

19 January 2017

Budget Policy Division
Department of the Treasury
Langton Crescent
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2017-18 Pre-Budget Submission

Summary

The Aged Care Guild ('the Guild') welcomes this opportunity to submit its views on the development of the 2017-18 Budget. The Guild submits that there is a clear need to re-examine the Commonwealth's immediate and longer-term approach to subsidising consumers in residential aged care, consistent with the direction provided by the sector in the Aged Care Roadmap.

It is imperative that Treasury consider the ramifications of recurrent cuts and revisions to aged care expenditure on investor and lender confidence. The sector is finding it increasingly difficult to attract investment and lending support and achieve the returns necessary to operate sustainably. There is a lack of confidence in the current approach and in the direction provided by government. This is creating a scenario in which providers are becoming increasingly unwilling to take the risk of investing in the development of new beds to meet the projected demand, evidenced by the fact that forecast growth requirements for new places are nowhere near being met.

Even so, the Guild appreciates that fiscal restraint by government is necessary. This is why increased consumer contributions to the cost of their care, as separate from accommodation funding, and means testing arrangements must be re-examined. Providers are unable to continue to absorb reduced revenue without the capacity to offset this with replacement funding streams. It is misleading to suggest that the sector is currently being funded at a growth rate of 5.1% p.a. when much of this is attributable to the natural growth of the sector (i.e. new beds coming online), the increasing frailty of new residents and Commonwealth Own-Purpose Expenses (COPE).

Meanwhile, government has the means to partly address its budget pressures, through increased consumer contributions as replacement revenue for subsidy reductions, but has not chosen to utilise existing levers at its disposal. Ultimately, the sector will not be able to position itself to accommodate Australia's ageing population if these concerns are not addressed. This argument is evidenced and outlined in this submission.

The Guild seeks two core outcomes from the 2017-18 Budget:

1. An approach that provides for a stable financial environment, where providers can make business decisions with confidence in the future of government policy and consumers can structure their affairs with confidence, with:
 - no cuts to aged care expenditure in 2017-18 Budget and the forward estimates,
 - consideration of the sector's capacity to source funds to build the additional beds and the instability caused by regular cuts, revisions to subsidies and incorrect/revised projections, and
 - recognition of the returns and investment required to grow the sector to meet future demand regardless of the source of funding.
2. The development of a sustainable funding strategy, which is underpinned by increased consumer contributions to care funding and revisions to means testing arrangements.

The Guild acknowledges that government is scoping a new funding instrument and is being advised by The University of Wollongong and the Aged Care Sector Committee. While this is welcomed by the Guild, it will





take a number of years to implement and is separate from the concerns that this submission addresses. This submission focusses more on the operating conditions and broader approach to the sector taken by Treasury.

The Aged Care Guild

The Guild is an association of nine of the largest private residential aged care providers in the sector, including three publicly listed companies:¹

¹ Estia Health, Japara Healthcare and Regis Aged Care are publicly listed companies.



- Allity Aged Care
- Arcare Aged Care
- BlueCross Community and Residential Services
- Bupa Aged Care
- Estia Health
- Japara Healthcare
- McKenzie Aged Care Group
- Opal Aged Care
- Regis Aged Care.

Our purpose is to support ongoing investment in the industry to meet future demand. To achieve this, the Guild works collaboratively with government and other industry groups to communicate the concerns and requirements of the sector, to best cater for and meet the needs of Australia’s ageing population. Together, our membership has over 38,000 operational beds (circa. 20% of the industry) and employs around 47,800 staff across 415 facilities Australia wide. With a further 28 facilities currently under construction, our members continue to be the largest builders or acquirers of beds in the industry.

Indicative of this, the Government recently allocated funding for 3,170 of 10,940 (28.98%) residential places to Guild members in the most recent Aged Care Approvals Round (ACAR).² This is further evidenced by Figure 1, which highlights the proportion of Guild beds added to the industry in 2015-16, representing around 66% of new beds coming online across the entire sector. As such, Guild members are ideally positioned and actively seeking to drive the sectors required expansion.

