AGED CARE AT THE CROSSROADS

PROJECTIONS IF TASKFORCE REFORMS ARE NOT IMPLEMENTED

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EXECUTIVE SUMMARY

Aged Care Financial Sustainability

The Aged Care sector, and particularly residential aged care, has been stagnating due to successive and sustained operating deficits. Over the last five years the aggregate operating loss for the residential aged care sector has been $5 billion *(refer page 13)*.

The impact of these aggregate losses has reduced equity (net asset position) in the sector, inhibited investment in new infrastructure and technology and has the potential to directly affect availability of beds and standard of care. Of critical importance is that the lack of financial sustainability has significantly restricted new builds and innovation, and the sector is at a crisis juncture where there is a significant risk that sufficient aged care beds will not be available to meet the future demand *(refer page 6)*.

An important ramification of the sectors declining financial performance is that whilst currently over 50% of all aged care homes are operating at a loss, if there is no funding reform then up to 75% of homes are projected to operate at a loss which will inevitably lead to further home closures *(refer page 7)* and approved provider consolidation. This will have a lasting effect for regional, rural and remote areas in particular.

Aged care is a social contract that must have bipartisan support from government and all stakeholders to enact policies to ensure that elderly persons receive the high standard of care that they require which should be at a level that is well above simply being acceptable.

The sector cannot continue to operate in a climate of legislative and funding uncertainty

Aged Care Taskforce

The Aged Care Taskforce (Taskforce) was established to provide expert advice to Government on funding arrangements for aged care to ensure that the sector remains financially sustainable. The Taskforce Secretariat was the Department of the Prime Minister and Cabinet.

EXECUTIVE SUMMARY

Consultation

The Taskforce underwent considerable stakeholder consultation before releasing the final Report *(refer page 10)*. Since the release of the Report further detailed analysis and consultation has continued. In this regard, the Government (through the offices of Ministers Butler and Wells), the Opposition (through the office of Senator Ruston), Crossbenches and the Department have been very professional and available to discuss the Taskforce Recommendations and related analysis, the potential impact and consideration of any unintended consequences, and conducting considerable discussions with stakeholders. This needs to be recognised and applauded.

For this reason, further stakeholder consultation before providing a formal response to the recommendations is not required in our opinion, and will be detrimental to the financial sustainability as, "time is of the essence". **It is now time for the Government and Opposition to provide a clear and unambiguous response.**

Once tabled, the exact form of the response to the recommendations can be nuanced before being enacted.

Common Misconceptions

As with any reforms, there will always be some misconceptions. The two most common ones are:

- User Pays. In our opinion this is a simplistic and incorrect view. The fundamental thrust of the Taskforce recommendations is that consumers co-contribute to their daily living and accommodation services, being personal requirements that most have paid for all their adult lives - with others receiving publicly funded income and accommodation support. There is no recommendation for any user-pays for direct care services outside of the current means-tested care fee
- Levy or Increased Taxation. In practice, IHACPA will recommend the subsidy required to ensure that direct care delivery is up to the required quality the community expects. AN-ACC is primarily funded by the taxpayer, so all increases in the AN-ACC subsidy (such as to improve care delivery or, as occurred recently, due to the mandated minutes and FWC award increases) is funded by the taxpayer. The Government of the day will be required to include the AN-ACC subsidy in the budgetary measures and will determine how the overall budget allocation is funded. It is essentially part of the normal budget process and not requiring a specific levy

RESIDENTIAL CARE - FINANCIAL PERFORMANCE PROJECTION ($PBD)

Gap between First 25% of aged care homes financial performance and the Remaining 75% of homes

