

ANSWERS TO ESTIMATES QUESTIONS ON NOTICE

HEALTH AND AGEING PORTFOLIO

Supplementary Budget Estimates 2010-11, 20 October 2010

Question: E10-129

OUTCOME 4: Aged Care and Population Ageing

Topic: COMMUNITY CARE

Written Question on Notice

Senator Boyce asked:

- a) All indications from the private aged care industry would suggest that the construction of new aged care beds especially acute care has stalled. Could the Department provide all and any data that would reveal the facts of the situation?
- b) If its shown that there is indeed a serious downturn in the construction of aged care facilities by the private sector and bearing in mind the at least three year lead time for the delivery of new facilities what would the Department plan to do to kick start new investment and construction in the sector?

Answer:

- a) There are several indicators of the level of current and likely future capital investment in the residential aged care sector.

*Construction sentiment* is an external leading indicator of future investment intention. This indicator measures the general mood of the construction industry regarding anticipated trends in demand for construction services by the residential aged care and other sectors. The most recent data on construction sentiment from Davis Langdon shows that 66 per cent of survey participants believed that the Retirement and Aged Care Accommodation sector is one of the sectors most likely to contribute to growth in the construction industry in the next 12 months, ranking it third of nine industry segments. Over the twelve editions of the Davis Langdon's survey the Retirement and Aged Care Accommodation sector has never ranked lower than fourth out of the nine sectors surveyed and has ranked first on three occasions.

*Construction forecasts* are also an external leading indicator of future investment intentions. It considers forecasts of future construction activity in the aged care and other sectors. The latest construction forecasts by the Construction Forecasting Council – the peak consultative organisation of the building and constructing sectors – reveal that construction activity in the Health and Aged Care sector currently accounts for about 13 per cent of all non-residential construction activity and is estimated to account, on average, for 15.6 per cent of all non-residential construction over the next 8 years.

*Building approvals granted by local governments* provide an early indicator of likely future investment. These involve assessment against the Building Code of Australia and other regulations, and are concerned with issues such as whether a planned building is soundly designed and constructed and whether it will have an appropriate degree of fire safety. The Australian Bureau of Statistics (ABS) collects data relating to the number and value of residential and non-residential building approvals, from information provided by approving authorities. The ABS data shows that the value of aged care building approvals (measured by a 12-month moving average trend estimate) rose sharply from mid-2006 and remained at a relatively high level until mid-2008. The trend has since declined to a level below pre-2006 levels.

The apparent recent decline in aged care building approvals is possibly due to:

- firstly, aged care homes were required to reach higher building certification standards by 2008 and there was an increase in building activity between 2006 and 2008 which may have been due in part to homes seeking to meet this deadline;
- secondly, the global financial crisis had some impact on the aged care sector as on other sectors of the economy; and
- finally, building approvals are related to the number of residential places allocated, which peaked at the end of 2004.

*Building activity* is a trailing indicator that measures the level of construction activity recently completed and still underway. The ABS publishes estimates of the value of building activity by sector each quarter. The latest aged care building activity data largely reflects the same trend that is apparent in the approvals data, i.e. that the amount of building work commenced spiked during the mid-2006 to mid-2008 period, and the levels of work under construction and work done during the quarter are now starting to decline.

*Planned and completed building activity* is also a trailing indicator of investment. It measures the number of residential places constructed each year. Data for this indicator is collected through the Department's annual Survey of Aged Care Homes (SACH). In the 2009-10 survey, aged care providers reported investing \$2.4 billion in building work that was completed during the year or in progress at the end of the year.

Building work completed in 2009-10 resulted in 6,277 residential places for the sector. In addition, there were 3,775 residential places currently being built.

The table below provides key building indicators reported in the SACH from 2005-06 to 2009-10. The 2009-10 SACH data is preliminary and is subject to revision.

## Key building indicators from SACH, 2005-06 to 2009-10

Indicator	2005-06	2006-07	2007-08	2008-09	2009-10
<b>Investment</b>					
Estimated value of building work completed during the year or in progress at 30 June (\$m)	2,241	2,988	3,381	3,005	2,355
<b>Building completed<sup>(a)</sup></b>					
Number of places completed	5,322	4,938	6,835	7,197	6,277
Number of additional places available after building work completed	-	-	-	5,899	5,240
Value of building completed (\$m)	815	825	1,054	1,248	1,198
<b>Building in progress<sup>(a)</sup></b>					
Number of places in progress of being built	5,835	8,428	8,024	6,115	3,775
Number of additional places available after building work in progress	-	-	-	4,268	2,597
Value of building work in progress (\$m)	797	1,358	1,401	1,073	660
<b>Building upgrades</b>					
Value of completed building upgrades (\$'000)	300	307	394	322	255
Value of building upgrades in progress (\$'000)	328	497	530	362	242
<b>Planned building activity</b>					
Proportion of homes with any planned building work	17.6	14.3	12.8	11.1	10.5

Notes:

Cells with a '-' indicate that data was not collected prior to 2008-09.

(a) Includes new building and rebuilding; excludes upgrading work.

- b) The Zero Real Interest Loans initiative aims to encourage construction and investment in the aged care sector through the provision of low-cost loans.

Access to \$300 million in zero real interest loans was made available to aged care providers in the 2008-09 Budget to build or expand aged care homes to deliver up to 2,500 new beds in areas of high need, including rural and regional areas of undersupply.

As part of the first loans round, successful providers received offers of \$150 million in loans and 1,455 places and this is already delivering results. As at 4 November 2010, the Department has executed 29 loan agreements totalling \$96.6 million and 892 residential aged care places. Ten projects have already been completed within the two year provisional allocation period. Several more projects are scheduled to be completed in the near future.

The second loans round, which is being run in conjunction with the 2009-10 Aged Care Approvals Round, further targets critical rural and remote areas, as well as focussing on Culturally and Linguistically Diverse and indigenous areas of undersupply. These areas will benefit through improved access to aged care services. Results of the 2009-10 Aged Care Approvals Round are expected to be announced towards the end of 2010.

The Australian Government will double the size of the Zero Real Interest Loan program by committing an additional \$145 million over 4 years to provide a further \$300 million in loans and 2,500 residential aged care places to residential aged care providers to build or expand aged care homes in areas of high need.

The allocation of the additional zero real interest loans will be rolled out in two equal rounds of \$150 million and 1,250 places each, to be run in conjunction with the 2010-11 and 2011-12 Aged Care Approvals Rounds. Proposals will be sought from suitable aged care providers to build new facilities or expand existing facilities in identified priority areas.

In addition, the Productivity Commission is conducting a comprehensive public inquiry into Australia's aged care needs over the next 20 years. The Commission is examining all aspects of aged care including workforce needs, financial sustainability, the regulatory framework and revenue required to attract future investment. In particular, the inquiry will consider regulatory and funding options for residential care that would enable providers to earn sufficient revenue to meet quality standards and earn a return that will attract the investment, including capital investment, needed to meet future demand.