Figure 1 – Residential beds added, 2015-16³

Services Lists	% of New Beds	Total Number beds
Total residential beds 2016		195,825
Total residential beds 2015		192,370
Total new beds		3,455
Total beds Guild added	66%	2,280
Others	34%	1,175

An approach that provides for a stable financial environment, where providers can make business decisions with confidence in the future of government policy and consumers can structure their affairs with confidence, with:

- **no cuts to aged care expenditure in 2017-18 Budget and the forward estimates,**
- **consideration of the sector’s capacity to source funds to build the additional beds (funds will be sourced from internal sources, grants, investors and lenders) and the instability caused by regular cuts, revisions to subsidies and incorrect/revised projections, and**
- **recognition of the returns and investment required to grow the sector to meet future demand regardless of the source of funding.**

Investment and lending implications, instability and requisite returns on investment

The Guild notes that the Commonwealth has established a pattern of cuts to the sector:

- 2012 ACFI (Aged Care Funding Instrument) indexation freeze. (c.\$120m across the sector in FY13).⁴
- 2013 loss of bond retentions.
- 2014 Budget removal of the payroll tax supplement. (This measure impacts Guild providers c.\$100m p.a.).⁵

² Department of Health, 2015 Aged Care Approvals Round, <<https://agedcare.health.gov.au/aged-care-funding/aged-care-approvals-round-acar/2015-aged-care-approvals-round>>, accessed 19 October 2016.

³ Data sourced from Department of Health, Aged Care Service List[s] – 30 June 2015 and 30 June 2016, <<https://agedcare.health.gov.au/ageing-and-aged-care-overview/about-aged-care/aged-care-service-providers-in-australia>>, accessed 21 November 2016.

⁴ Aged Care Financing Authority, *Report on Funding and Financing the Aged Care Sector*, July 2014.



- 2014 removal of the Dementia and Severe Behaviours Supplement.
- 2015 Mid-Year Economic and Fiscal Outlook (MYEFO) ACFI measures. (\$472m over the forward estimates).
- 2016 Budget ACFI measures. (\$1.2b over the forward estimates).
- Impacts of the annual application of COPE.

These measures have significantly altered existing structures which overtime has created uncertainty amongst stakeholders. Treasury should consider the implications that continued cuts to subsidies have on managing risk and on investment confidence and lending support. While the Guild recognises that fiscal restraint is necessary, continual revisions to forward estimates are disruptive and contribute to an unstable funding environment in which it is increasingly difficult to attract the investment and lending support required to grow the number of beds in the sector. This is being experienced by Guild providers who are critical to meeting future demand for new residential care places.

The fundamental concern of the Guild is that continued cuts, revisions to expenditure and incorrect forward estimates ultimately deter growth and impact stability. Figure 2 provides a cost of equity comparison, estimated using global aged care/senior living and domestic healthcare comparables. Similarly, the 2014 National Commission of Audit noted that 'the aged care sector is generally not characterised by high profits'.⁶ Inasmuch, it is important to note that the sector is not excessively profitable by nature.

Treasury should be mindful that certain levels of returns and continued investment, and ready access to lender support from financial institutions, is necessary to grow the sector in line with government forecasts.

Figure 2 – Cost of equity comparison – global operators⁷

Company name	Jurisdiction	Sector	Cost of equity
Estia Health Ltd.	Australia	Aged Care/ Senior Living	9.56%
Japara Healthcare Ltd.	Australia	Aged Care/ Senior Living	8.57%
Regis Healthcare Ltd.	Australia	Aged Care/ Senior Living	9.56%
Invocare Ltd.	Australia	Funeral Services	9.24%
Healthscope Ltd.	Australia	Private Health	9.56%
Ramsay Health Care Ltd.	Australia	Private Health	8.59%
Extendicare Inc.	Canada	Aged Care/ Senior Living	11.44%
Sienna Senior Living Inc.	Canada	Aged Care/ Senior Living	9.15%
Regal Lifestyle Communities	Canada	Aged Care/ Senior Living	13.26%
Le Noble Age	France	Aged Care/ Senior Living	5.12%
Ryman Healthcare Ltd.	New Zealand	Aged Care/ Senior Living	9.31%
Summerset Group Holdings Ltd.	New Zealand	Aged Care/ Senior Living	8.20%
Diversicare Healthcare Services	USA	Aged Care/ Senior Living	8.86%
Kindred Healthcare Inc.	USA	Aged Care/ Senior Living	9.04%
National Healthcare Corp.	USA	Aged Care/ Senior Living	7.21%
Genesis Healthcare Inc.	USA	Aged Care/ Senior Living	10.55%
Brookdale Senior Living Inc.	USA	Aged Care/ Senior Living	11.47%
Capital Senior Living Corp.	USA	Aged Care/ Senior Living	10.02%
Emeritus Corp.	USA	Aged Care/ Senior Living	9.74%
Ensign Group Inc.	USA	Aged Care/ Senior Living	9.18%
Five Star Quality Care	USA	Aged Care/ Senior Living	9.75%
Average			8.99%

Projected bed requirements are not being met

⁵ Aged Care Guild, *Data Collection, Analysis and Reporting*, 2016.

⁶ National Commission of Audit, *Towards Responsible Government*, Appendix, Vol. 1 9.9 Aged Care, February 2014.

