

Chapter 2

Overview of aged care in Australia

2.1 The aged care system in Australia caters for all people aged 65 years or over, and Indigenous Australians aged 50 years or over, who can no longer live without support to access appropriate care in their home or in a residential care facility. Aged care services are delivered by not-for-profit, for-profit and government providers.

2.2 The sector provides services to over 1.3 million Australians. Eighty per cent of older people access some form of government subsidised aged care before death.¹ Generating annual revenues of approximately \$22 billion, the aged care sector is a significant contributor to the Australian economy, currently representing one per cent of Gross Domestic Product (GDP).²

2.3 The demand for aged care services will grow as the population ages and care needs increase. The proportion of the Australian population aged 65 years and over is projected to increase from 15.3 per cent in 2017 to 21.8 per cent in 2056.³ Over this same period, Australian Government expenditure on aged care is expected to nearly double as a share of the economy to around 1.7 per cent of GDP.⁴

2.4 This demographic shift in Australia's population will require significant investment in the aged care sector, particularly in the capital intensive residential care sector. It is estimated that an additional 88,110 residential care places will be required to meet supply targets over the next decade.⁵

Legislative framework and regulatory oversight

2.5 The *Aged Care Act 1997* (the Act) and the accompanying Aged Care Principles establish the legislative framework for the funding and regulation of aged care services in Australia. Regulation and policy oversight of aged care services is predominantly the role of the Australian Government, with the Department of Health (the Department) having responsibility for the operation of the Act.

2.6 The legislative framework sets out the subsidies paid by the Australian Government and the requirements to be an approved provider of aged care services

1 Australian Institute of Health and Welfare, *Use of aged care services before death*, March 2015, p. 4.

2 Aged Care Financing Authority, *Sixth report on the Funding and Financing of the Aged Care Sector*, July 2018, p. 2.

3 Productivity Commission, *Report on Government Services 2018—Chapter 14: Aged care services*, January 2018, p. 3.

4 Department of the Treasury, *2015 Intergenerational Report*, March 2015, pp. xvii and 71, <https://treasury.gov.au/publication/2015-intergenerational-report/> (accessed 23 November 2018).

5 Aged Care Financing Authority, *Sixth report on the Funding and Financing of the Aged Care Sector*, July 2018, pp. 122–123.

under the Act. The framework encompasses provider responsibilities relating to the quality of care, classification and rights of care recipients, accountability and governance, and the allocation of aged care places.

2.7 Currently, there are three main regulatory and compliance bodies with responsibilities relating to the provision of aged care services:

- The Department of Health is responsible for aged care policy oversight and compliance with the Act. The Department takes appropriate regulatory action in response to non-compliance by aged care providers.
- The Australian Aged Care Quality Agency (AACQA) is an independent statutory agency responsible for accrediting, reviewing and monitoring aged care providers against the quality standards set out in the Act.
- The Aged Care Complaints Commissioner is a statutory office holder under the Act that examines complaints raised about Australian Government funded aged care providers.

2.8 In response to the 2017 *Review of National Aged Care Quality Regulatory Processes* (Carnell-Paterson Review), the Australian Government announced in the 2018–19 Budget that it would establish an independent Aged Care Quality and Safety Commission from 1 January 2019. The Commission will initially bring together the functions of the AACQA and Aged Care Complaints Commissioner, and from 1 January 2020, the regulatory functions of the Department.⁶

Types of aged care

2.9 The aged care system aims to promote the wellbeing and independence of older people by enabling them to stay in their own homes or by assisting them in residential care. To achieve this, the system offers a continuum of care under three main types of service:

- The Commonwealth Home Support Programme (CHSP) provides basic entry-level services on an ongoing or episodic basis to assist older people with undertaking tasks of daily living and to remain in their own homes.
- The Home Care Packages (HCP) Programme provides more structured, ongoing home support services for older people who have greater care needs and wish to remain living at home. Coordinated packages of care are provided over four levels based on an individual's care needs.
- Residential aged care provides personal care, support services and accommodation to people assessed as needing higher levels of care and who can no longer remain living independently at home. For people with greater

