aegis aged care group

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Caring for Older Australians
Productivity Commission
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SUBMISSION: AEGIS AGED CARE GROUP

Background

The Aegis Aged Care Group of companies (Aegis) operates 22 residential aged care facilities with 1844 places for the Commonwealth Government and 4 Transitional Care Facilities offering 157 places for both the Commonwealth Government and WA State Government.

Aegis is the largest residential aged care Provider in WA and has been in operation since 1982. Aegis is owned and operated by its two directors, Michael Cross and Geoff Taylor. Over the last 10 years, Aegis has spent over $150 million building new facilities and upgrading its existing facilities.

Until two years ago, Aegis applied for residential aged care places in every year's Aged Care Approvals Round but funding levels have not kept pace with either the costs to operate or inflation to such an extent that it is now unviable to build and open new Facilities.

We have only applied for licences for new facilities over the last 5 years on the basis that accommodation bonds were achievable through low care and extra services high care. Both of those sources of capital are now being threatened, which makes the current system untenable, causing a major problem for the potential users of aged care in the future.

For these reasons, Aged Care construction is stopping right across Australia.

Changes required to the Aged Care System

With a small number of changes to aged care funding, the Industry could flourish as it goes forward into a period of 30 or 40 years when baby boomer parents and then baby boomers themselves require aged care.

These necessary changes are:

1. Separate funding into "care and accommodation".
2. Subsidise Single rooms at an appropriate subsidy rate.
3. Uncap the Accommodation Charge.
4. Allow Accommodation Bonds in high care by abolishing high and low care.
5. Introduce an aged care specific indexation.
6. Reduce ACFI subsidy rates from 64 to 3.
7. Increase ACFI funding to a level that reflects the real cost of care.
8. Deregulate who can pay for a resident's care and accommodation.

1. Separate Care and Accommodation

The Government provides care subsidies through ACFI, which should reflect the level of care a resident needs, as well as cover the cost of staff, including superannuation, payroll tax and workers compensation insurance premiums.

The Government also provides subsidies for concessional residents to cover the cost of their accommodation in residential aged care facilities, but naturally not in the Community.

Residents pay for the daily operational costs of the facility by an amount equivalent to 84% of the pension.

In our view, the **Government should continue to pay the cost of care** through ACFI (Refer to our comments under items 6 and 7 below).

Residents should continue to pay for the daily cost of living with their pensions, or equivalent, but should be allowed to pay for additional services as required without those services being classed as "extra services" in distinct facilities or distinct parts of the Facility.

Residents should be allowed to pay for the standard of accommodation they want and can afford (Refer to items 3 and 4 below) and **the Government should pay an appropriate accommodation supplement for concessionals** (Refer item 2 below).

Our own experience with recently built facilities is that ACFI and CAP funding needs to increase by $19.00 per day to cover current staffing costs. Resident fees generally do cover the operating costs of food, resident care, housing and administration but fees should be deregulated so that extra service fees can be incorporated into the daily fee where provided. The cost of high care construction is not covered by existing accommodation charges and Government supplements to the extent of at least $80,000 per bed.

2. Subsidise single rooms at an appropriate rate.

The accommodation supplement the Government pays for a single room for a concessional resident should be at a higher rate than the rate for a double room and a multi bed ward. At present, the Government pays $26.88 to a Provider for every concessional, whether that person is in a single room, a double room or a multi bed ward, or $20.16 if the facility has less than 40% concessional residents.

As it costs between $180,000 and $250,000 to build a facility with single rooms, **the accommodation supplement the Government pays is both inequitable and inappropriate** to meet the demand for good quality accommodation demanded by our deserving concessional residents.

The Government receives an ever increasing income tested fee from non concessional residents with assets entering aged care. We estimate these fees were about $60 million in 1998 and are now about $500 million annually and increasing. **These fees should be used to pay an appropriate Accommodation Supplement for concessional residents occupying single rooms** in residential aged care facilities. The amount paid should be based on the cost of constructing that single room and be indexed at the State CPI rate each year.

For example, where land, building and consultants fees for a single room in a facility cost $220,000, **the Accommodation Supplement would be $53.04** (based on the current maximum permissible interest rate used for accommodation bond interest of 8.8%). The 8.8% equates to an interest rate of 7% and a building write off component of 2.5%.