⁷ Bloomberg, as at 15 March 2016.

As at May 2015, ACFA has pointed to the requirement for an additional 76,000 beds out to 2023-24.⁸ The Aged Care Service Lists for 2015 and 2016 show that residential beds have increased from 192,370 at 30 June 2015 to 195,825 at 30 June 2016, an increase of only 3,455 beds in the calendar year and considerably less than that required per annum to meet projected requirements.⁹

Further, there have been 11 ACAR rounds over the last 13 years (2004-2016). 84,627 residential places have been allocated (average c. 7,700 per ACAR, or 6,500 per annum). The smallest allocation was 4,735 in 2006.¹⁰ After allowing for time delays to build and make operational, it seems little more than half of those allocated places appear to have been built.

The conditions necessary to expand the sector to meet demand are not being assisted by government. What we are experiencing is an uptake in license applications and allocations but providers' not being willing to build, as the impacts of payroll tax supplement cuts in the for-profit sector, dementia supplement cessation, MYEFO/Budget cuts have not created the conditions in which providers might look to expand the number of new beds in the sector. This is heavily influenced by Budgets and MYEFO adjustments.

Treasury should also consider that any impacts on the capacity of the sector to meet projected demand requirements may ultimately place a strain on the public and private hospital system. If projected bed requirements continue to not be met, this is a very real concern. The average revenue available to provide care in the residential aged care sector is approximately \$260 per day, significantly less than the private (\$1,239) and public (\$1,400) hospital sector and inpatient palliative care (c.\$950).¹¹ Residential aged care subsidies contribute substantially to the care needs of approximately 200,000 older Australian's. It is therefore important that the sector continue to grow so that older Australians are not forced into the acute care setting, placing a far greater strain on public health expenditure.

The development of a sustainable funding strategy, which is underpinned by increased consumer contributions to care funding and revisions to means testing arrangements.

The Guild considers that government policy caps providers' capacity to charge residents a price driven by the market, as we see in programs such as Medicare. Consequently, this constrains growth in which equity is deployed to fund new facilities. The Guild is of the view that the sector needs consumers to contribute more towards the costs of services provided in residential care so that providers might be able to better meet their needs and expectations, in lieu of requisite government subsidies.

The Guild notes that the *Intergenerational Report 2010* projected that government spending on aged care, as a proportion of Gross Domestic Product, could increase from 0.8 per cent in 2009-10 to around 1.8 per cent by 2049-50.¹² The Guild considers that growth in residential aged care expenditure should be appropriately borne by consumers as well, and not on disproportionately low or unsustainable government subsidy increases. Increases to consumer contributions will ensure the sector is properly funded and allow the sector to innovate and offer a wider variety of care options to consumers. It can be achieved with an adjustment to the principles, is consistent with the Productivity Commission's 2011 report and the Aged Care Roadmap and is an example of how means testing arrangements could be utilised by government.

A care recipients' principal residence is only included in means testing up to a capped amount. The Aged Care Roadmap recommended that the principal residence as a whole should be included in the means and assets test. The Guild supports the view articulated in the Roadmap that means testing should involve all

⁸ Aged Care Financing Authority, *Factors Influencing the Financial Performance of Residential Aged Care Providers*, p73.

⁹ NB Consistent with the ACFA 2015 number this excludes a few miscellaneous special programmes such as flexible residential care places in the Multi-Purpose Service (MPS) Programme, Aged Care Innovative Pool Programme and the national Aboriginal and Torres Strait Islander Flexible Care Programme that totalled 3,624 places. See Department of Health, *Aged Care Service Lists*, 2015 and 2016.

¹⁰ Aged Care Guild analysis based on Departmental announcements relating to the relevant ACAR, Aged Care Service Lists and ACFA reports on the funding and financing of the aged care industry.

¹¹ Australian Bureau of Statistics, *Private hospitals – Australia*, 2014-15; NSW Auditor-General's Report to Parliament, *Managing length of stay and unplanned readmissions in NSW public hospitals*, 2012-13; Palliative Care Australia, Submission to National Commission of Audit, January 2014, p2.

¹² The Treasury, *Intergenerational Report 2010*, <<http://archive.treasury.gov.au/igr/igr2010/>>, January 2010, p57.

income and assets being treated equally.¹³ Increased consumer funding, where consumers are willing and able to pay more for their care, and where requisite information is readily available and easily comparable, is consistent with the reform agenda outlined by the Productivity Commission and restated by the Aged Care Roadmap in 2016.¹⁴

Figure 3 is an extract from the 2016 ACFA report which shows the balance of consumer to government contributions. Rounded off, for 2014-15, the government contributed approximately 66% and consumers 27% towards the total revenue of the sector. The Guild is of the view that the Review should examine this balance as part of a sector funding strategy.