6 Department of Health, *Better Quality of Care—establishing an Aged Care Quality and Safety Commission*, <http://www.health.gov.au/internet/budget/publishing.nsf/Content/budget2018-factsheet81.htm> (accessed 18 October 2018).

care needs, residential aged care can provide 24-hour nursing care. Residential care is provided on either a permanent or respite basis.⁷

2.10 Most people accessing aged care services receive home-based care and support. Seven percent of Australians aged 65 years and over accessed residential aged care during 2016–17.⁸

Funding of aged care

2.11 Aged care services are heavily reliant on government funding,⁹ with aged care consumers also contributing to the cost of their care depending on their income and assets. In 2016–17, Australian Government expenditure on aged care totalled \$17.1 billion. Funding for residential aged care makes up the largest proportion of Australian Government expenditure on aged care services at nearly 70 per cent.

2.12 Residential aged care funding is comprised of operational funding and capital financing. Operational funding provides for day-to-day service provision, such as living expenses, nursing and personal care. Capital financing supports the construction of new of aged care facilities as well as the refurbishment of existing facilities.

2.13 Of total provider revenue in 2016–17 (\$17.7 billion), Australian Government funding accounted for 68.3 per cent (\$12.1 billion), resident contributions accounted for 26.2 per cent (\$4.6 billion), and income from other sources made up the remaining 5.5 per cent (\$980 million).¹⁰

2.14 Basic care subsidies are the main Australian Government operational funding mechanism of residential aged care.¹¹ For each permanent resident, a basic care subsidy is calculated by providers using the Aged Care Funding Instrument (ACFI),¹²

7 Residential aged care places are capped and increase annually through the Aged Care Approvals Round (ACAR).

8 Aged Care Financing Authority, *Sixth report on the Funding and Financing of the Aged Care Sector*, July 2018, p. 15.

9 The Australian Government provides approximately 96 per cent of the government funding for aged care services. State and territory governments provide the remainder.

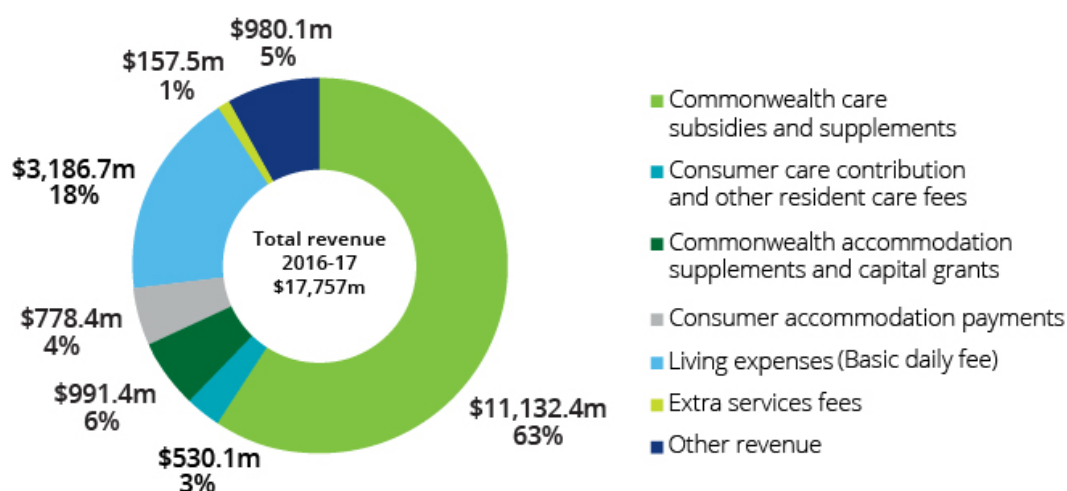
10 Aged Care Financing Authority, *Sixth report on the Funding and Financing of the Aged Care Sector*, July 2018, pp. 97–98.

11 The schedule of current Australian Government aged care subsidies and supplements (from 20 September 2018) is available at: <https://agedcare.health.gov.au/funding/aged-care-subsidies-and-supplements/schedule-of-subsidies-and-supplements> (accessed 12 November 2018).