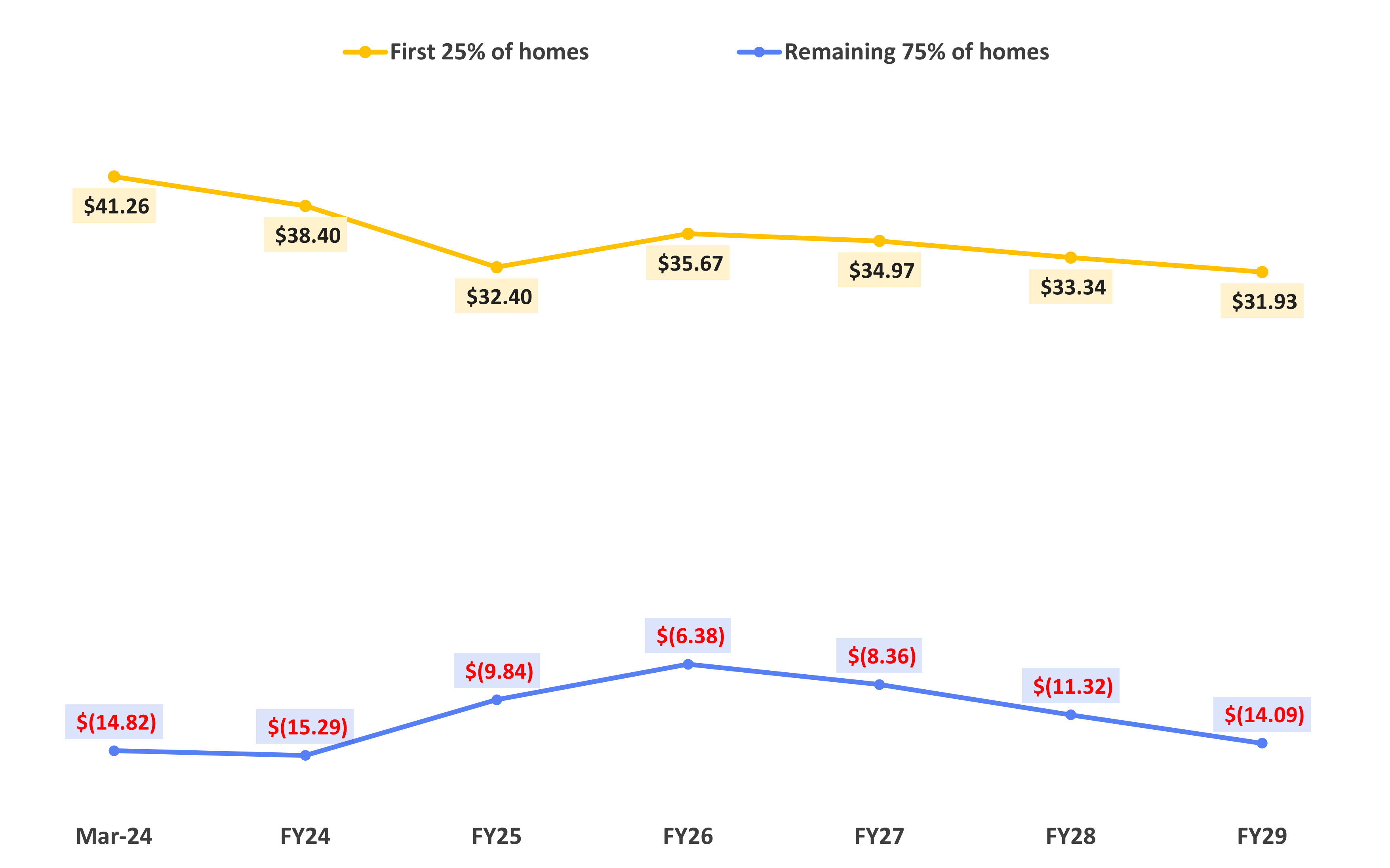
The First 25% of homes are typically characterised as follows:

- Higher occupancy
- Newer builds
- Efficient movement of staff and services
- Lower staffing levels
- Over 50% are multi-story

Please note that this refers to aged care homes (not providers)

First 25% margin is reducing due to having to meet mandated direct care minutes

The concerning issue revolves around the remaining 75% of homes which have been recording significant operating losses over the past 5 years. Unless the funding and margin increases substantially, these homes are at risk of closure with the forecast indicating losses each year up to FY29 (and beyond).



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RESIDENTIAL CARE - FINANCIAL PERFORMANCE PROJECTION BY REGION ($PBD)

