queensland Concessional Supported Ratio = 46.8%
South Australia Concessional Supported Ratio = 45.5%
Northern Territory Concessional Supported Ratio = 73.8%
Western Australia Concessional Supported Ratio = 46.3%
Concessional Supported Ratio
80.0%
70.0%
60.0%
50.0%
40.0%
30.0%
20.0%
10.0%
0.0%
New South Wales
Victoria
Queensland
South Australia
Western Australia
Tasmania
Northern Territory
Australian Capital Territory
Concessional Supported Ratio

Appendix B - Definitions

Supported residents are those who:

- entered care for the first time on or after 20 March 2008, or who re- entered care on or after 20 March 2008 after a break of more than 28 days (referred to as post-20 March 2008 residents); and
- have assets equal to or less than an amount determined by the Secretary to be the maximum asset threshold for supported resident status (currently under $43,000 to be classified as fully supported or between $43,000 and $112,243 to be classified as partially supported).

Concessional residents are those who:

- entered care before 20 March 2008 and who have not re-entered care on or after 20 March 2008 after a break of more than 28 days; and
- are receiving an income support payment from Centrelink or the Department of Veterans' Affairs (DVA); and
- have not owned a home for the last two or more years (or whose home is occupied by a 'protected' person, for example, the care recipient's spouse or long term carer); and
- have assets of less than 2.5 times (or if the resident entered care after 20 September 2009, 2.25 times), the annual single basic age pension; and
- cannot be required to pay an accommodation bond or an accommodation charge.

Assisted resident are those who:

- entered care before 20 March 2008 and who have not re-entered care on or after 20 March 2008 after a break of more than 28 days; and
- are receiving an income support payment from Centrelink or DVA; and
- have not owned a home for the past two years, unless their home is protected under the assets assessment; and
- have assets of between 2.25 and 3.61 times the annual single basic age pension amount (rounded to the nearest $500); and
- may be required to pay an accommodation bond or accommodation charge.

Appendix C – Background on Supported Residents

Current Arrangements

The Government currently supports access to care for supported residents by a combination of the following policy settings:

1. Paying an accommodation supplement in respect of supported residents.

The Government pays an accommodation supplement in respect of supported residents (in full or part) to the aged care provider. Where the Government pays only a part amount, the supported resident can be asked to also make a contribution but it cannot be more than the maximum accommodation supplement less the Government funded amount. The Government paid $525.9 million in 2011-12 by way of accommodation supplements.

2. Setting minimum target ratios for supported residents that providers are required to meet.

All residential aged care services are required to meet the supported resident ratio for the region in which they are located. Sanctions may be applied to services that do not meet the required ratio.

The target ratios are based on regional socio-economic data, including the number of full pensioners, home-owners, persons aged over 70, and wealth of people living in a particular region. The lowest regional ratio is 16 per cent and the highest is 40 per cent.

3. Making the maximum accommodation supplement conditional on having at least 40 per cent of supported residents in a facility.

To receive the maximum amount of accommodation supplement for a supported resident the facility must have at least 40 per cent of total residents who are classified as supported residents. If the facility does not meet this 40 per cent ratio then the amount of accommodation supplement paid will be reduced by 25 per cent.

Impact of the aged care reforms

While the three broad policy settings outlined above (accommodation costs met in full or part by Government, regional based target ratios and the 40 per cent rule for the accommodation supplement) are not altered by the aged care reforms, these reforms (commencing from 1 July 2014) do redefine the meaning of 'supported resident' (reflecting the move to a combined asset and income test) and alter some of the relevant parameters.

In particular, a resident will be considered a 'supported resident' under the reforms if the combination of their assessable income and assessable assets is such that they are eligible for a part or full accommodation supplement. This will be the case where their assessable income is below approximately $60,000 and their assessable assets are below approximately $154,000.[61] A supported resident will pay no, or only a part, accommodation contribution and no means tested care fee.

[61] Thresholds are as at March 2014.

In addition, from 1 July 2014 the level of accommodation supplement payable for a supported resident will depend on whether the facility was newly built or significantly refurbished on or after 20 April 2012, with a higher accommodation supplement payable to facilities that meet that criteria. The supplement will rise from approximately $33 per day to approximately $52 per day if the facility meets the relevant criteria.

Under the aged care reforms, a supported resident will also have the option of making any contribution they are required to make to their accommodation costs in lump sum or periodic form.

Appendix Q – References

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