Short form report

Fifth report on the Funding and Financing of the Aged Care Sector
July 2017
This report is a summary of the Aged Care Financing Authority’s 2017 annual report which can be accessed at: <https://agedcare.health.gov.au/aged-care-reform/aged-care-financing-authority>.

**The annual report provides commentary on:**

- the structure and operations of the Australian aged care sector and its key characteristics;
- the outline of the aged care workforce;
- observations of the impact of recent reforms;
- discussion on access to aged care for older Australians;
- funding and financial performance of home care and residential care based mainly on 2015-16 data; and
- the emerging challenges and opportunities for the sector as significant reforms continue.
Foreword

I am pleased to present the Aged Care Financing Authority’s (ACFA) 2017 Report on the Funding and Financing of the Aged Care sector. This is ACFA’s fifth annual report. ACFA commenced in July 2012, following the announcement of the Australian Government’s significant reforms of aged care. ACFA’s annual report on the aged care sector examines the developments, issues and challenges affecting the industry, and provides a range of statistics and analysis of the provision of aged care in Australia. This report includes analysis of financial data collected from the 2015-16 year. In addition, we have accessed the comprehensive benchmarking and analysis conducted by StewartBrown. The report also examines issues and trends emerging since 1 July 2016 and looks forward to challenges into the future.

Aged care is one of the fastest growing sectors in Australia. This is due primarily to the ageing population and longer life expectancies of Australians.

Financial sustainability is one of the key aims of the ongoing reform of the aged care sector. Through these annual reports, as well as other projects, ACFA is able to inform and advise the Government, the sector and other key stakeholders on funding and financing developments and issues in the Aged Care sector. Most significantly in 2017, ACFA undertook a comprehensive review of the impact of the reforms to date and provided its Report to Inform the 2016-17 Review of Amendments to the Aged Care Act 1997, which is being conducted by David Tune. ACFA’s report is available at https://agedcare.health.gov.au/aged-care-reform/aged-care-financing-authority

I should like to acknowledge the contribution of the many providers, peak bodies, bankers and other institutions who ACFA has consulted during the year. In addition, I would like to recognise and thank StewartBrown for their considerable contribution during the year.

During 2015-16, ACFA held meetings and forums with representatives from the investment and financing sectors, providers and consumers. These wide spread consultations are critical to ACFA’s understanding of the key issues, developments and challenges facing the industry, particularly the impact of the 1 July 2014 reforms on all stakeholders.

With the possibility of future reforms emanating from the legislative review, ACFA looks forward to its continuing role advising Government and working with and informing other stakeholders on the funding and financing of the Aged Care sector to ensure its long-term sustainability and viability.

Lynda O’Grady
Chairman
Aged Care Financing Authority
Executive Summary

Aged care in Australia

The aged care sector in Australia provides services to 1.3 million Australians and generates annual revenues totalling around $21.5 billion. The sector makes a significant contribution to the Australian economy, representing almost 1 per cent of Gross Domestic Product (GDP).

Total Australian Government expenditure on aged care in 2015-16 was $16.2 billion, up from $15.2 billion in 2014-15. Funding for aged care included:

• $2.2 billion for home support
• $1.5 billion for home care
• $11.4 billion for residential care

Australian Government expenditure is expected to be $17.5 billion in 2016-17, and increase to $20.8 billion by 2019-20.

Consumer expenditure on aged care was $4.7 billion in 2015-16 (excluding accommodation deposits).

Aged care workforce

The 2016 National Aged Care Workforce Census and Survey reported that:

• there are over 366,000 paid workers in aged care with a further 68,000 volunteers;
• more than half of all workers are in residential care;
• the personal care workforce in both residential care and in home support and home care is more qualified when compared with the 2012 census;
• the aged care workforce is relatively stable with 25 per cent of workers having been in the sector for over 14 years;
• aged care workers have high levels of job satisfaction, but have concerns regarding remuneration, time available to provide care and a perception that aged care is not valued highly by the general community; and
• reported times to fill vacancies are not indicative of a tight labour market, though some providers, particularly in remote areas, have difficulties in recruiting appropriately qualified staff.

Aged care reforms

ACFA concludes that the funding and financial reforms have strengthened the viability and sustainability of the sector, while noting that some of the consumer focussed reforms are still in a critical phase with challenges remaining for consumers and providers. ACFA’s observations include:

• the pool of lump sum accommodation deposits held by providers continues to grow ($21.9 billion at 30 June 2016 up from $15.6 billion when the reforms began on 1 July 2014);
• refundable accommodation deposits continue to be the preferred method of accommodation payment;
• new means testing arrangements in residential care and income testing in home care have not affected overall access to care; and
• the new means testing arrangements are making only a marginal contribution to the long-term sustainability of aged care services for taxpayers and Government.

Significant reforms continued in home care with the implementation on 27 February 2017 of packages following consumers. Packages are now allocated directly to consumers who are able to select the provider of their choice. ACFA will provide commentary on the effect of this change on consumers and providers in future annual reports.

ACFA notes that with the changes of February 2017 of home care packages being assigned directly to consumers, there has been strong interest from new providers seeking to deliver home care. The number of applications for approved provider status approved by the Department of Health grew from 75 in 2015-16 to over 200 in 2017.

In May 2017, ACFA provided its *Report to Inform the 2016-17 Review of Amendments to the Aged Care Act 1997* to the Aged Care Act 1997. The Review, along with the Aged Care Roadmap, is expected to inform the next stages of aged care reforms.

Access to aged care

The overall aged care provision target ratio is being adjusted to progressively increase from 113 operational places per 1,000 people aged 70 and over in 2012 to 125 by 2021-22. Over the same period the target for home care places will increase from 27 to 45, while the residential care target is to reduce from 86 to 78. The remaining two places are for the new Short Term Restorative Care Programme (STRC).

- The provision ratios achieved at 30 June 2016 are 79.9 and 31.9 for residential care and home care respectively.
- To achieve the target ratios by 2021-22, an additional 62,000 home care packages and 49,000 residential places will need to be made operational.

Usage of aged care increases significantly with age. Thirty-nine per cent of people aged 70 and over access some form of subsidised aged care and this rises to 81 per cent for people aged 85 and over.

In 2015-16:
- 234,931 older Australians received services through permanent residential care and 56,852 received residential respite care;
- 88,875 older Australians received services through a home care package; and
- over 640,000 consumers received services through the Commonwealth Home Support Programme (CHSP) and 285,432 received services through Victorian and Western Australian Home and Community Care (HACC).

Admissions to both home care and residential care have been stable since the reforms of 1 July 2014. ACFA’s observations regarding admissions and occupancy in 2015-16 are:

- the proportion of admissions to residential respite care continued to increase compared with permanent care;
- average occupancy (92.4 per cent) has continued to be relatively stable in residential care in recent years;
- average occupancy (83.2 per cent) in home care was lower compared with 2014-15 due to reduced demand for level 2 packages; and
- on-going demographic changes will see a continuing increase in demand, as the proportion of people aged 85 and over grows to nearly 5 per cent of the population by 2055, compared with 2 per cent today.

The 2016 Aged Care Approvals Round (ACAR) was the first in which home care places were not allocated to providers as packages are now assigned directly to consumers. The 2016 ACAR allocated 9,911 new residential care places.

During 2015-16, across all residential aged care homes, the average proportion of supported residents (excluding residents receiving extra services) was 46.8 per cent compared with 47.0 per cent in 2014-15 and 44.4 per cent in 2013-14.

Home support

In 2015-16, the Australian Government provided total home support funding of $2.2 billion. There were 1,160 CHSP providers and 526 HACC providers in Victoria and Western Australia.

The Victorian HACC program was transitioned into the CHSP on 1 July 2016 and the Western Australian HACC program will join the CHSP on 1 July 2018.

Home care – operational performance

Home care providers received an estimated $1.8 billion in revenue in 2015-16, paid around $1.6 billion in expenses and generated $183 million in profit. Total Commonwealth funding was $1.5 billion.

Consumers of home care contributed around $160 million toward the cost of their care through basic daily fees and incomes tested fees.

The financial performance of home care providers continued to be strong in 2015-16 despite a slight decrease in reported profits compared with 2014-15.

- 75 per cent of home care providers generated a net profit, compared with 72 per cent in 2014-15.
- The average EBITDA per package per annum was $2,086, compared with $2,235 in 2014-15, a decrease of 6.7 per cent.

Residential aged care – characteristics of the sector

In 2015-16, there were 949 residential care providers who operated 195,825 places. The residential aged care sector is continuing to consolidate with the number of residential care places increasing while the number of providers continues to decrease.
Residential aged care – operational performance

Residential care providers generated revenue of $17.4 billion in 2015-16, equating to $263.92 per resident per day. Total expenses were $16.3 billion equating to $247.58 per resident per day.