Regional Analysis

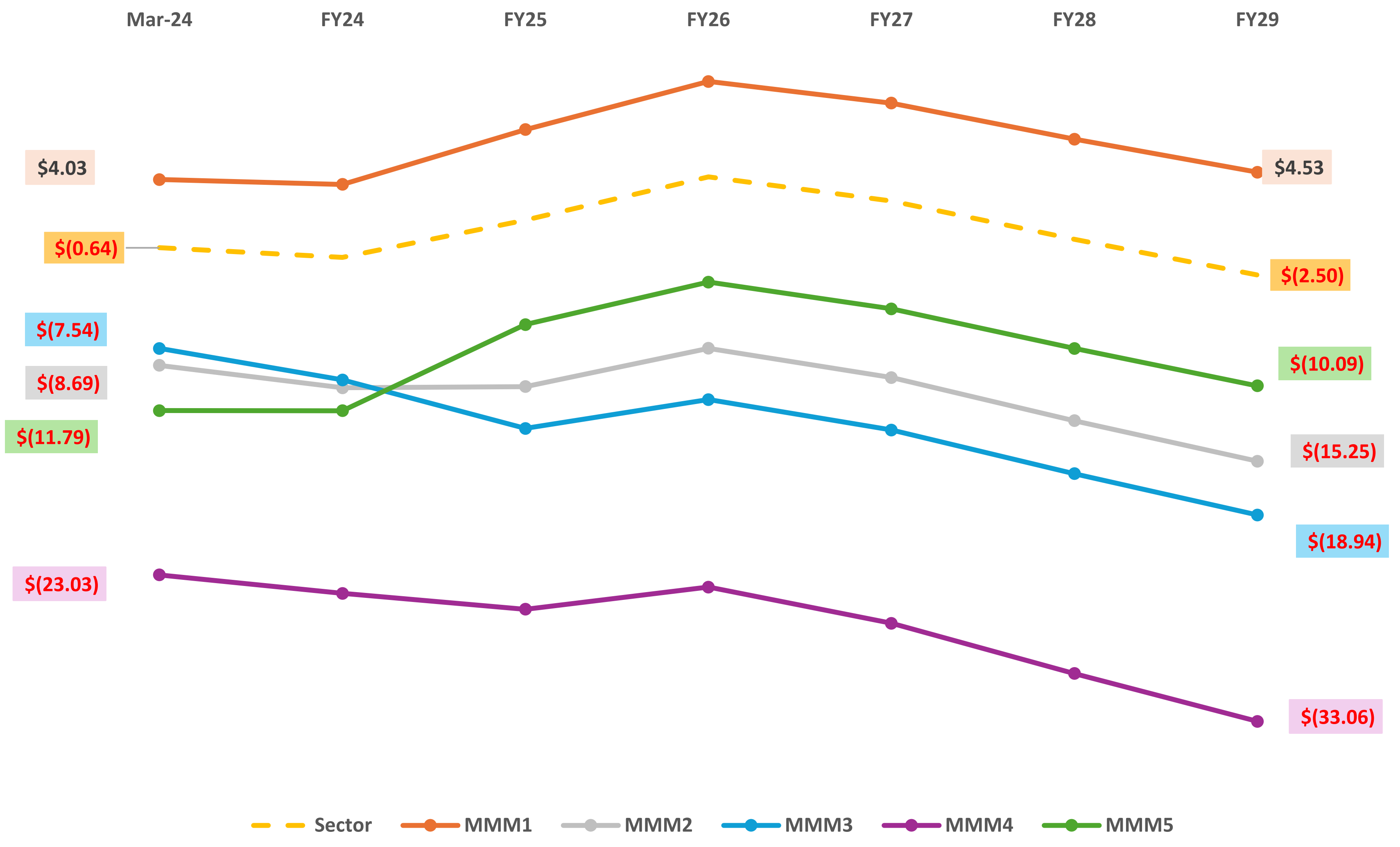
Regions are determined using the Modified Monash Model (MMM) which defines whether a location is metropolitan, rural, remote or very remote.

Essentially, MMM1 is metropolitan (major city) through to MMM7 being very remote.

For the purposes of this analysis, we have not included MMM6-7 due to the small sample size and they receive additional remote subsidies and funding through AN-ACC.

The projections indicate a very low margin for MMM1 whilst the inner regional (MMM2/3) and outer regional (MMM3/4) will continue to incur operating losses that are not sustainable.

The AN-ACC funding model provides more support for outer regional and remote locations, which is why MMM5 has a better result (albeit still a loss) than MMM2 to 4.