12 During 2015–16, real growth in expenditure per resident per day through the basic care subsidy exceeded the Australian Government's budgeted growth by two per cent, resulting in an increase to forecasted expenditure over four years of \$3.8 billion. In response to this higher than expected increase, the Government announced changes in the 2015–16 Mid-Year Economic and Fiscal Outlook (MYEFO) and the 2016–17 Budget to ACFI scoring and subsidy indexation.¹² These changes were complemented by a pause in indexation on all ACFI subsidies in 2017–18, and a partial pause on indexation in 2018–19.

a funding allocation tool to assess the care needs of a resident and the daily subsidy rate commensurate with those care needs.¹³

Figure 2.1: Proportions of total residential care provider revenue, 2016–17¹⁴



2.15 In 2016–17, direct Australian Government expenditure on residential aged care averaged \$184.06 per resident per day. Of this, \$163.07 (around 89 per cent) was from basic care (ACFI) subsidies.¹⁵

2.16 Most aged care residents also pay fees which contribute to the cost of their living expenses and day-to-day care. All residents contribute a basic daily fee set at 85 per cent of the single basic Age Pension (which currently equates to \$709.24 per fortnight).¹⁶

2.17 In 2016–17, basic daily fees represented \$3.1 billion of the \$4.6 billion in resident contributions to provider revenue.¹⁷

2.18 Subject to means testing, some residents may also be required to pay additional fees toward their care and accommodation. Residents with greater means are required to pay the full cost of their accommodation either as a lump-sum Refundable Accommodation Deposit (RAD), a daily accommodation payment (DAP), or a combination of both.

13 The current schedule of aged care subsidies and supplements are available from the Department of Health website at: <https://agedcare.health.gov.au/funding/schedule-of-subsidies-and-supplements-from-20-september-2018>

14 Aged Care Financing Authority, *Sixth report on the Funding and Financing of the Aged Care Sector*, July 2018, p. 97.

15 Aged Care Financing Authority, *Sixth report on the Funding and Financing of the Aged Care Sector*, July 2018, p. 99. Direct Australian Government expenditure does not include Age Pension payments.

16 Department of Human Services, *Payment rates for Age Pension*, <https://www.humanservices.gov.au/individuals/enablers/payment-rates-age-pension/39901> (accessed 16 October 2018).

17 Aged Care Financing Authority, *Sixth report on the Funding and Financing of the Aged Care Sector*, July 2018, p. 98.

2.19 Lump-sum RADs act as an interest free loan to residential aged care providers and are a significant source of capital financing for the industry. In terms of total liabilities, RADs represent 73 per cent (\$24.6 billion as at 30 June 2017) of the capital financing of the sector.¹⁸

2.20 In addition to RADs, other sources of capital financing for residential aged care include:

- capital grants from government for eligible projects;
- loans from financial institutions;
- financing from equity investments; and
- equity investment and retained earnings.¹⁹

2.21 As noted in the Aged Care Financing Authority's *Sixth report on the Funding and Financing of the Aged Care Sector* (ACFA Report), related party loans make up 8 per cent (\$2.6 billion) of total liabilities; however, the large majority (\$2.3 billion) of this is held by for-profit providers.²⁰

Providers of residential aged care

2.22 Residential aged care in Australia is delivered by providers that have been approved under the Act. Providers consist of those from the not-for-profit (comprising religious, charitable and community-based providers), for-profit and government sectors.

2.23 As at 30 June 2017, there were a total of 902 residential aged care providers and 200,689 operational residential aged care places (compared to 949 providers operating 195,825 places as at 30 June 2016).²¹ Most residential aged care is delivered by non-government providers. Not-for-profit providers accounted for 56 per cent of operational residential places, followed by for-profit providers at 40 per cent, and government providers at 4 per cent.²²