Residents contributed around $4.5 billion toward their living expenses, care and accommodation (excluding accommodation deposits).

ACFA considers that the financial performance of residential care providers was generally strong, building on the strong performance in 2014-15:

• 69 per cent of residential providers achieved a net profit compared with 68 per cent in 2014-15;
• Average EBITDA per resident per annum increased from $10,222 to $11,134, an increase of 8.9 per cent; and
• Total net profit for the sector was $1.1 billion, including $1.3 billion of ‘other’ income which suggests operating profit is dependent on ‘other’ income, as in previous years.

ACFA notes however that the changes to the Aged Care Funding Instrument (ACFI) to date are being reflected in marginally reduced financial results as at March 2017, and that results may decline further as the full effect of the ACFI changes and indexation pauses take effect. However, the impact of these changes will not be apparent until the 2018 annual report and beyond.

ACFA also notes that without the government providers (which represent 10 per cent of all residential care providers) included in the analysis, the average EBITDA of the remaining sector would be $524 or 5 per cent higher than the $11,134 reported.

Residential aged care – capital investment

At 30 June 2016, compared with 30 June 2015, the industry as a whole had:

• total assets of $40.7 billion, up from $36.6 billion;
• total liabilities of $29.8 billion, up from $25.7 billion;
• net assets of $10.9 billion, an increase of $42 million; and
• Refundable Accommodation Deposits (including bonds) of $21.9 billion, up from $18.2 billion.

In 2015-16:

• average return on equity was 17.7 per cent, up from 16 per cent in 2014-15; and
• average return on assets was 4.9 per cent, same as 2014-15.

Accommodation deposits increased by $3.7 billion during 2015-16, which combined with a $406 million increase in other liabilities, financed increases of:

• $441 million in cash and other current assets;
• $781 million in fixed assets; and
• $2.9 billion in other assets, including an increase of $304 million in related party loans receivable and $255 million in intangible assets. ACFA notes that this means that 79 per cent of the increase in accommodation deposits during the year has been invested in this asset class.

Overall there was an increase in the sector’s net worth of $42 million.

As noted in last year’s annual report, investment in residential care has been improving since the 1 July 2014 reforms. The total spend on building activity in 2015-16 was $4.5 billion, an increase of 18 per cent on 2014-15.

It is estimated that the residential care sector will need to build an additional 83,500 places over the next decade in order to meet the provision target of 78 operational places per 1,000 people aged 70 and over. This compares with 33,667 new places that came online over the previous decade. The estimated investment requirement of the sector over the next decade is in the order of $35 billion.
1. The Aged Care Financing Authority and the 2017 annual sector report

The Aged Care Financing Authority (ACFA) is an independent statutory committee which provides independent and transparent advice to the Australian Government on the sustainability and viability of the aged care sector.

ACFA provides an annual report each year on the impact of funding and financing arrangements on the viability and sustainability of the sector, including impacts on access to care and the aged care workforce.
The aged care system aims to support older people to continue living in their homes and communities for as long as possible, to provide care for older people who no longer can or wish to remain living in their own home, and to enable people to make choices about their care. Older Australians can access a spectrum of aged care, ranging from home support services through to 24-hour care provided in residential settings.

There are three main forms of aged care service supported by the Commonwealth addressed in this report:

- **Commonwealth Home Support Programme (CHSP)**: Provides basic support services to help older people remain living independently in their own homes. The CHSP, which commenced on 1 July 2015, incorporates the former Commonwealth Home and Community Care (HACC) program, National Respite for Carers Program (NRCP), Day Therapy Centres (DTC) program and Assistance with Care and Housing for the Aged (ACHA) program. In 2015-16, the Victorian and Western Australian HACC programs continued to operate separate to the CHSP.

- **Home Care Packages Programme**: Provides care and support for those with greater care needs who wish to remain living at home.

- **Residential care**: Provides care and support for people with greater care needs who choose to have their care provided within a residential care setting. It is generally provided on a permanent basis but can also be on a temporary basis (respite care).

Table 2i provides an overview of the aged care sector in 2015-16.

<table>
<thead>
<tr>
<th></th>
<th>Home support</th>
<th>Home care</th>
<th>Residential care</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of providers</td>
<td>1,686</td>
<td>496</td>
<td>949</td>
</tr>
<tr>
<td>Number of services</td>
<td>N/A</td>
<td>2,099</td>
<td>2,669</td>
</tr>
<tr>
<td>Number of places</td>
<td>N/A</td>
<td>78,956</td>
<td>195,825</td>
</tr>
<tr>
<td>Number of consumers</td>
<td>&gt; 925,432(^2)</td>
<td>88,875</td>
<td>234,931</td>
</tr>
<tr>
<td>Total revenue</td>
<td>$2.2 b</td>
<td>$1.8 b</td>
<td>$17.4 b</td>
</tr>
<tr>
<td>Commonwealth contribution</td>
<td>$2.2 b</td>
<td>$1.5 b</td>
<td>$11.4 b</td>
</tr>
<tr>
<td>Consumer contribution</td>
<td>N/A(^4)</td>
<td>$160 m</td>
<td>$4.5 b</td>
</tr>
<tr>
<td>Other income</td>
<td>N/A(^5)</td>
<td>$140 m</td>
<td>$1.3 b</td>
</tr>
<tr>
<td>Total expenditure</td>
<td>N/A(^6)</td>
<td>$1.6 b</td>
<td>$16.3 b</td>
</tr>
<tr>
<td>Total net profit before tax</td>
<td>N/A(^6)</td>
<td>$183 m</td>
<td>$1,063 m</td>
</tr>
</tbody>
</table>

\(^2\) Number of places does not include Multi-Purpose Services or Aboriginal and Torres Strait Islander places.

\(^3\) The total number of consumers of home support is estimated at over 925,432. This comprises the total number of Victorian and Western Australian HACC consumers (285,432) and an estimate of over 640,000 CHSP consumers. Data collection issues mean an exact number for CHSP consumers is not available.

\(^4\) Data pertaining to consumer contributions for CHSP in 2015-16 is not available.

\(^5\) Analysis of expenditure for CHSP providers is not possible as they are funded on a grants and acquittal basis.

\(^6\) Analysis of profit for CHSP providers is not possible as they are funded on a grants and acquittal basis.
Aged care providers

In 2015-16 there were over 2,000 providers supplying aged care in Australia. There were 1,160 CHSP providers (as well as 526 Victorian and Western Australian HACC providers), almost 500 home care providers and nearly 1,000 residential care providers.

Consumers of aged care

The aged care target population definition adopted by the Australian Government in allocating residential and home care places is the population aged 70 years and over. Because of their lower life expectancy and specific care needs, Indigenous Australians aged 50-69 years are also included in the target population.

As at 30 June 2016, 2.5 million people living in Australia were aged 70 and over. This includes 488,000 people aged 85 and over.

The patterns of use of aged care services change with age. As Chart 2i illustrates, at 30 June 2016, 32 per cent of people aged 70 years and over were receiving Australian Government subsidised aged care while living at home (home support or home care) and 7 per cent were in residential aged care (either permanent or respite). These proportions increase for the 85 and over cohort, particularly in residential care, where the usage more than triples.

Chart 2i shows the proportion of each age group who use aged care services. As shown, the proportion increases dramatically with age. By age 80 years, the proportion of people using either permanent residential care or a home care package is around 7 per cent; this doubles to 15 per cent by age 85; and doubles again to 32 per cent by age 90 years.

Chart 2i: Proportion of people 70+ and 85+ accessing aged care, at 30 June 2016

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7 Table 2.3 and Figure 2.3 of the full report shows the overlap of providers and shows the number providing one, two or all three types of services.
Funding and financing in 2015-16

The Commonwealth is the principal funder of the aged care sector. In 2015-16, the Government contributed $16.2 billion to aged care, up from $15.2 billion in 2014-15. In 2017-18, it has budgeted to spend $18.6 billion.

The proportions of funding across the sector are illustrated in Chart 2iii.

As discussed in last year’s annual report, Australian Government expenditure on aged care is projected to nearly double as a share of the economy, from almost 1 per cent currently to around 1.7 per cent of GDP by 2055, largely driven by the increasing number of people aged 85 and over. The costs of care are expected to rise as a result of growth in input costs (e.g. wages) and the increasing complexity of chronic health conditions in ageing populations, tempered by improved efficiencies due to advancements in technology and service delivery.

One of the objectives of recent aged care reform is to improve the future sustainability of the aged care system in the face of the steadily increasing demand. Already, a number of measures which aim to achieve this objective have been implemented or are underway.