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RESIDENTIAL CARE - INVESTMENT IN NEW BEDS IS BECOMING CRITICAL

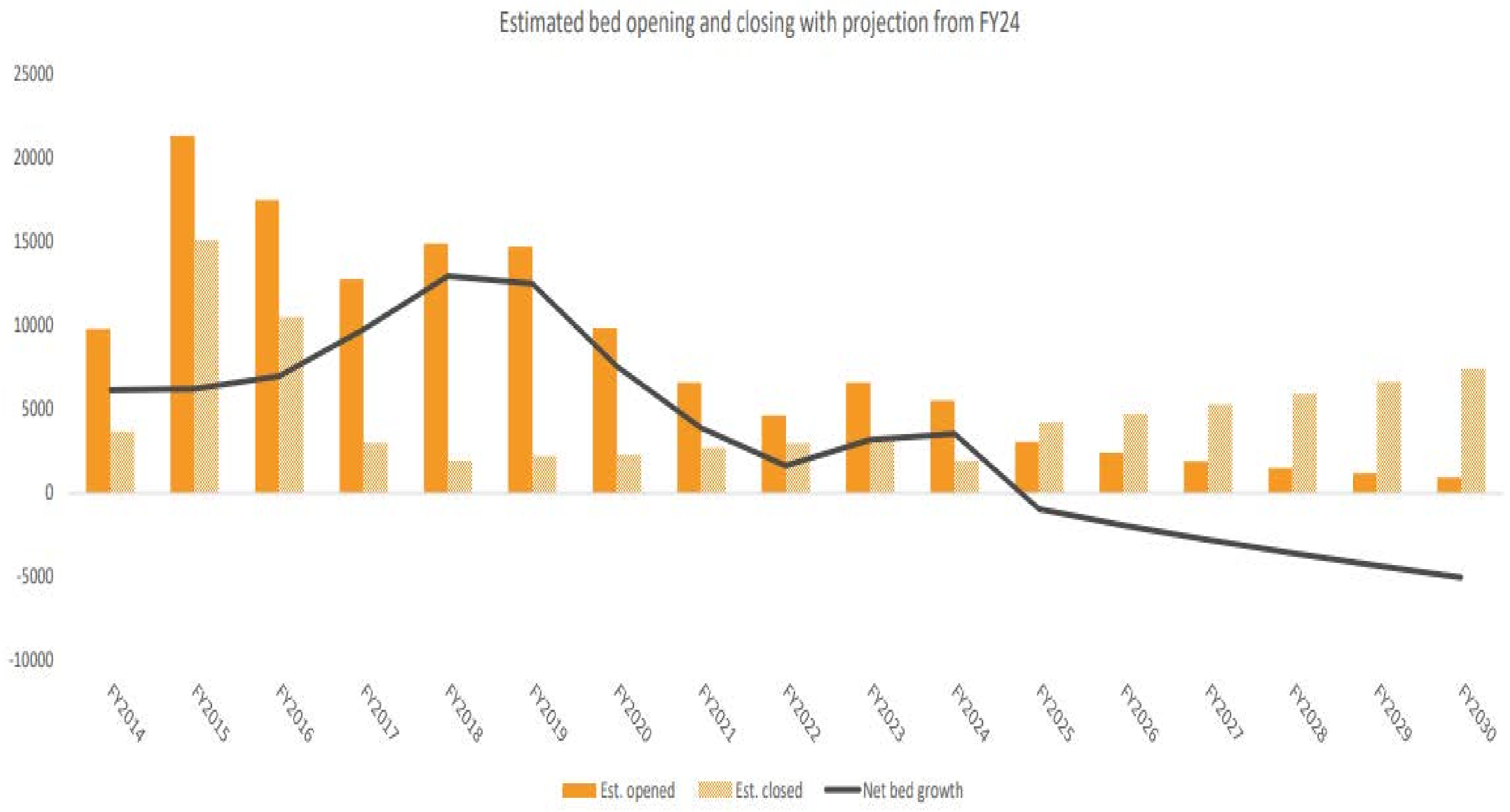
New Residential Builds

This graph is from an analysis showing estimated aged care bed movements based on historical trends for the period from FY24 through to the FY30 projection.

The Taskforce Report provided data on the aged population growth and projected demand for aged care *(refer Appendix C: Statistical trends)* which highlighted that residential aged care would require increasing numbers of operational beds.

The Taskforce report further noted "Preliminary analysis undertaken for the Department of Health and Aged Care estimates an investment of $37 billion (in today's dollars) would be required to build the additional aged care rooms needed by older people in 2050. Over the next decade to 2030, additional investment of approximately $5.5 billion would be required to refurbish and upgrade existing aged care rooms, increasing to $19 billion by 2050.7 Current funding arrangements will not deliver the required amount of capital funding. (page 7)

There is already a current shortage of beds in certain geographic regions (eg Illawarra region) which particularly affects the health sector where the "bed blocking" impacts persons needing to enter hospital and no bed is available for them.



Source: Tim Hicks (Bolton Clarke) 2024

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AGED CARE TASKFORCE CHARTER

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AGED CARE TASKFORCE

Purpose

- The Aged Care Taskforce (Taskforce) was established as a time-limited body to provide expert advice to Government through the Minister for Aged Care. **The Taskforce Secretariat was the Department of the Prime Minister and Cabinet**

Objectives of the Taskforce

- To provide Government with **advice on funding arrangements for aged care** to ensure that the aged care system is fair and equitable for all Australians. The advice should support:
  - a stable policy path for the sector that encourages continuous improvement
  - high quality care and an innovative and vibrant aged care sector that is driven to respond to the needs of older Australians, and
  - a **sustainable sector** that can deliver consistent, high-quality care for generations of Australians.