Figure 3 – Revenue sources for residential aged care providers, 2013-14 to 2014-15¹⁵

Revenue sources	2013-14 (\$million)	2014-15 (\$million)	Change (\$million)	Change (%)
Commonwealth				
ACFI	\$7,917.2	\$9,520.4	\$1,603.2	20.2
Respite and other supplements	\$1,295.9	\$453.4	-\$842.5	-65.0
Reductions & adjustments	-\$314.2	-\$373.6	-\$59.4	-18.9
Accommodation supplements	\$762.4	\$827.6	\$65.2	8.6
Resident				
Means tested care fees	\$314.2	\$373.6	\$59.4	18.9
Accommodation payments	\$643.5	\$680.7	\$37.2	5.8
Basic daily fee	\$2,855.8	\$2,986.3	\$130.5	4.6
Extra services fees	\$194.8	\$183.1	-\$11.7	-6.0
Total residential service income	\$13,669.6	\$14,651.5	\$981.9	7.2
Other income	\$1,156.5	\$1,158.6	\$2.1	0.2
Total revenue	\$14,826.1	\$15,810.1	\$984.0	6.6

Figure 4 shows that means tested care fees, specifically, have increased over the previous two financial years, by 15 per cent per person in an operational place. Given that means tested care fees recovered from consumers is offset against government contributions, this could imply that the government is reducing its subsidy levels per resident through increased contributions from residents. This does nothing to address whether the industry is funded at a suitable level to entice further investment in new developments to generate increased capacity at the same rate forecast by government.

Figure 4 – Means tested care fees, average per operational place, 2013-14 to 2014-15¹⁶

Means tested care fee		2013-14	2014-15
Means tested care fee	[\$m]	314.2	373.6
Opening Operational Places	[#]	185,291	189,283
Closing Operational Places	[#]	189,283	192,370
Average for year	[#]	187,287	190,827
Avg means tested care fee per Op. Place	[\$/Op Place]	1,678	1,958

Treasury should consider increases to the \$60,000 lifetime cap for care fees and consumer contributions to care and basic daily fees as a strategy to reduce Commonwealth outlays. Without the government fully committing to this principle, the effectiveness of means testing arrangements (through which consumers with means contribute to the costs of their care) will ultimately be compromised and will increasingly jeopardise the outlook of the sector. Additionally, the annual and lifetime caps should be more closely linked to capacity to pay.

Whilst the Act enables the government to utilise levers to achieve increased consumer contributions, it has chosen not to do so. This is disappointing as the government has the means to alleviate concerns with its aged care expenditure and the true costs of care by drawing on further contributions from consumers.

¹³ Aged Care Sector Committee, Aged Care Roadmap, p11.

¹⁴ Aged Care Sector Committee, Aged Care Roadmap, p11.

¹⁵ Aged Care Financing Authority, *Fourth report on the Funding and Financing of the Aged Care Sector*, <<https://agedcare.health.gov.au/2016-report-on-the-funding-and-financing-of-the-aged-care-industry>>, p140.

¹⁶ Aged Care Financing Authority, *Fourth report on the Funding and Financing of the Aged Care Sector*, p113, p140.

Instead, the government has asked the sector to meet increasingly complex care needs with declining levels of subsidies.

The Guild asks that Treasury consider the mix between government and consumer funding, as it must seek greater contributions from consumers to fund their care needs. Immediate tightening of means testing arrangements and increased consumer contributions to care would alleviate the budgetary impact on government and negative impacts on providers.

Economic contribution of the aged care sector

In 2016 the Guild commissioned Deloitte Access Economics to undertake an economic contribution study of the entire aged care sector, entitled *Australia's aged care sector: economic contribution and future directions* (see **Enclosure 1**). Deloitte Access Economics found that in 2014-15, the sector's total economic contribution to Australia was \$17.6 billion, equal to approximately 1.1% of gross domestic product, 277,500 full-time equivalent jobs and 2.8% of the labour force.¹⁷ The aged care sector is clearly a significant contributor to the Australian economy and to society more broadly.

The Guild looks forward to continued engagement with government and the Aged Care Legislated Review to progress the development of reforms to ensure that our membership and the government are well placed to deliver quality aged care and services to older Australians.

Please do not hesitate to contact the Guild if we can provide any further advice and thank you for your consideration of the Guild submission.

Kind regards



Cameron O'Reilly
Chief Executive Officer

Encl. 1. Deloitte Access Economics: *Australia's aged care sector: economic contribution and future directions*

¹⁷ Deloitte Access Economics, *Australia's aged care sector: economic contribution and future directions*, <www.agedcareguild.com.au/Publications>, June 2016.