Such measures include the shift in mix of home care and residential care in favour of home care, and the increasing level of contributions that aged care consumers make towards the cost of their care and accommodation.
In 2015-16, consumers of residential care contributed around $4.5 billion (excluding refundable accommodation deposits), to total revenue of $17.4 billion, an increase of 8 per cent on 2014-15.

In 2015-16 consumers of home care contributed around $160 million, to total revenue of $1.8 billion, an increase of 12 per cent on 2014-15.

Consumer contributions for the CHSP were not reported in 2015-16.
3. Workforce

The sustainability and quality of the aged care sector relies heavily on access to sufficient numbers of appropriately skilled staff. The Productivity Commission estimates that the workforce required for aged care will need to increase four-fold by 2050.

The National Aged Care Workforce Census and Survey (2016) reports that the number of PAYG workers in the aged care industry is around 366,000, with an additional 68,000 volunteers. When the survey was conducted in 2012, the number of PAYG workers was 240,000. Chart 3i shows the estimated composition of the aged care workforce.

Chart 3i: Aged care workforce composition, 2016

<table>
<thead>
<tr>
<th>Sector</th>
<th>Paid Workers</th>
<th>Volunteers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential aged care</td>
<td>153,854</td>
<td>23,537</td>
</tr>
<tr>
<td>Home care and home support</td>
<td>130,263</td>
<td>23,537</td>
</tr>
<tr>
<td>Total all workers</td>
<td>284,117</td>
<td>47,976</td>
</tr>
</tbody>
</table>

Eighty-three per cent of residential care facilities reported using volunteers (on average 10 volunteers per facility).

In terms of stability, the residential care workforce showed positive results. Forty-two per cent of direct care employees had worked in the sector more than nine years, and approximately 25 per cent had worked in the sector more than 14 years. Ten per cent of workers were actively seeking new employment.

The home support and home care workforce

Despite significant growth in the number of consumers between 2012 and 2016, surprisingly, the 2016 survey showed a 13 per cent drop in total paid workers (149,801 to 130,263) during this period. ACFA however notes it is unlikely the total home support and home care workforce could have decreased between 2012 and 2016 given the increase in consumers. A possible reason for the reported number of paid workers dropping may be that non-PAYG workers (eg temporary and agency staff) have not been included and could be being utilised more.

In home support and home care, 14 per cent of the paid workers are casual or contract employees, which is a considerable reduction from 41 per cent in 2012. Fifty-one per cent of home support and home care outlets reported using volunteers.

In terms of stability, as was the case in residential care, there were positive signs in the home support and home care sectors. A high proportion (64 and 71 per cent respectively) of Registered Nurses and Enrolled Nurses had been working in the sector for more than nine years. Nine per cent of direct care employees were actively seeking alternative employment.

The residential care workforce

The residential care workforce has seen significant growth in the four years between census. In 2016, total paid workers in residential care settings was 235,764, of whom 153,854 were direct care workers. This is a growth in total employees of 17 per cent since 2012.

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8 The 2016 census did not collect data on the non-PAYG workforce, such as temporary, agency or contract staff.
Time to fill vacancies

Time taken to fill vacancies can be a good indicator of the tightness of the labour market. In residential care, 26 per cent of vacancies took less than one week to fill, and 76 per cent were filled within four weeks. In home support and home care, 71 per cent of vacancies were filled within four weeks.

In general, the reported times to fill vacancies in aged care are not considered indicative of a tight labour market, however ACFA notes that there are instances of employers experiencing difficulties in recruiting suitable employees in more remote areas and for jobs with higher qualifications.

Job satisfaction

Workers in both residential care and home support and home care reported relatively high levels of overall satisfaction with their jobs. The main concerns reported were total remuneration, the limited time available to care for residents and the perception of the image of the industry.

Workforce profile

The average age of the residential care workforce decreased from 48 to 46 between 2012 and 2016. This indicates a change in the previous trend towards an ageing residential care workforce. However the trend towards an ageing profile in home support and home care continues with the average age of direct care employees increasing from 50 in 2012 to 52 in 2016.

Overseas born workers continue to make up a very significant proportion of the aged care workforce:

- In residential care, 32 per cent compared with 35 per cent in 2012; and
- In home support and home care, 23 per cent compared with 28 per cent in 2012.

As part of the 2017-18 Budget, the Australian Government announced it would create an aged care industry-led taskforce to develop an Aged Care Workforce Strategy. The Strategy will explore short, medium and longer-term options to boost supply, address demand and improve productivity for the aged care workforce.
The aged care sector has undergone substantial change in recent years with a view to improving the sustainability of aged care services and increasing consumer choice and control. ACFA considers these reforms in the following phases:

- **(2012-13 – 2013-14). Initial aged care reform.** Announcement of the *Living Longer Living Better* reforms, including: a phased increase in the aged care provision ratio and an increased proportion of home care places compared with residential care places; the introduction of the new home care package levels; and commencement of accommodation price publishing.

- **(2014-15 – 2015-16). Financing reforms.** Removal of the distinction between high and low care in residential care with reforms to accommodation payment arrangements, including: consumer choice of payment method; commencement of Consumer Directed Care (CDC) for new home care packages, including individualised budgets; new income testing arrangements in home care and means testing in residential care, and a higher maximum accommodation supplement for new and significantly refurbished residential care facilities.

- **(2015-16 – 2016-17). Consumer choice.** Further enhancement to the My Aged Care functionality, extension of CDC to all existing home care package recipients; and the formation of the CHSP. From February 2017, home care packages were assigned directly to consumers who are able to select the provider of their choice.

The reforms aim to:

- increase transparency and consumer choice and control;
- improve the viability and sustainability of aged care services, by increasing flexibility, funding and investment; and
- improve the long-term sustainability and equity of the aged care system, by increasing consumer contributions for those who can afford to contribute to their aged care costs and improving equity in how different forms of wealth are counted in means testing arrangements.

**Reform monitoring**

ACFA was tasked with monitoring the impact of the 1 July 2014 funding and financing reforms on the aged care sector, including the impact of the new accommodation payment arrangements, consumer choice of payment method, and the new means testing arrangements.

The monitoring reports provided to the Minister for Aged Care by ACFA can be found on the ACFA web page.9

In May 2017, ACFA also provided its Report to Inform the 2016-17 Review of Amendments to the Aged Care Act 1997, which analysed the impact of the funding and financing reforms on sustainability, consumer fees, accommodation prices, access and workforce.

ACFA generally concluded that the funding and financing reforms to date have strengthened the viability and sustainability of the sector. However, while noting that consumers generally have more control over their care choices, particularly in home care, some consumers are having difficulty navigating and comprehending the aged care system.

February 2017 saw further significant reform in home care with the implementation of packages following consumers. Home care packages are now allocated directly to consumers who are able to select the provider of their choice. Future ACFA annual reports will monitor the impact of this reform on the sector.

**Accommodation payment changes**

The reforms of 1 July 2014 saw a number of significant changes in the way that accommodation is priced and paid for in permanent residential care.

The removal of the distinction between high and low care resulted in controls over daily accommodation prices for nonsupported residents receiving a high level of care being largely removed. Similarly, regulations preventing the payment of lump sum accommodation deposits by residents receiving high levels of care were removed. Also, lump sum deposits

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were made fully refundable by removing providers’ capacity to deduct retention amounts.

Residents were also given choice in their method of payment. A maximum accommodation payment determined by the Minister was introduced, above which providers need to apply for approval from the Aged Care Pricing Commissioner.

A higher accommodation supplement for supported residents was introduced for aged care services that have been built or significantly refurbished since 20 April 2012.

When the reforms were introduced, there was some concern in the sector that there would be a move away from lump sum accommodation payments by consumers. However ACFA concluded that the lump sum accommodation pool could be expected to continue to grow.

As at 30 June 2016, lump sum accommodation deposits held by providers totalled $21.9 billion\(^{10}\). This compares with $15.6 billion when the reforms began on 1 July 2014 (Chart 4i).

**Choice of method of payment for accommodation**

In 2015-16, lump sum accommodation deposits continued to be the most used method of making accommodation payments, with 41 per cent of residents who pay the full or partial cost of their accommodation opting for this method of payment. This compares with 35 per cent choosing a daily accommodation payment (DAP)/daily accommodation contribution (DAC) and 24 per cent paying a combination of lump sum and daily payment (Chart 4ii).

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10 The figure of $21.9 billion for total accommodations deposits held by the sector as at 30 June 2016 differs from $21.7 billion in ACFA’s report on the effectiveness of the Bond Guarantee Scheme published in May 2017 due to additional financial information collected from providers who report their financial position at 31 December each year.
Prices

As part of the accommodation payment reforms, approved providers are required to publish maximum accommodation prices and descriptive information for rooms in their aged care facilities. Maximum prices are required to be published as RADs, equivalent DAPs and an example combination price of RADs and DAPs.