The Taskforce charter was to provide Government with options for consideration and a recommended package of reforms that ensure that:

- **aged care providers are sustainably funded** and benefit from introducing innovative care delivery approaches that meet older Australian's preferences,
- aged care funding is **affordable for the Commonwealth** with arrangements that balance equity and fairness between older and working-aged Australians,
- older Australians can see the value of their contributions relative to other funding sources,
- there is a **robust safety net** that properly recognises financial capacity at different levels of income and/or life circumstances, and
- **contribution arrangements are efficient, simple to implement, and easily understood** by all Australians, particularly older people.

AGED CARE TASKFORCE

Specifically, the Taskforce will provide advice on:

- **funding and contribution approaches to support innovation in the delivery of care**,
- a fair and equitable approach to assessing the means of older people accessing residential and in-home aged care, including the scope of income and assets included in the assessment of means,
- issues and trade-offs for including and excluding different service types in the new in-home aged care program (the service list),
- **consumer contributions for in-home aged care**, and reforms that support a future transition to a single in-home aged care system, and
- **reforms to arrangements for pricing and funding hotel and accommodation costs in residential aged care**, including the phasing out of refundable accommodation deposits.

Taskforce Report Timelines:

- Interim Report - issued to Cabinet on 31 October 2023
- Final Report - issued to the Government on 22 December 2023
- Final Report - issue to public on 11 March 2024
- **Response from Government, Opposition and Crossbenches ??**

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AGED CARE TASKFORCE

Taskforce Stakeholder Consultation (prior to Final Report)

- 180 Submissions
- 1,944 Survey responses
- 12 Forums (312 in-person attendees; 98 online attendees)
- 11 Targeted Roundtables (105 attendees)
- Network Consultations (COTA, OPAN, ACCPA, Providers, Financial Institutions, Community Groups)

Taskforce Report ("The Need for Change")

- The Royal Commission identified quality issues and issues relating to workforce
- Demographic change means demand for aged care services will continue to grow
- Current and future generations of aged care participants have high expectations of what quality aged care looks like
- Additional funding is needed to meet future demand and deliver quality improvements, but structural issues means the sector's viability is poor
- Older people are wealthier than previous generations, and the taxpayer base is declining as a proportion of the population

AGED CARE TASKFORCE - GOVERNMENT AND DEPARTMENT BUDGET COMMENT

Minister Butler's Comment *(following Federal Budget May 2024)*

- The new rights-based *Aged Care Act* is a once-in-a-generation reform that will put older people at the centre of the aged care system and ensure those who access Government-funded aged care services are treated with respect and have the quality of life they deserve
- It will also support the Government's response to the *Aged Care Taskforce*

Department of Health and Aged Care commentary

Aged Care Reform Priorities (https://www.health.gov.au/our-work/aged-care-reforms/priorities)

2024–25 Budget: Reinforcing the foundations that underpin quality aged care

Older people, their families and carers will benefit from a quality aged care system, with faster access to in-home care, a strong workforce and better links between aged care and health systems.

The new Aged Care Act will put older people at the centre of aged care. It will also support the government's response to the Aged Care Taskforce. These reforms are crucial to create a sustainable sector that delivers high quality care.

We are continuing to consult with older people, their families and carers, aged care providers and worker, and across the aged care sector to ensure there is broad support for reforms to improve the standard of aged care.

RESIDENTIAL AGED CARE FINANCIAL PERFORMANCE

CURRENT STATE

RESIDENTIAL CARE - FINANCIAL PERFORMANCE HISTORICAL TREND ($M)