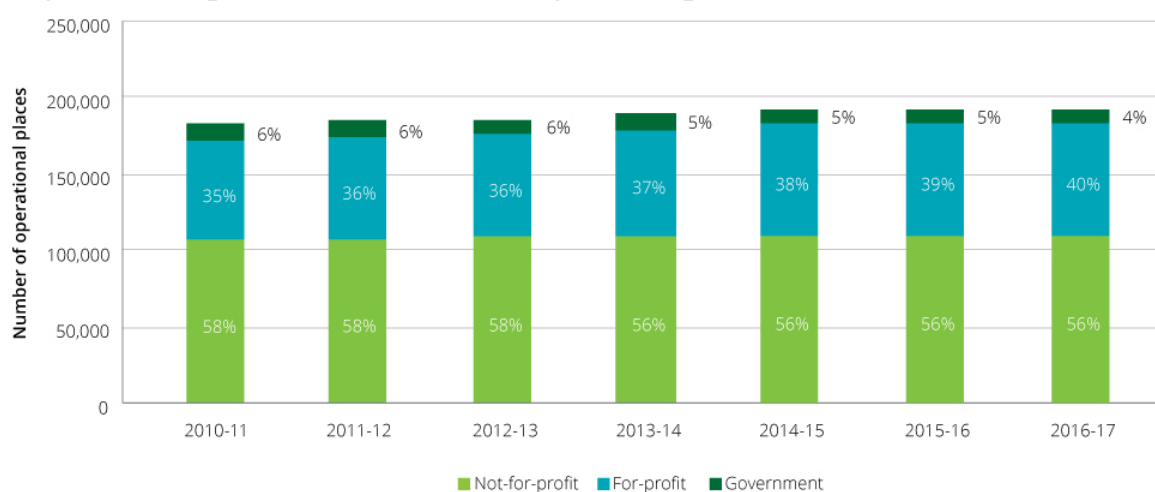
18 Aged Care Financing Authority, *Sixth report on the Funding and Financing of the Aged Care Sector*, July 2018, p. 119.

19 Aged Care Financing Authority, *Sixth report on the Funding and Financing of the Aged Care Sector*, July 2018, p. 112.

20 Aged Care Financing Authority, *Sixth report on the Funding and Financing of the Aged Care Sector*, July 2018, p. 120.

21 An operational place refers to a residential care place that was allocated to a provider and has since become available for a person to receive care. A provisionally allocated place refers to a residential care place allocated through Aged Care Approval Rounds (ACAR) that is not yet operational. As at 30 June 2017, there were a total of 247,907 allocated places for residential aged care, but only 200,689 of these were operational places.

22 Department of Health, *2016–17 Report on the Operation of the Aged Care Act 1997*, November 2017, p. 44; Aged Care Financing Authority, *Sixth report on the Funding and Financing of the Aged Care Sector*, July 2018, p. 82.

Figure 2.2: Operational residential aged care places, 2010–11 to 2016–2017²³

2.24 While the number of residential aged care places and residents has continued to increase, the number of providers has decreased each year through consolidation. The ACFA Report noted this trend, commenting that 'some providers are seeking to expand the scale of their businesses'.²⁴

2.25 The ACFA Report also noted that, while not-for-profit providers continue to be the largest provider group, the proportion of operational residential care places held by for-profit providers has slowly increased over recent years. As at 30 June 2017, not-for-profit providers represented 56 per cent of providers and 56 per cent of operational places, whereas for-profit providers represented 33 per cent of providers and 40 per cent of places.²⁵

2.26 The ACFA Report reasoned that:

This reflects for-profit providers gradually increasing the scale of their operations through both acquisitions and greater success at gaining new allocations through the annual Aged Care Approvals Rounds (ACAR).²⁶

2.27 Despite some recent consolidation of providers, residential aged care is still largely a cottage industry, with most providers (63 per cent) operating only a single residential aged care facility. As at 30 June 2017, there were only 21 providers (two per cent) operating more than 20 facilities. However, in terms of operational residential aged care places, single facility providers account for 21 per cent while providers with more than 20 facilities represent 31 per cent.²⁷

23 Aged Care Financing Authority, *Sixth report on the Funding and Financing of the Aged Care Sector*, July 2018, p. 82.

24 Aged Care Financing Authority, *Sixth report on the Funding and Financing of the Aged Care Sector*, July 2018, p. 82.

25 Aged Care Financing Authority, *Sixth report on the Funding and Financing of the Aged Care Sector*, July 2018, p. 82.

26 Aged Care Financing Authority, *Sixth report on the Funding and Financing of the Aged Care Sector*, July 2018, p. 82.

27 Aged Care Financing Authority, *Sixth report on the Funding and Financing of the Aged Care Sector*, July 2018, p. 83.

Financial performance

2.28 The residential aged care sector reported an overall profit of \$1,006 million in 2016–17, a slight decrease from the \$1,063 million reported in 2015–16 (Table 2.1). Sixty-eight per cent of providers reported a net profit in 2016–17.²⁸