At 6 April 2017, the average maximum RAD/DAP published on My Aged Care was $391,000/$61.91, compared with $377,000/$64.86 at 31 May 2016 and $355,000/$65.06 at 29 July 2014.

A resident cannot be charged more than the published maximum price, but may negotiate a lower amount, referred to as the agreed price. Agreed prices are generally $10,000-$20,000 lower than published prices.

The higher accommodation supplement

A higher maximum accommodation supplement for supported residents was introduced on 1 July 2014 for facilities that have been built or significantly refurbished since 20 April 2012. As at 20 March 2017, the higher accommodation supplement was $55.09 per day compared with $35.90 for the standard accommodation supplement.

As at 31 December 2016, 686 services (representing 25.5 per cent of all services) were receiving the higher accommodation supplement. Of these, 559 were significantly refurbished services and 127 were newly built services.

Means testing and sustainability

On 1 July 2014, new means testing arrangements were introduced in both home care and residential care in order to improve equity in consumer contributions and improve the longterm sustainability of aged care.

In home care, prior to 1 July 2014, there was no reduction in subsidy paid by Government if the provider did not charge the income tested fee. Under the new income testing arrangements, the Government subsidy is reduced by the amount of the income tested fee whilst providers are required to provide services to the full value of the package. Despite this, 17 per cent of home care providers reported not charging the income tested fee, either in full or in part.

The changes of 1 July 2014 in residential care saw the previously separate income and asset tests applied to care and accommodation contributions respectively, combined into one means test to ensure consistency of assessment of wealth irrespective of whether it is in the form of assets or income.

ACFA considers that the changes to means testing in residential care have generally improved the equity in the treatment of different forms of wealth among residents of aged care. However ACFA considers that there still remains some inequity, particularly in relation to the treatment of the principal residence.

ACFA observes that overall the new income testing arrangements in home care are not providing a significant improvement to fiscal sustainability from a Government perspective. However ACFA does conclude that in residential care, the means testing reforms have improved sustainability by shifting a proportion of the overall average cost to the consumer.

Extra service

Extra service status involves the provision of a higher than average standard of services, including accommodation, range and quality of food, and non-care services. Providers with extra service status are able to charge an extra service fee to residents occupying an extra service place. Prior to the 1 July 2014 reforms that extended the option of lump sum deposits to all residents, only extra service providers could charge lump sum deposits for high care residents.

As in 2014-15 the number of extra service places decreased in 2015-16. Chart 4iii shows the number of extra service places since 1 July 2014.

More choice in home care

Key reforms in home care have been CDC, including individualised budgets, a policy designed to provide individuals and their carers more control over the design and delivery of services received, and assigning home care packages to consumers to allow them to direct their package to their preferred provider. CDC became compulsory in all home care packages from 1 July 2015, while the assigning of packages to consumers was introduced from 27 February 2017.
ACFA noted in last year’s annual report that the capacity for consumers to save their package funds means that many providers were holding a significant amount of unspent funds on behalf of their consumers. Prior to the 27 February 2017 changes, if a consumer ceased receiving a home care package from a provider, the provider retained any unspent funds.

However, since 27 February 2017, when consumers change providers, any unspent package funds (less any agreed exit amount) must be transferred to the new home care provider. If a consumer leaves home care (including moving into residential care), any unspent funds, less any agreed exit amount, must be returned to the Commonwealth and the consumer (or their estate) according to their respective contributions.

Many providers are reviewing and adjusting their business models and pricing structures to adapt to the more competitive market-driven environment. ACFA notes that StewartBrown report that average unspent funds across home care providers participating in their survey had dropped from 14 per cent in 2014-15 to around 11 per cent in the six months to December 2016 and continued this trend to March 2017.

ACFA is aware that with the changes of February 2017 of home care packages being assigned to consumers there has been strong interest from new providers seeking to deliver home care. In 2016-17 the number of applications for approved provider status approved by the Department grew from 75 in 2015-16 to over 200. ACFA also notes that over half of the approvals are for organisations who are already approved providers for home support or residential care.
5. Access to aged care

Chart 5i shows the number of operational places in home care and residential care since 2004.

Supply of aged care

Ensuring access to appropriate quality aged care remains a fundamental policy objective for the Australian Government. However, access to care needs to be balanced by affordability for both consumers and taxpayers.

The Australian Government regulates the supply of residential aged care places and home care packages by specifying national and regional targets for the provision of subsidised aged care places. These targets – termed the ‘aged care provision ratio’ – are based on the number of people aged 70 and over for every 1,000 people in the Australian population.

An overall aged care provision target ratio was first set in 1985 at 100 operational places per 1,000 people aged 70 and over. It was increased to 108 in 2004-05, further increased to 113 in 2007, and in 2012, was adjusted to progressively increase to 125 by 2021-22.

Within the current target provision ratio of 125, the mix of home care and residential care is being significantly altered. Over the period 2012 to 2022 the target for home care places will increase from 27 to 45, while the residential care target is to reduce from 86 to 78, with the remaining 2 places for the Short Term Restorative Care Programme.

Chart 5ii shows the changes in the target provision ratio since 2004 and Chart 5iii shows the achieved ratio over the last 10 years.

Chart 5: Operational places, residential care and home care, since 2004

Chart 5ii: Increase in target provision ratios, 2004-2022
Until recently, new aged care places for both residential and home care have been allocated to providers through an annual Aged Care Approvals Round. However, since February 2017, home care packages are assigned to eligible consumers who can then choose their preferred provider. This change does not however change the overall restriction of the supply of places through the provision ratios.

The Commonwealth regulates the supply of services offered through the CHSP through a capped funding amount that is indexed annually. Similarly, the Commonwealth contribution toward the Victorian and Western Australian HACC programs is capped and indexed.

An additional 62,000 home care packages will be required between 2015-16 and 2021-22 in order to meet the target of 140,000 operational home care places by 2021-22. Over the same period around 49,000 additional residential care places will need to be made operational in order to meet the target residential provision ratio.

**Culturally and Linguistically Diverse Australians**

There were 15,940 older Australians from Culturally and Linguistically Diverse (CALD) backgrounds in receipt of a home care package as at 30 June 2016, representing almost 25 per cent of total home care consumers. This is consistent with 2014-15 when there were 15,204 (26 per cent).

There were 33,822 older Australians from CALD backgrounds in residential care (permanent and respite) as at 30 June 2016. This represents around 19 per cent of all residents, steady from 2014-15 and an increase over the last 10 years from 15 per cent in 2007. This compares with the proportion from a CALD background of around 20 per cent of the overall population of Australians aged 65 and over.

The proportion of CALD people in residential care is significantly less than home care (19 per cent compared with 25 per cent).

**Indigenous Australians**

As at 30 June 2016, 1,705 Indigenous Australians were accessing home care, which represents 1.9 per cent of total home care consumers. This is down from 1,796 at 30 June 2015 and 1,963 in June 2014.

As at 30 June 2016 there were 1,602 Indigenous Australians in residential care (permanent and respite) compared with 1,535 at 30 June 2015.

**Supported residents**

The Australian Government supports access to permanent residential care by consumers who are assessed as not being able to meet all or part of their own accommodation costs, by paying providers an accommodation supplement on their behalf.

As a further incentive to ensure access by supported residents, providers with 40 per cent or fewer supported residents in a facility have the accommodation supplement they receive for all the supported residents in that facility reduced by 25 per cent.

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11 Indigenous status of consumers is self-reported.
During 2015-16, across all aged care homes, the average proportion of supported residents (excluding extra services homes) was 46.8 per cent compared with 47.0 per cent in 2014-15 and 44.4 per cent in 2013-14 12.

In December 2016, ACFA provided a report to Government regarding access by supported residents to residential care. The key finding of the report was that the 1 July 2014 reforms of accommodation payment arrangements have not had a negative impact on access to care by supported residents.

When analysed by remoteness location, the proportion of supported residents in regional and remote areas is higher than in metropolitan areas. In terms of provider ownership type, not-for-profit and government providers reported higher proportions of supported residents (48 and 52.8 per cent respectively) than the for-profit providers (44.3 per cent).

ACFA notes that the higher accommodation supplement of $53.09 paid by the Government on behalf of supported residents residing in newly built or significantly refurbished homes is broadly in line with the average prices paid by non-supported residents (DAP of $55.23). This suggests that, on average, the accommodation price the Government has set for supported residents is reasonable for generating investment in accommodation.