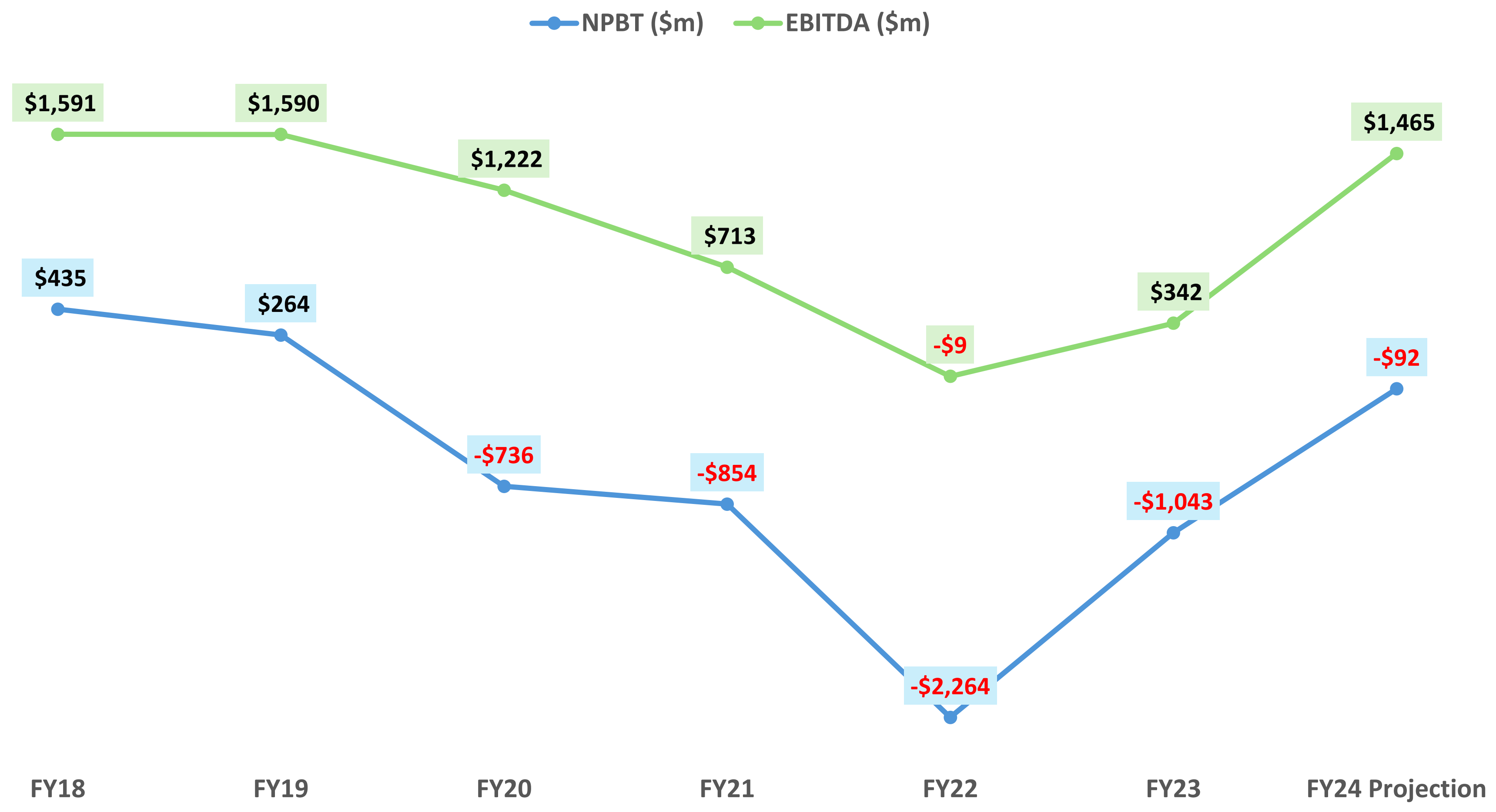
Residential Aged Care Sector aggregate Financial Performance

This graph shows the actual aggregate financial performance of the residential aged care sector for FY18 (Financial Year) to FY23 and the FY24 Projection (based on the actual results for the nine months ended 31 March 2024).

The Department receives the detailed financial data from all providers as required under the *Aged Care Act*. The StewartBrown estimates are extrapolated from the granular quarterly Surveys.

The NPBT result for FY20 to FY24 amounts to an accumulated loss of $5 billion.

The EBITDA (cash) result on an asset base of $56 billion represents a 1.33% Return on Assets (ROI) which is significantly below a viable return.



Residential Aged Care Sector aggregate financial performance (all facilities)

NPBT: Net Profit Before Tax

EBITDA: Earnings Before Interest, Tax, Depreciation, amortisation

Source: FY18 to FY22 Department of Health and Aged Care; FY23 StewartBrown estimate; FY24 StewartBrown projected based on Mar-24 YTD financials.