This will provide the incentive needed to build single rooms for concessionals. This incentive does not exist at present and significant numbers of concessionals do not have access to modern aged care facilities. The cost to Government would currently be about $200 million per year and assumes **the 40% concessional ratio is abolished**.

The current funding system encourages Providers with facilities built 30 and 40 years ago to "sit on their hands" and do nothing to modernise their ageing facilities as no additional funding is generated to cover the extra cost. This is also causing problems for Providers trying to obtain funding through Banks to upgrade as there is no business case to support a loan application. Banks require evidence of ability to service and ultimately repay their loans which does not exist at present.

3. Uncapping the Accommodation Charge

We see uncapping of the Accommodation Charge as the most urgent change the Government could make if it wants aged care construction to recommence.

It is inconceivable that for 12 years we have had a system in place where residents and their families cannot pay for the standard of high care accommodation they want and deserve.

If the Accommodation Charge is uncapped (at no cost to the Government), aged care providers can determine in a competitive environment the appropriate Accommodation Charge applicable for the construction of a residential facility in a particular suburb, based on the socio-economic environment of the surrounding area.

For example, the cost to purchase land in suburbs closer to capital cities is significantly more than land purchased 30 or 40 kms from the city. By the same token, properties in those closer suburbs sell for significantly more than the outer suburbs thus enabling the potential residents to pay an Accommodation Charge commensurate with the amount required by the Provider to purchase the land and build the facility in those suburbs.

If the Provider sets an Accommodation Charge at a level that is too expensive and uncompetitive for prospective residents, the Facility will have significant occupancy problems. They will be forced to either reduce their rates to affordable levels or suffer significantly through vacant beds.

With more than 80% of residents entering residential facilities at the high care level, **the current cap of $26.88, increasing to $32.88 over the next two years, is totally inadequate to provide the single rooms with ensuites** all potential residents and their families demand and expect.

Commercially acceptable accommodation charges for single rooms would range between $50 and $70, depending on the cost of land in the particular area. However, the market rates required going forward may be more than this, depending on housing price appreciation.

To increase the Cap is not appropriate because it restricts what can be built and takes away resident choice.

The uncapped Accommodation Bond for low care and extra services high care is a good example of why there should not be a cap.

When the Aged Care Act was introduced in 1997, typical Accommodation Bonds were around $60,000 to $90,000 reflecting the sale prices of houses in the local areas. Now Accommodation Bonds range between $200,000 and $350,000, again reflecting the sale price of houses in the local areas.

The Government should not interfere in setting accommodation charges as the commercial rates should be based on market forces and appropriate negotiations between Providers and potential residents and their families.

The Government should also allow accommodation charges in low care for uniformity and to allow prospective residents to choose between paying an Accommodation Bond or an Accommodation Charge.

In a truly deregulated market, non concessional residents would pay a combined Daily Care Fee, Accommodation Charge and Extra Services fee (if applicable) **in**

one simple fee. Residents and families get very confused about the various fees payable and one amount with no breakup is more relevant to them.

4. Allow Accommodation Bonds in High Care.

Allowing Accommodation Bonds in high care provides residents and families with choice.

In many instances, residents may choose to pay an Accommodation Charge, but we have experienced many instances where residents moving into high care would rather pay an Accommodation Bond.

There are two reasons for this.

The first is that there **are significant pension benefits in paying an Accommodation Bond**. For many of our elderly, receiving the pension is very important and seen as an entitlement. Either selling their home and paying a bond or renting their home to provide an income to pay the interest on the unpaid Accommodation Bond can be very important to them in retaining their pension.

Secondly, **many residents would prefer to pay a lump sum** rather than have to worry about finding the money to pay an Accommodation Charge each month. Being able to pay an Accommodation Bond or Accommodation Charge provides them with that choice.

A simple way to do this would be to abolish High Care and Low Care category levels and replace them with an ACAT assessment for entry into "residential care".

5. Introduce an Aged Care specific indexation.

The Industry has been put into its current untenable position because of a totally **inadequate indexation of subsidies for more than 30 years.**

Professor Warren Hogan, in his 2004 Review, recommended the Conditional Adjustment Payment of 1.75% per annum for 5 years as an addition to the COPO indexation we receive on the basis that, within those 5 years, the Government and the Industry would negotiate a suitable indexation methodology to apply to all subsidies.

Unfortunately that has not happened, despite the Government having conducted a Review into indexation which has been put away into "Cabinet in confidence" archives without ever being discussed with the Industry.