Access to home care

The number of older Australians who received services through a home care package in 2015-16 was 88,875, an increase of 6 per cent on 83,838 in 2014-15. Consumer access to home care and choice of preferred home care provider is being improved by the gradual increase in the home care provision ratio and by the 27 February 2017 changes which provide for home care packages to be assigned directly to consumers through the national prioritisation system.

ACFA notes that it is too early to report on the new home care prioritisation system. The Department has advised it will release public reports on a quarterly basis from early 2017-18.

Occupancy in home care

Occupancy13 levels can provide some indication of consumer access to home care and whether the supply of services is meeting demand.

Table 5i shows that in 2015-16 occupancy increased in package levels 1, 3 and 4 while decreasing in level 2 packages. Because level 2 packages comprise 66 per cent of home care packages, overall occupancy in home care decreased to 83.2 per cent from 85.8 per cent in 2014-15. This outcome raises questions about the appropriateness of the current allocation of packages across the four levels.

Occupancy of home care packages tends to be lower in more remote areas. Major cities recorded occupancy of 83 per cent in 2015-16 compared with 77 and 75 per cent respectively for remote and very remote areas.

Table 5i: Occupancy by home care package level, 2014-15 and 2015-16

<table>
<thead>
<tr>
<th>Level</th>
<th>Number of operational packages at 30 June 2015</th>
<th>Occupancy 2014-15</th>
<th>Number of operational packages at 30 June 2016</th>
<th>Occupancy 2015-16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 1</td>
<td>2,251</td>
<td>62.1%</td>
<td>2,254</td>
<td>68.3%</td>
</tr>
<tr>
<td>Level 2</td>
<td>51,956</td>
<td>85.2%</td>
<td>52,415</td>
<td>81.1%</td>
</tr>
<tr>
<td>Level 3</td>
<td>3,815</td>
<td>66.7%</td>
<td>7,369</td>
<td>79.5%</td>
</tr>
<tr>
<td>Level 4</td>
<td>14,680</td>
<td>92.1%</td>
<td>16,918</td>
<td>93.1%</td>
</tr>
<tr>
<td>Total</td>
<td>72,702</td>
<td>85.8%</td>
<td>78,956</td>
<td>83.2%</td>
</tr>
</tbody>
</table>

12 It should be noted that the average proportion of residents (excluding those receiving extra services) who were supported residents reported in the annual ACFA reports (46.8 per cent in 2015-16) is calculated using an average of claims over the whole financial year. This differs from the snapshot profile of all residents by supported/low means status (44.6 at 30 June 2016) that was reported in ACFA’s Report to Inform the Review of Amendments to the Aged Care Act 1997 provided to Government in May 2017 which is a proportion of all residents who are actually in care on 30 June 2016.

13 Occupancy was measured as the total number of days a package was actually being used by a consumer (occupied place) as a proportion of the number of days a package was available to be offered to a consumer by a provider (available/operational place)
ACFA also notes there is significant variation in occupancy rates across the states and territories, with occupancy ranging from 91.8 per cent in Victoria to 68.2 per cent in Western Australia. ACFA will track the impact on occupancy of the post February 2017 arrangements, particularly with respect to prioritisation arrangements, geographic distribution and the composition of package waiting lists.

**Length of stay in home care**

The length of stay in home care differs markedly between package levels. For people that enter home care at a level 2 package, around half stay at least 1.5 years and around a quarter over three years. In contrast, around half of people entering a level 4 package leave care within a year and a quarter remain in care for over two years.

The new package levels 1 and 3 have not been operating long enough to calculate average lengths of stay. However, of those people that entered in 2014-15, around a quarter of people in both package types had exited within around six months.

**Access to residential care**

The number of older Australians who received permanent residential care during 2015-16 was 234,931, an increase of 1.6 per cent from 231,255 in 2014-15. The number of people accessing residential respite care in 2015-16 was 56,852, an increase of 7.2 per cent from 53,021 in 2014-15.

Chart 5iv illustrates that the age of the residential care population is gradually increasing as people live longer and more consumers have the opportunity to stay in their own homes longer. The proportion of residents in residential care aged 85 and over has increased from 55 per cent in 2009 to 59 per cent in 2016. In contrast, the proportion aged between 70 and 84 has decreased from 37 per cent in 2009 to 33 per cent in 2016.

**Occupancy in residential care**

Occupancy rates reflect both demand and the number of places available. In 2015-16 the occupancy across all residential care places was 92.4 per cent, steady from 92.5 per cent in 2014-15, and 93.0 per cent in 2013-14, continuing the stability shown in recent years.

The not-for-profit providers continue to have the highest occupancy rate at 93.6 per cent, while the for-profit providers achieved occupancy of 90.8 per cent.

As noted in previous annual reports, there remains a variation in occupancy by state or territory, with the highest occupancy in 2015-16 being the Northern Territory (95.0 per cent) and the lowest being the Australian Capital Territory (88.6 per cent).

The greatest variation in occupancy continues to be by remoteness location. A clear trend is that more populous areas generally have higher occupancy rates than less populous areas, as shown in Table 5ii.
Table 5ii: Residential aged care occupancy, by remoteness area, 2015-16

<table>
<thead>
<tr>
<th>Remoteness location</th>
<th>Occupancy (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major cities</td>
<td>92.4</td>
</tr>
<tr>
<td>Inner regional</td>
<td>92.5</td>
</tr>
<tr>
<td>Outer regional</td>
<td>92.0</td>
</tr>
<tr>
<td>Remote</td>
<td>89.7</td>
</tr>
<tr>
<td>Very remote</td>
<td>80.0</td>
</tr>
</tbody>
</table>

Admissions in residential care

There continues to be a clear trend of increased elapsed time between when a resident is assessed as eligible for residential care and entering permanent care. This trend has been evident since 2011-12, as shown in Chart 5v. The proportion of residents entering care within seven days of being assessed as eligible has decreased from 18 per cent in 2011-12 to 8 per cent in 2015-16. The increasing availability of home care and the increased usage of residential respite care could be contributing to the longer time between assessment and someone entering permanent care.

Length of stay in residential care

The average length of time between first admission and final discharge in permanent residential care has been very slowly decreasing over the last 10 years. This decrease in length of stay (LOS) of aged care residents is shown in Chart 5vi, with the average LOS decreasing from 3.3 years in 2003 to just under three years in 2016.

Chart 5v: Elapsed time between assessment and entering care, 2011-12 to 2015-16 (%)

Chart 5vi: Average length of stay in residential, care by year of entry, 2003 to 2016
Two drivers of this decrease in LOS have been an increasing average age of entry and an increasing proportion of male residents. Older residents and male residents have shorter average LOS, so increasing proportions of these residents result in a shorter average LOS.

Since the 1 July 2014 reforms the proportion of people who stay in residential care less than six months has declined slightly. If this trend continues the average LOS may start to increase. ACFA will continue to monitor this trend to assess whether this is a temporary change to the structural changes or more permanent.

Residential respite care

The residential care reforms introduced on 1 July 2014 made no changes to residential respite care, yet the usage of residential respite care increased significantly. In 2015-16, 56,852 people received respite care, up from 53,021 in 2014-15 (7 per cent increase). This follows a 10 per cent increase from 2013-14. The full time equivalent number has increased by around 1,000 (20 per cent) over the two years since the reforms of 1 July 2014 (Chart 5vii).

During 2015-16, on average, each recipient of residential respite care had 1.4 respite care stays with each stay being an average of 26 days. The average length of stay has increased slightly from around 24 days since 1 July 2014.

A clear pattern of respite care use is for whole weeks of stay at a time. A fortnight is the most common length of stay, with one or three weeks the next most common. Around 1,000 consumers (3.5 per cent) used the maximum of 63 days in one stay.

Future demand growth for aged care

The demand for aged care services will expand with the ageing of the population. The structural ageing of the Australian population over the next 20 years will see the number of the 70 years and over cohort increase by around 1 million people each decade, from 2.6 million people now.

The older age groups are more than doubling over this period; for example, the 85 years and over cohort will increase from just under 500,000 people in 2017 to just over 1 million people by 2037. Chart 5viii shows the number of people aged 70 years and over between now and 2037, distributed by five year cohorts.

This rapid expansion in the number of older people, particularly in the oldest age groups, will result in a significant increase in demand for aged care services.

Because the baby boomers are such a large group compared with the pre-war generation, the proportion of the 70 and over population who are aged 85 and over will actually reduce over the next decade before subsequently increasing, as shown in Chart 5ix. This implies that the challenge of ensuring there is sufficient aged care supply to meet demand arising from the baby boomer generation is more likely to be felt in 10-15 years (from the late 2020s) rather than over the next decade.
Chart 5viii: Number of people aged 70 years old and over, by five year age cohort, 2017 to 2037

Chart 5ix: Proportion of 70+ age group who are aged 85+, 2017 to 2037
6. Home support

Home support provides entry-level services designed to help older Australians continue living in their own homes for as long as they can and wish to do so.