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RESIDENTIAL CARE - FINANCIAL PERFORMANCE HISTORICAL TREND ($ PBD)

Residential Aged Care Financial Performance by Revenue Stream

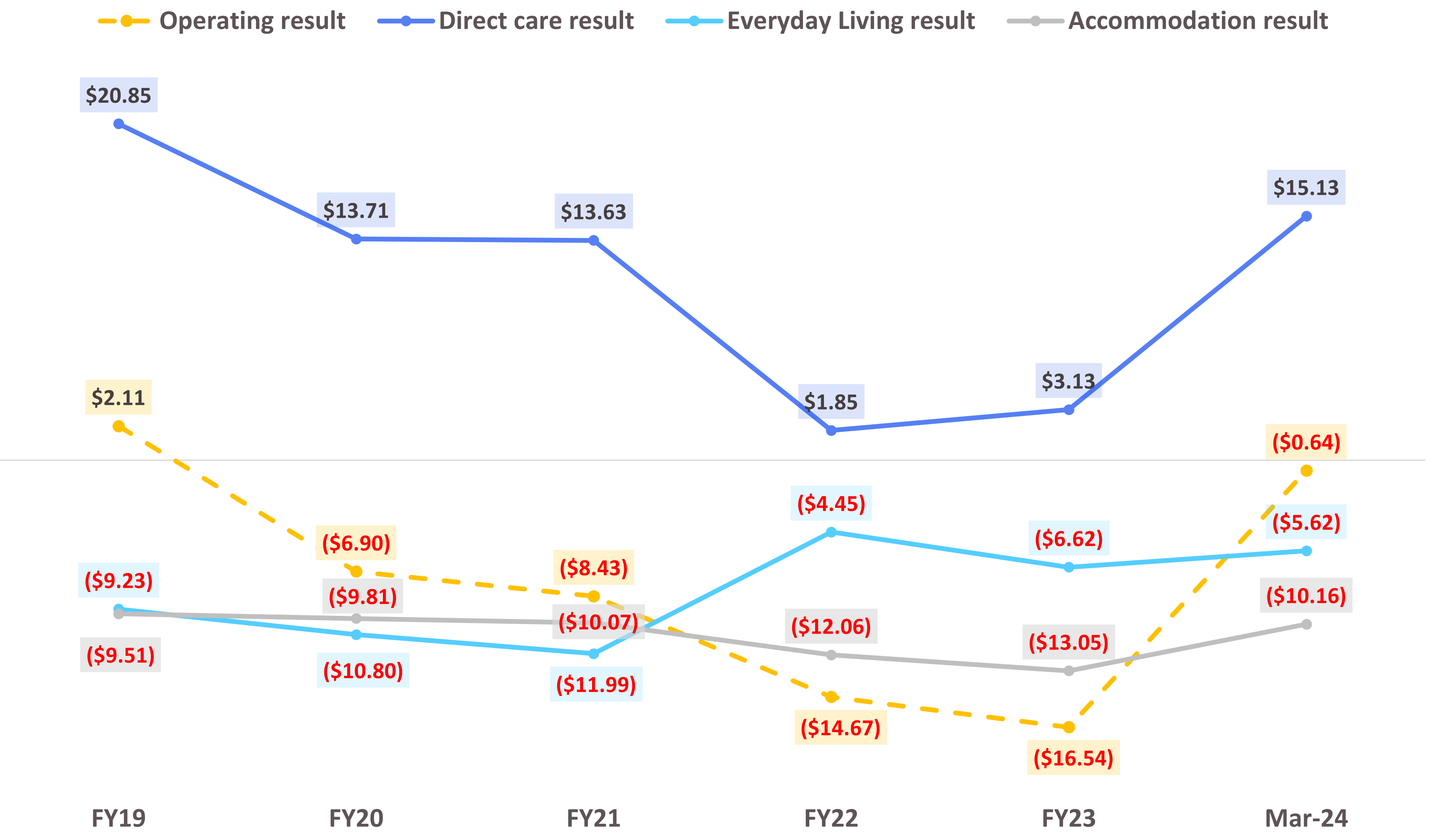
This graph shows the margins by each of the respective revenue streams *(refer page 15 for explanation of the revenue streams).*

The *Direct care* result (dark blue graph line) shows that there has been a positive margin in each year (AN-ACC/ACFI subsidy being greater than the costs of providing direct care services). The former ACFI funding did not match the indexation required from FY20 to FY23 which eroded the margin in those years.

The AN-ACC subsidy has in part repaid the indexation gap from those years as well as providing full funding for the mandated direct care minutes whilst providers had not yet reached the target levels.

The *Everyday living* margin (light blue graph line) and *Accommodation* margin (grey graph line) have been in deficit in each year, as has been the case since the introduction of ACFI in 2008.

This is where the Taskforce focus was aimed, being what mechanisms are required to improve these margins which will then significantly improve the financial sustainability of the sector.