Table 2.1: Financial performance of residential aged care providers, 2016–17

	Total sector 2015–16	Total sector 2016–17	Not-for-profit	For-profit	Government
Revenue (\$m)	\$17,172	\$17,757	\$9,737	\$7,143	\$877
Expenses (\$m)²⁹	\$16,109	\$16,751	\$9,209	\$6,580	\$962
Profit (\$m)	\$1,063	\$1,006	\$528	\$563	-\$85
EBITDA³⁰ (\$m)	\$1,985	\$2,072	\$1,174	\$928	-\$30
EBITDA p.r.p.a.³¹ (\$)	\$11,134	\$11,481	\$11,408	\$13,316	\$3,791
EBITDA margin	11.6%	11.7%	12.1%	13.0%	-3.4%
NPBT margin	6.2%	5.7%	5.4%	7.9%	-11.5%

Source: ACFA, July 2018, p. 95

2.29 As shown in Figure 2.1, income from other sources made up 5.5 per cent (\$980 million) of total revenue earned by providers, forming a considerable proportion of the reported net profit for residential care providers of \$1,006 million. Interest income, including that from lump-sum RADs, made up approximately one third (\$313.8 million) of other income earned by providers.³²

2.30 In terms of financial performance by provider type (measured by average EBITDA p.r.p.a), there was some representation of all provider types in each performance quartile in 2016–17. When examined by provider scale, 16 of the 21 providers operating more than 20 facilities performed in the top two quartiles (Figure 2.3).³³

28 Aged Care Financing Authority, *Sixth report on the Funding and Financing of the Aged Care Sector*, July 2018, pp. 95–96, and 103.

29 Employee costs (wages and management fees) represented 70 per cent (\$11.8 billion) of the total expenses incurred by aged care providers in 2016–17, an increase from 67 per cent of total expenses in 2015–16.

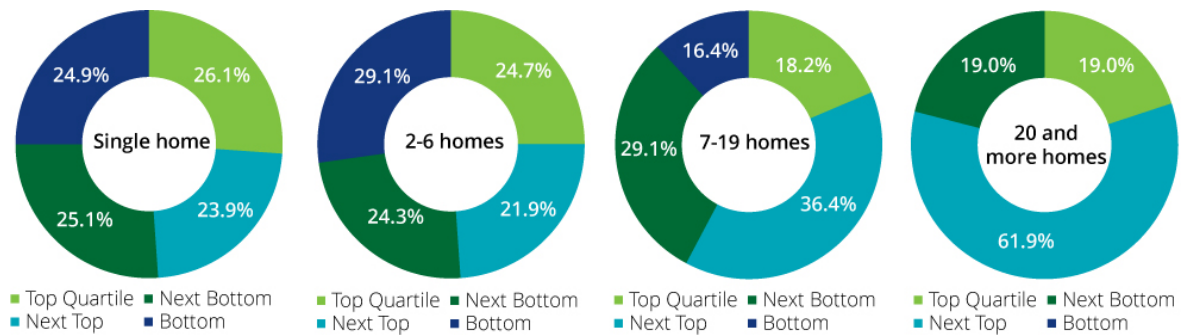
30 Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA)

31 EBITDA per resident per annum

32 Aged Care Financing Authority, *Sixth report on the Funding and Financing of the Aged Care Sector*, July 2018, p. 96.

33 Aged Care Financing Authority, *Sixth report on the Funding and Financing of the Aged Care Sector*, July 2018, p. 108.

Figure 2.3: Residential care provider distribution between quartile of average EBITDA p.r.p.a 2016–17, by provider scale³⁴



34 Aged Care Financing Authority, *Sixth report on the Funding and Financing of the Aged Care Sector*, July 2018, p. 109.