The CHSP was implemented on 1 July 2015 and incorporated the following existing programs:

- Commonwealth HACC;
- Planned respite services under the National Respite for Carers program (NRCP);
- Day Therapy Centres (DTC); and
- Assistance with Care and Housing for the Aged program (ACHA).

The Western Australian HACC services for older people aged 65 years and over (and 50 years and over for Aboriginal and Torres Strait Islander people) will transition to the CHSP from 1 July 2018. This will result in the Commonwealth having full funding, policy and operational responsibility for the delivery of home support services for older people nationally.

In the 2015-16 Budget, the Australian Government announced an intention to integrate the CHSP with the Home Care Packages Programme into a single home support and home care program by July 2018. In the 2017-18 Budget, the Australian Government extended funding agreements with CHSP providers by two years, which means that the Home Care Packages Programme and CHSP will operate as separate programs until at least mid-2020.

**Supply of home support**

In 2015-16, there were over 1,160 CHSP providers and 526 Victorian and Western Australian HACC providers.

Providers of home support services are predominantly not-for-profit. In 2015-16, around 77 per cent of CHSP providers were not-for-profit, with 18 per cent government owned. Chart 6i shows the proportion of CHSP providers by ownership type.

In 2015-16, over 640,000 consumers accessed services through the CHSP. Additionally, 285,432 older Australians accessed HACC services through the Victorian and Western Australian HACC programs.

**Funding of home support**

In 2015-16, the Australian Government provided home support funding of:

- $1.45 billion for the CHSP;
- $147.5 million for My Aged Care and Regional Assessment Service (RAS) to support the CHSP; and
- $609 million for the Victorian and Western Australian HACC programs.

Chart 6i shows total expenditure on home support since 2011-12 and budgeted expenditure through to 2019-20.

Table 6i shows a breakdown of the size of grants provided through the CHSP in 2015-16 by organisation type. The vast majority (87 per cent) of providers receive less than $1 million and of those, three-quarters receive less than $500,000.
Table 6i: CHSP grants provided in 2015-16, by size of grant and organisation type

<table>
<thead>
<tr>
<th>Grant size</th>
<th>Not-for-profit</th>
<th>For-profit</th>
<th>Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $1 million</td>
<td>810</td>
<td>21</td>
<td>178</td>
</tr>
<tr>
<td>$1-10 million</td>
<td>108</td>
<td>6</td>
<td>26</td>
</tr>
<tr>
<td>$10-50 million</td>
<td>7</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Over $50 million</td>
<td>1</td>
<td>2</td>
<td>0</td>
</tr>
</tbody>
</table>

Consumer contributions

Due to data limitations associated with the transition of providers into the CHSP during 2015-16, consumer contributions in CHSP in 2015-16 is not known. In last year’s annual report, ACFA noted that consumer contributions in the HACC programs were estimated on average to be 10 per cent of the total Commonwealth funding amount.
7. Home care

Home care packages provide support for older people with higher care needs who wish to remain living in their own homes for as long as possible. Packages are available at four funding levels, depending on each individual’s assessed care needs.

Providers, packages and consumers

In 2015-16 there were 496 providers of home care (down from 504 in 2014-15) with 78,956 packages (up from 72,702). The number of services operated by all providers fell in 2015-16 compared with 2014-15 (2,099 down from 2,292).

A total of 88,875 older Australians accessed home care packages in Australia during 2015-16, up from 83,838.

Not-for-profit providers continued to provide the greatest number of packages across all levels. Chart 7i shows the proportion of home care packages operated by provider ownership type.

The current share of packages held by ownership type reflects past ACAR allocations. ACFA notes that the February 2017 changes that allow consumers to direct their package to their preferred provider mean that providers’ market shares will no longer be determined by the ACAR but by consumer choice. ACFA will monitor the impact of this more competitive environment on provider market shares.

Chart 7i: Operational home care places by provider organisation type, 30 June 2016

Funding and financing

Commonwealth funding is the primary source of revenue for home care providers. In 2015-16, the Commonwealth made payments of $1.49 billion to all providers on behalf of consumers as a contribution towards their support costs, an increase of 16 per cent from 2014-15. By 2019-20 it is projected that total Commonwealth expenditure will be over $2.6 billion (Chart 7ii).

Key observations on home care providers financial performance in 2015-16, compared with 2014-15

- Total revenue of $1.8 billion,14 up from $1.4 billion;
- Total sector profit of $183 million, up from $150 million;
- 75 per cent of providers achieved a net profit compared with 72 per cent;
- Care related staff remuneration remained the most significant expense across the sector comprising 59 per cent of total expenses compared with 60 per cent;
- On a per package basis, the average EBITDA per annum was $2,086 compared with $2,235, a decrease of 6.7 per cent;
- On a per package basis, the average NPBT per annum was $1,949 compared with $2,081, a decrease of 6.3 per cent;
- For-profit providers achieved significantly higher average EBITDA per package per annum, $4,837, than the not-for-profit providers, $1,824;
- During 2015-16, regional providers had higher average EBITDA of $2,462 per package per annum compared with $2,184 for metropolitan providers and $1,661 for providers who operated in both regional and metropolitan areas.

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14 Scaled up from the 95 per cent of provider’s who submitted their 2015-16 home care financial reports in a useable form.
Expenditure

Total expenditure in 2015-16 for home care providers was $1.6 billion compared with $1.4 billion in 2014-15. Average expenditure per package per day was $68.88 ($25,141 per package for the year), up from $59.84 in 2014-15, an increase of 15 per cent.

Salaries for care services are the main expense item for providers, (59 per cent in 2015-16, down slightly from 60 per cent in 2014-15). Chart 7iii shows the proportion of expense types reported by providers in 2015-16.

Chart 7iii: Proportion of expense types, home care, 2015-16

In terms of provider ownership type, remoteness location and scale, there are some noteworthy findings in terms of expenses per package per day:

- Not-for-profit providers reported significantly higher expenses of $70.71, compared with for-profit providers, $63.78, and government owned providers, $55.20.
- Regional providers reported lower expenses of $61.52, compared with metropolitan providers, $67.55. Providers operating on both regional and metropolitan areas reported significantly higher expenses of $76.95 which was mainly due to salary, administration and management fee expenditure.
- Single service providers reported significantly lower expenses of $52.33, compared with providers operating two to six and seven or more services with $67.97 and $72.44 respectively.

Profit

In 2015-16, total profit for all providers was estimated at $183 million, up from $150 million in 2014-15.

Home care providers recorded an average EBITDA per package of $2,086 compared with $2,235 in 2014-15 (a 6.7 per cent decrease). Approximately 75 per cent of home care providers achieved a profit in 2015-16 compared with 72 per cent in 2014-15. This continues the recent trend of a higher proportion of providers recording a profit.
Average EBITDA varies significantly when reported by provider ownership type, remoteness location and scale. For-profit providers reported an average EBITDA of $4,837 per package, considerably higher than the $2,122 reported by government providers and $1,824 reported by not-for-profit providers. This is a significant change compared with the previous two years as shown in Chart 7iv.

When considered by remoteness location, providers who operated all of their services in regional locations achieved the highest level of average EBITDA per package with $2,462, compared with $2,184 for metropolitan providers and $1,661 for providers in both regional and metropolitan areas. This is in contrast to 2014-15 when regional providers recorded the lowest EBITDA of $1,806, compared with $2,060 for metropolitan providers and $2,819 for providers with services in metropolitan and regional locations. It is noteworthy that providers operating in both regional and metropolitan areas recorded significantly higher average expenses per package, and this is also reflected in their profitability. Chart 7v shows average EBITDA per package for the last three years based on remoteness location.

Providers operating seven or more services recorded the highest average EBITDA per package of $2,239, compared with $2,112 for providers operating two to six services and $1,141 for single service providers. Although larger providers were the best performing in terms of EBITDA, as they were in the previous two years, the gap between the larger and smaller providers has decreased significantly, as can be seen in Chart 7vi.

Chart 7iv: Average EBITDA per package, by ownership type, 2013-14 to 2015-16 (total sector)

![Chart 7iv](image)

Chart 7v: Average EBITDA per package, by remoteness location, 2013-14 to 2015-16 (total sector)

![Chart 7v](image)
Although this report provides analysis and commentary based on 2015-16 results, ACFA has access to more recent financial performance results for providers participating in quarterly surveys undertaken by StewartBrown. These results indicate that average provider revenue is continuing to increase to March 2017, contributing to an increase in reported EBITDA when compared with 2015-16.