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RESIDENTIAL CARE - REVENUE STREAMS EXPLANATION

Direct Care Result

Revenue
- AN-ACC + Supplements
- Income tested care fee
- Other direct care revenue

Total Direct Care Revenue

Direct Costs
- Wages
- Other

Total Direct Costs

Administration Overhead

Total Costs

Direct Care Result

\+

Everyday Living Result

Revenue
- Basic daily fee
- Extra/ Additional Service fees
- Hotelling supplement

Everyday Living Revenue

Direct Costs
- Hotel Services
- Utilities
- Other

Total Direct Costs

Administration Overhead

Total Costs

Everyday Living Result

\+

Accommodation Result

Revenue
- Resident payments
- Accommodation supplements
- Other

Accommodation Revenue

Direct Costs
- Depreciation & Amortisation
- Property maintenance
- Other

Total Direct Costs

Administration Overhead

Total Costs

Accommodation Result

=

Operating Result

AGED CARE TASKFORCE RECOMMENDATIONS

AGED CARE TASKFORCE RECOMMENDATIONS

Recommendation 1: Underpin the Support at Home Program with inclusion and exclusion principles and clearly defined service lists

Recommendation 2: Continue the significant role for government funding of aged care services. A specific tax or levy to fund aged care is not recommended

Recommendation 3: It is appropriate older people make a fair co-contribution to the cost of their aged care based on their means

Recommendation 4: Ensure a strong safety net for low means participants to meet aged care costs

Recommendation 5: Make aged care fees fairer, simpler and more transparent so people can understand the costs they will incur if they access aged care

Recommendation 6: Establish appropriate arrangements to allow older people and providers to smoothly transition to any new arrangements, including grandparenting arrangements for those already in residential aged care and phasing in for home care

Recommendation 7: Establish a fee-for-service model for Support at Home that ensures participants only pay a co-contribution for services received

Recommendation 8: Introduce Support at Home participant co-contributions that vary based on the type of service accessed

Recommendation 9: Continue to focus government funding in residential aged care on care costs, with a significant role for resident co-contributions in non-care components

Recommendation 10: Funding for daily living needs to cover the full cost of providing these services. It is recommended this be composed of the Basic Daily Fee and a supplement

AGED CARE TASKFORCE RECOMMENDATIONS

Recommendation 11: Enable residents and their representative and providers to negotiate better or more daily living services for a higher fee, subject to at least:

- publishing prices and services
- only allowing agreement to higher fees for agreed services to be made after a participant has entered care
- a cooling off period and regular review opportunities to ensure the resident still wants the services and can still use them

Recommendation 12: Following an independent review in 2030, transition the sector by 2035 to no longer accept RADs as a form of payment for aged care accommodation and move to a rental only model, provided that the independent review finds there is improved financial sustainability, diversified and adequate sources of capital to meet future demand and residential aged care is affordable for consumers

Recommendation 13: Require providers to retain a portion of the RAD in the near-term to make an immediate improvement to sector financial sustainability. Base the amount on length of stay, with a cap on the number of years a RAD is subject to retention to protect residents who stay for a long time

Recommendation 14: Review the Accommodation Supplement, including improving incentives to meet the accommodation design principles

Recommendation 15: In addition to the other accommodation recommendations, develop a package of measures to improve accommodation funding, equity between residents and transparency in the near-term. This will help place accommodation income on a long-term sustainable footing and position the sector for the ultimate phase out of RADs

Recommendation 16: Establish appropriate safeguards and incentives to protect access to residential care for supported residents

Recommendation 17: Consider the appropriateness of the current remoteness classification system

Recommendation 18: Continue block funding in thin markets where appropriate and necessary. Consider any other supports necessary to ensure access to care in under serviced markets

AGED CARE TASKFORCE RECOMMENDATIONS

Recommendation 19: Consider ways to encourage providers to develop and scale innovative care models, invest in technology, and conduct research into best practices, including through:

- the recommendations outlined in this report to improve the viability of the aged care sector
- tasking the Aged Care Quality and Safety Commission with supporting innovation by identifying innovative practices and promoting these across the sector

Recommendation 20: Raise awareness of existing financial products that enable older people to utilise their wealth in retirement and provide confidence they can afford future aged care costs

Recommendation 21: Task the Behavioural Economics Team of the Australian Government (BETA) to provide advice on how to encourage people to consider their future aged care needs at an appropriate stage of life

Recommendation 22: Review and streamline financial reporting to government where possible to ensure reporting is genuinely enhancing transparency

Recommendation 23: Improve communications between the Independent Health and Aged Care Pricing Authority (IHACPA) and providers and participants regarding its pricing advice and decisions, and task IHACPA with:

- a review of its pricing in rural and remote areas
- costing of the supplement for everyday living