In any event, under a "Care and Accommodation" model (which we almost have anyway), **the ACFI funding is paying staff costs and should therefore be indexed at the AWOTE rate**.

If AWOTE had been applied to RCS and ACFI subsidies from 1997, the current **ACFI rates would be 40% higher** than they are today, allowing a continuation of the staffing levels applicable in 1997 and our staff to be paid at a rate comparable with the acute sector.

The Government continues to report ever increasing costs of aged care **but the real cost per resident has fallen over the last 12 years** because of the inadequate indexing of subsidies each year. The Government is now paying subsidies to significantly more residents than in 1997.

Pension increases and our daily care fees are indexed at CPI and should continue on this basis.

Accommodation charges and accommodation bond retentions should either be indexed at the CPI rate or at the cost of building construction index.

6. Reduce ACFI subsidy rates from 64 to 3.

The Government and the Industry spend $millions on the bureaucratic process of assessing resident funding levels, validating those levels, reassessing residents on regular intervals and dealing with the ACAT process for high and low care.

A significant amount of time and resources could be saved by reducing the funding from 64 to 3 levels, being an average of the **ADL** subsidy relevant for ALL residents at the fully costed correct cost of care, a behaviour (or **dementia**) supplement and a complex healthcare (or **nursing**) supplement. These subsidies and supplements would be determined in accordance with 7 below.

As more than 80% of residents are high care, the increased subsidies paid for low care residents would be more than saved by the significantly reduced assessment and reassessment costs not incurred.

A dementia and a nursing supplement could be paid for high care residents who need care in either or both of these two domains.

Our experience in providing care to residents in WA through the State Government program for Care Awaiting Placement, where one set rate is paid for all residents, has proven to be very successful, particularly for staff who did not have to worry about carrying out ACFI assessments. That time saved can be used to provide better care for the residents.

It is interesting that **the Transitional Care Program operates with only one subsidy rate**, even though it is now subsidised by the Commonwealth.

7. Increase ACFI funding to the level that reflects the real cost of care.

As a result of the inadequate indexation of our Industry, as explained in 5 above, the current **ACFI subsidies do not truly reflect the real cost of care**.

A comprehensive benchmarking of the "cost of care" needs to be undertaken to establish the true cost in the various types of facilities.

As the future construction of residential facilities will mainly be configured to provide single rooms and ensuites, the cost of operating these types of facilities is most relevant.

The most important component of benchmarking should be a staffing model that includes adequate hours for high and low level care and wage rates comparable with the acute sector. **Current ACFI income does not reflect the required hours or staff wage rates and is causing significant stress in the Industry**.

Our own experience with two facilities of this type built in 2007 and 2008 indicates **the cost of care is an average of $19 per day higher than the ACFI and CAP subsidies provided.**

Attached to our Submission are the actual operating income and expenditure figures for our two recently opened facilities. These figures show that, after building write off, both facilities are losing money.

Building write off (at 2.5%) provides for the buildings to be viable for 40 years, but it is more than likely the facilities will have passed their "use by" dates within 25 years, making the result even poorer.

With appropriate accommodation charges and supplements as well as an increase in the daily ACFI funding of at least $19, building and operating single room high care facilities would be viable.

8. Deregulate who can pay for a resident's accommodation.

At present, fees and charges payable are determined by the resident's own financial status. In many instances, family members have the financial ability to assist their parents or siblings to access better standard accommodation and care than the prospective residents can afford themselves.

The Aged Care Act does not provide for this. The system can be punitive in circumstances where assistance is offered by family members and advice sought from the Department of Ageing. Department staff are required to advise only the resident's assets are applicable in assessing a person's ability to enter a facility and pay the required Accommodation Charge or higher Accommodation Charges, should they be amended. This is all detrimental to the resident and families' peace of mind.

The Act should be amended to allow for fees to be paid by third parties where those third parties offer assistance, including the payment of an Accommodation Bond or daily Accommodation Charge.

Other Aged Care Issues.

The Aegis Group specialises in building and providing residential aged care to our elderly residents. We are not involved in Community Care or any other type of business. As such, we are not in a position to comment on many of the community and far reaching areas of the Productivity Commission terms of reference. Some of those we would like to comment on are as follows:

Certification

Our view is that, just as houses built in the 1960s and 1970s are rebuilt or substantially renovated, so too should **our older nursing homes have been rebuilt and upgraded over the last 10 years**. The fact that most nursing homes have not been rebuilt or upgraded has left the general public with the continuing perception that **they are "not nice places" to go into** when you need aged care.