Looking forward

The home care sector is undergoing significant change to its operations with the full implementation of CDC at the beginning of 2015-16, the introduction of funding following the consumer in February 2017 and a significant phased increase in the provision ratio. These changes are giving consumers greater control over their own lives by enabling them to make choices about the types of care and services they purchase and from whom they are purchased.

In the 2015-16 Budget, the Australian Government announced an intention to integrate the CHSP with the Home Care Packages Programme into a single home support and home care program by July 2018. In the 2017-18, Budget the Australian Government extended funding agreements with CHSP providers by two years, which means that both the Home Care Packages Programme and CHSP will operate as separate programs until at least mid-2020.
8. Residential aged care: characteristics of the sector

Residential care provides care and support for older Australians who choose not to, or are unable to live independently in their own homes. Residential care is provided on either a permanent or temporary (respite) basis. Services provided in residential care include:

- **Day-to-day services** such as meals, cleaning, laundry;
- **Personal care** such as assistance with dressing, grooming, toileting; and
- **24-hour nursing care** such as nursing assessment, pain management and wound care.

At 30 June 2016, there were 949 residential care providers operating 195,825 residential care places in Australia. This compares with 972 operating 192,370 places as at 30 June 2015.

In recent years there has been a consolidation of industry providers. Chart 8i shows the decreasing provider numbers over the seven years to 2015-16, and shows the proportion of ownership across not-for-profit, for-profit and government providers.

The largest provider group remains the not-for-profit providers. They represent 54 per cent of providers and operate 56 per cent of all residential aged care places. For-profit providers account for 35 per cent of providers and 39 per cent of places.

While the not-for-profits operate 56 per cent of all operational residential care places, they operate 66 per cent of all regional places. Conversely, for-profit providers, who operate 39 per cent of all places, operate only 23 per cent of regional places. Government providers operate the remaining 11 per cent of regional residential care places.

In terms of provider scale, the majority of residential care providers (616 or 65 per cent) operate only one residential care home. There are 19 providers who operate more than 20 homes.

**Provisionally allocated places**

At 30 June 2016, there were 35,124 provisional residential care places reflecting the carryover of allocated places from previous ACARs which are yet to be constructed. This represents around 14 per cent of all allocated places.

Not-for-profit providers, who have 56 per cent of operational places, have 50 per cent of provisionally allocated places whereas the for-profit providers, who have 36 per cent of operational places, have 43 per cent of the provisionally allocated places. Thirty-one per cent of provisional places have been allocated in the last year, and nearly 67 per cent have been allocated in the last two years. There are currently around 700 provisionally allocated places that were allocated 10 or more years ago.
Funding for residential care comprises operational funding and capital financing. Operational funding supports the three main types of services, accommodation, basic daily living (meals, laundry etc) and personalised care services including nursing, while capital financing supports the construction and refurbishment of residential care services.

A combination of Commonwealth and resident contributions provides the operational funding for residential care.

Commonwealth payments for residential care in 2015-16 can be classified as:
• basic care subsidies
• respite care subsidies and supplements
• accommodation supplements
• viability supplements
• other supplements

Key observations on operational performance of residential care in 2015-16 compared with 2014-15

• Revenue:
  – Total revenue was $17.4 billion\(^{15}\), an increase of 8.6 per cent, equating to $263.92 per resident per day, an increase of 5.9 per cent;
  – Care revenue was $10.8 billion, an increase of 8.4 per cent; and
  – Other income was $1.3 billion, contributing to all of the net profit.

• Expenditure:
  – Total expenses were $16.3 billion, an increase of 8.1 per cent, equating to $247.58 per resident per day, an increase of 5.3 per cent.

• Profit:
  – Total profit was $1,063 million, up from $907 million, an increase of 17.2 per cent;
  – NPBT per resident per annum was $5,962, up from $5,221, an increase of 14.2 per cent;
  – Total EBITDA was $1,985 million, up from $1,776 million, an increase of 11.8 per cent;
  – Average EBITDA per resident per annum was $11,134 up from $10,222, an increase of 8.9 per cent;
  – For-profit providers outperformed not-for-profit and government providers in terms of average EBITDA per resident per annum with $13,908 compared with $10,182 and negative $12 respectively;
  – Providers operating mainly metropolitan services continue to outperform those operating mainly regional services recording average EBITDA per resident per annum of $11,701 compared with $9,046; and
  – Financial performance analysis provided by StewartBrown shows a reduction in profitability of residential care providers in the nine months to March 2017 as the number of changes to the ACFI take effect.

Revenue

Operational funding is provided by both the Commonwealth and residents.

Total revenue in 2015-16 was $17.4 billion compared with $15.8 billion in 2014-15. This increase was largely attributable to growth in care subsidies. Chart 9i shows the growth in total revenue over the seven years to 2015-16.

\(^{15}\) Scaled up from the 99 per cent of providers who submitted their GPFRs in a usable form.
The Commonwealth contributed 66 per cent of total provider funding ($11.3 billion, up from $10.6 billion in 2014-15). Residents contributed 26.5 per cent ($4.5 billion up from $4.2 billion in 2014-15). The remaining income was generated from other sources such as additional service fees, net interest earned, donations and contributions, capital grants as well as income from the sale of assets.

Revenue per resident per day in 2015-16 was $263.92, an increase of 5.9 per cent from 2014-15 of $249.35.

Table 9i shows total service income in 2015-16 compared with 2014-15 for residential care providers. Chart 9ii shows the proportions of revenue types. Commonwealth funding via care payments constitutes the largest proportion of revenue for residential aged care providers (60 per cent). The basic daily fee paid by residents is the next largest category (18 per cent), followed by accommodation payments made by the Commonwealth and then accommodation payments made by residents.

### Table 9i: Total service income for residential care providers, 2014-15 and 2015-16

<table>
<thead>
<tr>
<th>Income type</th>
<th>2014-15 ($million)</th>
<th>2015-16 ($million)</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Care</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government contribution</td>
<td>$9,600.2</td>
<td>$10,351.8</td>
<td>7.8%</td>
</tr>
<tr>
<td>Resident contribution</td>
<td>$373.6</td>
<td>$456.0</td>
<td>22.0%</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td>$9,973.8</td>
<td>$10,807.8</td>
<td>8.4%</td>
</tr>
<tr>
<td><strong>Accommodation</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government contribution</td>
<td>$827.6</td>
<td>$971.6</td>
<td>17.4%</td>
</tr>
<tr>
<td>Resident contribution</td>
<td>$680.7</td>
<td>$850.8</td>
<td>25.0%</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td>$1,508.3</td>
<td>$1,822.4</td>
<td>20.8%</td>
</tr>
<tr>
<td><strong>Basic daily fee</strong></td>
<td>$2,986.3</td>
<td>$3,088.9</td>
<td>3.4%</td>
</tr>
<tr>
<td><strong>Extra service</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Extra service fee</td>
<td>$183.10</td>
<td>$146.90</td>
<td>(19.8%)</td>
</tr>
<tr>
<td>Extra service fee reduction</td>
<td>-$36.6</td>
<td>-$29.4</td>
<td>19.7%</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td>$146.5</td>
<td>$117.5</td>
<td>(19.8%)</td>
</tr>
<tr>
<td><strong>Total service income</strong></td>
<td>$14,614.9</td>
<td>$15,836.6</td>
<td>8.4%</td>
</tr>
</tbody>
</table>

16 The total revenue figures shown in this chart are the scaled up revenue for the whole of sector, based on those providers who submitted their GPFRs in each year.

17 This data relates to the 99 per cent of residential care providers who submitted their GPFRs for 2015-16.
Expenses

Total expenses in 2015-16 were $16.1 billion, up from $14.9 billion in 2014-15. Total expenses increased by 8.1 per cent in 2015-16 compared with 2014-15 while total revenue increased 8.6 per cent. Chart 9iii shows the growth in expenses over the seven years to 2015-16.

Chart 9iv shows the proportion of total expenses for residential care providers in 2015-16. Staff costs represent 67 per cent of total expenses (same as in 2014-15), with 'other' costs, which include building repairs and maintenance expenses, rent, utilities and costs associated with employment support activities, accounting for 27 per cent. Depreciation and interest costs account for the remaining 5 and 1 per cent respectively.

Profit

The residential care sector showed an overall profit. The sector average EBITDA per resident per annum and average NPBT per resident per annum both increased in 2015-16 compared with 2014-15 by 9 and 14 per cent respectively. This further builds on the increases reported in 2014-15.

Chart 9v presents the EBITDA per resident per annum in 2014-15 and 2015-16 by performance quartiles. All four quartiles show an improvement in performance.

Operating performance continues to vary across provider ownership type, remoteness location and provider scale.