Residential aged care provides the most intensive care per resident and the most appropriate care to extend a person's life when they are in their "faltering" years and is a very important component of our ageing society.

It is essential we have impressive, state of the art facilities that families will be proud to admit their loved ones to. To achieve this we need a very viable industry and the Industry needs to make a reasonable profit for the risk involved as well as being encouraged to upgrade the old nursing homes.

We should have one set of Certification rules that apply to ALL facilities Australia-wide, financial incentives to build new facilities and ensure the old nursing homes are either rebuilt, renovated or demolished.

Certification scores were originally set to increase from the original 57 to 80 points within five years from 1997, which would have forced all Providers to improve the quality of old stock. Instead, the required score to achieve certification was only increased to 60 and left at that level for all buildings but "existing" buildings were given a less stringent standard to achieve. Even with lesser standards to achieve, the "existing" buildings received the same funding. **This "unlevel playing field" has continued to discourage investment in new stock** ever since the elimination of accommodation bonds from high care.

If there is more "user pays" in the Industry, those original pass rates should be re-introduced to force older facilities to "lift their game". **Minor changes to 1960's and 1970's buildings should not be acceptable and a program of replacement should be introduced over the next 5 years.**

All aged care Facility certification scores under this new arrangement should be published on the Government's website to enable potential residents to view the scores of the facilities they are intending to enter.

Consumer Directed Care

What is the consumer directed care that we don't already have?
ACATs provide an assessment for entry into aged care, whether that be into a residential facility or a care package. Different types of CDC have been trialled in other countries and found not to be successful.

The only change we see as necessary is to expand the ACAT role to include any health professionals who can assess a person's need for aged care.

Licences for Residential Aged care Facilities

Government commentary suggests Aged Care Approvals Rounds (ACAR) are not necessary and allocating licences is not necessary.

We have in place a very secure prudential arrangement for the repayment of any unpaid Accommodation Bonds by the Government and then a process for recovery of any loss by the Government from the Industry. **If licences were not allocated to facilities, how would the Government calculate the levy recoverable from each Facility?**

If licences were not issued, how would the Government control the number of people receiving aged care subsidies?

The only change we would recommend to the ACAR system is to **abolish an Approval Round and allocate places on an application basis**.

Under the current system, it can take up to (and beyond) 5 years to bring licences into operation from the time a piece of land is identified as suitable for aged care. The 2008-09 Round was opened in September 2008 and closed in December 2008 with successful applicants announced in October 2009. The 2009-10 Round was opened in December 2009 and closed in March 2010 with the successful applicant likely to be announced in October or November 2010.

This means potential facilities can be waiting more than 18 months from purchasing land just to find out if their licence application has been successful. Then they need a minimum three years to prepare designs, working drawings, call tenders, appoint a builder, construct the building and commission it for resident entry.

Whereas an application on demand could save at least 18 months from this process. Approvals could be allocated based on demand in the area, existing facilities and known approvals yet to be built.

All known approvals should be public information and readily available to Providers considering new Facilities, as should the expected population and aged care increases in each region over the next 10 years.

Regulators

Regulators are a necessity in our Industry.

From the Aged Care Standards & Accreditation Agency, building certification requirements, the Complaints Investigation Scheme, the Aged Care Commissioner, Prudential regulators of accommodation bonds and all of the State and local Government enforcers, we accept that we have high standards to achieve and we strive to meet them.

The only thing we ask is that we be treated as innocent until proven guilty, we be given time to fix errors that occur (most are human errors beyond our control) and that our livelihood not be put at risk by the Government threatening to impose sanctions for regulatory matters that may be important in themselves but are not a serious risk to our residents.

Financial Reporting Requirements

The Industry is required to provide General Purpose Financial Statements (GPFS) to the Government by 31 October each year.

Our experience in preparing these financial statements is that they do not give a truly reflective picture of the operations of our business because of the international accounting standards that have to be adhered to. Many capital items are brought into the results which should be capitalised or written off over the life of the assets.

We believe **Special Purpose accounts should be used in our industry**. A standard pro-forma income & expenditure statement and balance sheet could be completed and lodged with the Department for each Provider or Facility. **The information in those pro-formas should be sufficient for the Department to benchmark the whole industry** and be far more meaningful.

All facilities should provide this information and the results published to the Industry and Government by March of the following year.

For the entire 12 years the Aged Care Act has been in operation, neither the Government nor the Industry has been able to provide exhaustive benchmark results showing the true cost of care. As a result, the Government disputes all efforts by the Industry to show the ever reducing profitability of the sector and the Government has not been able to provide financial results to disprove the Industry's assertions.

Prudential Arrangements for protection of Accommodation Bonds

The current system for the protection of resident Accommodation Bonds is cost effective for the Industry, provides a high level of security to residents and their families and is politically positive for the Government. The system should not be changed.

We know the government is looking to increase the prudential requirements to minimise its and the Industry's risk to ensure bonds are only used in the aged care industry. We support the need to ensure thorough protections are in place, particularly when opening up high care to Accommodation Bonds will increase both the use and amount of bonds in the Industry.

Accreditation Process

All Facilities are required to be accredited at least every three years. The requirement is to pass 44 out of 44 standards, as most do.

However, the accreditation system does not allow for the varying standards between facilities with only a pass or fail score. As with certification, each of the standards should have a scoring system with, say, a score out of 5 for each standard. 5,4 or 3 would be a pass where 2 or 1 would be a fail.

The aggregate points a facility receives should then be adjusted to a score out of 100 and published on the Government's website.
This would provide potential residents with an indication of the quality of service provided at the Facility.

We find it very difficult to accept that a 40 year old home can score the same as a brand new purpose built facility. The care can be of the same quality in each facility but there are some standards that cannot score a 5 in an old facility because of the configuration of the building.

Workforce

The three largest factors affecting the flow of staff into or out of the aged care workforce are pressure of workload, the working environment and the rates of pay.

Both pressure of work and rates of pay can be addressed by an improvement in the ACFI funding. A good working environment comes down to the standard of the Facility and the morale within the Facility.

The rates of pay in aged care have been an ongoing issue for decades because of the imbalance with the acute sector and aged care being seen as the poor cousin.
Salary packaging is an issue for the private sector which should be addressed by the provision of an FBT Supplement, comparable with the payroll tax supplement.

SUMMARY

Normal Government policy is to cherry pick suggestions from Reviews and Productivity Commission Reports. As a result, the Industry ends up with a piece meal addition to an already complicated system.
On the basis that the Government will not adopt all suggestions made, Aegis recommends that priority be given to uncapping of the Accommodation Charge, the introduction of an AWOTE index to ACFI subsidies, and a proper costing of the "cost of care" as essential items to address if the Industry is to survive going forward.
Without these three items being addressed, we don't see any Approved Provider being prepared to build the new facilities required to house the very needy residents who will come into the Industry over the next five to ten years.

Thank you for considering this Submission. On behalf of future elderly Australians, we sincerely hope reform results from this further Productivity Commission Review.

Yours sincerely,

Michael Cross
Director & Chief Executive
Aegis Aged Care Group

Two typical 100 bed Aged Care Facilities

Mix of high care, low care, dementia specific and extra services high care.

	Facility 1 Built 2007	Facility 2 Built 2008
Income per bed per day (2010 financial year)		
ACFI, CAP & P/tax suppl.	$ 102.03	119.35
Income tested fee reduction	$ - 7.71	-9.20
Total Government fees	**$ 94.32**	**110.15**
Daily care fees	$ 36.08	36.07
Income tested fee	$ 7.71	9.20
Extra service fees	$ 3.69	3.98
Total Resident fees	**$ 47.48**	**49.25**
Accom. Suppl, Charges & retns.	$ 11.75	14.75
Total Fees	**$153.55**	**174.15**
Less Expenses		
Wages and agency (including on costs)	**$118.01**	**124.87**
Food and resident costs	$ 16.50	18.20
Repairs, electricity and housing costs	$ 10.52	13.16
Administration, telephone, accreditation costs	$ 8.64	8.56
Operating costs	**$ 35.66**	**39.92**
Total Operating costs	**$153.67**	**164.79**
Net Operating Profit	**$- .12**	**8.96**
Add notional interest on bonds @ 7%	$ 35.64	35.65
Less land, building & fitout @ 7% on $180k/$200k	$ 34.52	38.36
Building write off @ 2.5% on $130/150k	$ 8.90	10.27
Net Loss	**($ 7.90)**	**($ 4.02)**

Note: Higher vacancy factor at Facility 1.