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18 This data relates to the 99 per cent of residential care providers who submitted their GPFRs for 2015-16. It is estimated that total expenses for all providers would be $16.3 billion.
Overall, for-profit providers have continued to outperform the not-for-profit and government providers in terms of EBITDA per resident per annum. Chart 9vi shows average EBITDA per resident per annum in 2015-16 by provider ownership type. Thirty-seven per cent of for-profit providers are in the top quartile compared with 20 per cent of not-for-profit providers and 12 per cent of government providers.

ACFA notes that the organisational and operating structure of residential care providers owned by state and local governments is often quite different to that of the not-for-profit and for-profit providers, including often receiving funding from state or local governments. These differences can distort GPFR's reporting of profitability depended on by ACFA for aggregate results of the residential care sector.

Without the government providers included, which represent 10 per cent of all residential care providers, the reported EBITDA of the remaining sector would be $524 or 5 per cent higher than the $11,134 reported. However, this average result shrouds the very diverse range of results within the government owned group. This is highlighted in the fact that 58 of the 99 government providers are in the bottom quartile, while the 12 that are in the top quartile actually reported higher EBITDA per resident per annum than either of the for-profit and not-for-profit providers in the top quartile.

ACFA recommends that further analysis of this sector might provide insights for future normalisation or commentary about the results in future years.

As shown in Chart 9vii, a higher proportion of metropolitan providers are present in the top quartile of ranking by profit per resident (30 per cent) compared with regional providers (18 per cent). Conversely, a higher proportion of regional providers were represented in the bottom quartile (36 per cent) compared with metropolitan providers (18 per cent).

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**Chart 9v: Comparative EBITDA per resident per annum in 2014-15 and 2015-16**

<table>
<thead>
<tr>
<th>EBITDA per resident</th>
<th>Top Quartile</th>
<th>Next Top</th>
<th>Next Bottom</th>
<th>Bottom</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-15</td>
<td>$23,687</td>
<td>$10,964</td>
<td>$5,701</td>
<td>$10,222</td>
<td>$524</td>
</tr>
<tr>
<td>2015-16</td>
<td>$25,254</td>
<td>$11,909</td>
<td>$5,850</td>
<td>$11,134</td>
<td>$524</td>
</tr>
</tbody>
</table>

**Chart 9vi: Residential care provider average EBITDA per resident per annum 2015-16, by quartile (number of providers in parentheses) – by provider ownership type**

<table>
<thead>
<tr>
<th>EBITDA per resident (providers)</th>
<th>Top Quartile</th>
<th>Next Top</th>
<th>Next Bottom</th>
<th>Bottom</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015-16</td>
<td>$23,417 (119)</td>
<td>$11,828 (118)</td>
<td>$5,943 (18)</td>
<td>$13,908 (333)</td>
<td>$11,134 (99)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EBITDA per resident (providers)</th>
<th>Top Quartile</th>
<th>Next Top</th>
<th>Next Bottom</th>
<th>Bottom</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015-16</td>
<td>$26,721 (122)</td>
<td>$12,303 (84)</td>
<td>$5,573 (80)</td>
<td>$10,182 (513)</td>
<td>$11,134 (99)</td>
</tr>
</tbody>
</table>

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Aged Care Financing Authority | Short Form Report on the Funding and Financing of the Aged Care Sector – 2017
Financial performance analysis, 2016-17

The majority of financial analysis presented within this report is based on the 2015-16 financial results of providers as reported in GPFRs. ACFA has access to more recent financial performance results for providers participating in the quarterly surveys undertaken by StewartBrown.

For the nine months to March 2017, StewartBrown reports that residential care providers have seen a decline in average results as ACFI changes have taken effect. StewartBrown reports that average financial results to March 2017 are around 8 per cent lower than 2015-16 results.

StewartBrown have identified that cost management remains a focus for providers, and is the key differentiator between those provider facilities that continue to show stable results and those whose results have declined.
10. Residential aged care: capital investment

Capital for residential care providers is comprised of financing from equity investments, loans from financial institutions, interest free loans from residents in the form of refundable accommodation deposits (bonds pre 1 July 2014), capital investment support from Government by way of capital grants for eligible projects and retained earnings.

At 30 June 2016, refundable accommodation deposits (including bonds) totalling $21.9 billion financed 53.7 per cent of total assets of $40.7 billion and represented 73.5 per cent of total liabilities of $29.8 billion for the aged care industry.

Key observations on capital investment in residential care in 2015-16 compared with 2014-15

- **Total assets of $40.7 billion**, an increase of $4.1 billion;
- This includes:
  - $5.6 billion of cash assets, an increase of $441 million;
  - $11.5 billion of fixed assets, an increase of $781 million;
  - $23.6 billion of other assets, an increase of $2.9 billion, including:
    - intercompany loans receivable of $3.6 billion; and
    - intangible assets of $3.4 billion.
- **Total liabilities of $29.8 billion**, up from $25.7 billion. This includes $21.9 billion of accommodation deposits held by industry, up from $18.2 billion;
- **Net assets of $10.9 billion**, an increase of $42 million; and
- The total spend on building activity was 18 per cent higher in 2015-16 at over $4.5 billion.

Balance sheet

At 30 June 2016, not-for-profit providers (who hold 56 per cent of places in the sector) had total assets of $21.4 billion (53 per cent of total industry assets), up from $19.2 billion in 2014-15. For-profit providers (36 per cent of places) had total assets of $17.7 billion (44 per cent of total industry assets), up from $15.8 billion in 2014-15. Government providers held total assets of $1.6 billion in 2015-16.

As was the case in 2014-15, the for-profit sector had the highest proportion of liabilities ($15.3 billion). This was made up of $10.2 billion in accommodation deposits (46 per cent of total industry accommodation deposits) and $5.2 billion in other liabilities (66 per cent of total industry other liabilities).

Accommodation deposits increased by $3.7 billion during 2015-16, which combined with an increase of $406 million in other liabilities, financed increases of $441 million in cash and other current assets, $781 million in fixed assets and $2.9 billion in other assets which included an increase of $304 million in related party loans receivable and $255 million in intangible assets. This means that 79 per cent of the increase in accommodation deposits during the year has been invested in other assets.

Overall there was an increase in the sector’s net worth of $42 million.

Given the regulated permitted uses of RADs (bonds pre 1 July 2014), the build-up of categories of assets other than fixed assets is noteworthy. A formal review of the use of RADs and bond financing is part of the annual focus of the Department of Health in their examination of Annual Prudential Compliance Statements.

Government providers had by far the highest net worth/equity as a proportion of assets with 68 per cent followed by the not-for-profit providers (35 per cent). For-profit providers had the lowest net worth/equity as a proportion of assets with 13 per cent, which reflects both a higher proportion of accommodation deposits and greater use of debt to fund investment.
Not-for-profit providers generally operate with the policy of applying profits to fund future services whereas for-profit providers generally operate with the mission of generating profits, either for reinvestment and growth or to distribute some proportion to owners/shareholders.

Chart 10i shows liabilities and net worth/equity as a proportion of total assets. Government providers have lower liabilities as a proportion of total assets with a subsequent much higher proportion of residual net worth/equity.

**Investment challenges and trends**

The Department has provided its updated estimates of the sector’s annual investment requirement for residential care over the next decade, based on the Government’s current target provision ratio.

The Department estimates that the residential care sector will need to build an additional 83,500 places over the next decade in order to meet the provision target of 78 operational places per 1,000 people aged 70 and over. This compares with 33,667 new places that came online over the previous decade, as shown in Chart 10ii.

At the same time, the sector will need to rebuild a substantial proportion of its current stock. Assuming that a quarter of the current stock of buildings is rebuilt at an even rate over the next decade, the Department estimates the investment requirement of the sector over the next decade to be in the order of $35 billion.

Chart 10iii shows the investment needed over the next decade in order to construct the new aged care places required to cater for the impact of the baby boomer generation on the number of places generated under the current target provision ratio. Over the next decade, there is a steep ramp up from $2.8 billion needed in 2016-17 to around $4.2 billion that will be needed in 2026-27.
Recent trends in investment in the residential care sector

As noted in last year’s annual report, investment trends have been improving since the 1 July 2014 reforms. A total of $1.6 billion in new building, refurbishment and upgrading work was completed during 2015-16 and the amount of new building work in progress at the end of June 2016 was estimated at $2.9 billion, involving 18 per cent of all homes. The total spend on building activity was 18 per cent higher in 2015-16 compared with 2014-15, as shown in Chart 10iv.

Building approvals data from the Australian Bureau of Statistics are continuing to show strong investment in the sector since the reforms of 1 July 2014, as shown in Chart 10v.
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Fifth report on the
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July 2017