

ASSETFUTURE

Empower Tomorrow

AGED CARE: INDUSTRY VIEWPOINT

Executive Summary

Australia's aged care sector, already highly complex, is set to be transformed by the Royal Commission. Its recommendations are aimed at addressing issues with the current system, as well as anticipating future pressures from changing demographic trends.

The new Aged Care Quality Standards have important relevance for the management of aged care facilities. They will impact building design, equipment provision and organisational governance. Aged Care providers will have to overhaul current processes, invest in upgraded services and introduce effective information management systems

This white paper provides an in depth look at the changes facing the industry, and details how asset intelligence tools, such as **AssetFuture**, can help deal with these future challenges.

Data is key to managing aged care residential facilities and equipment, particularly as the new Aged Care Quality Standards put further pressure on funding. Asset Intelligence can be used to determine funding, and balance condition, risk and performance where budgets are constrained.

By embedding a platform such as **AssetFuture** into business processes, aged care providers will be able to demonstrate compliance with the new requirements, while making better business decisions based on the relevant asset data stored, which will in turn lead to better service delivery for the customers of the facilities in which they live.



Aged Care Overview

Aged care within Australia is highly complex and confusing from a consumer perspective. There are different types and levels of care, different care providers and a complex system for seeking government assistance. **The Royal Commission**, established in late 2018, resulted from **5,000 submissions** from aged care consumers, carers, families, aged care workers, health professionals and providers. Its purpose was to inquire into the health of the aged care services in Australia with particular attention to:

- The quality of aged care services provided to Australians and how needs of people are being met
- How to best deliver aged care services to people with disabilities and dementia
- Challenges and opportunities for future aged care provision
- What can be done by all parties to strengthen aged care services

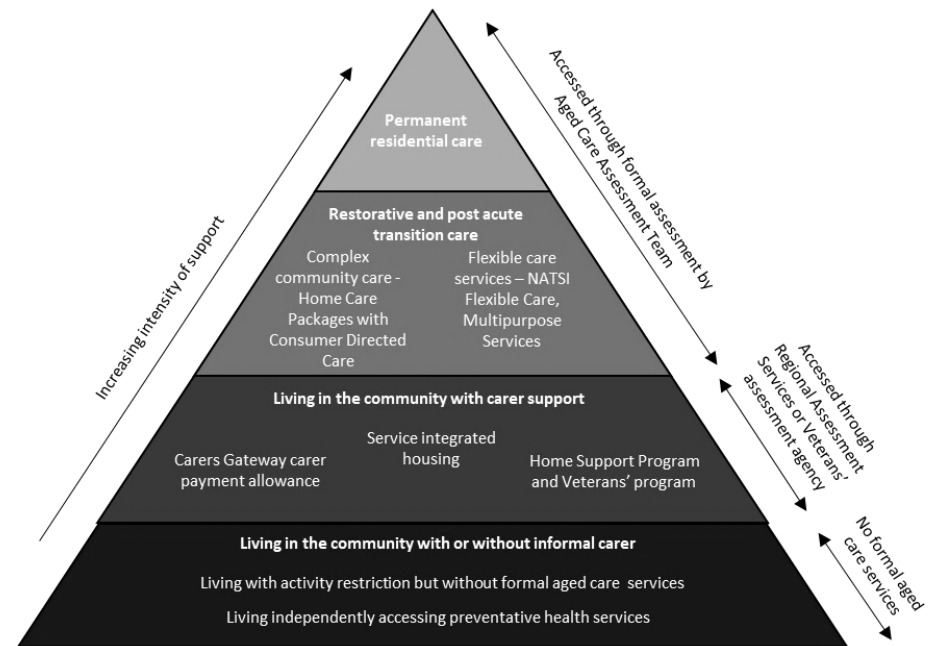


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Recommendations have been made for changes to the aged care system. These are aimed at addressing issues with the current system as well as the **upcoming pressures on the system**, given trends in the demographics and resulting change in care needs.

The level of aged care required increases with frailty and age related illnesses. The figure below illustrates how older people progress through different levels of care.

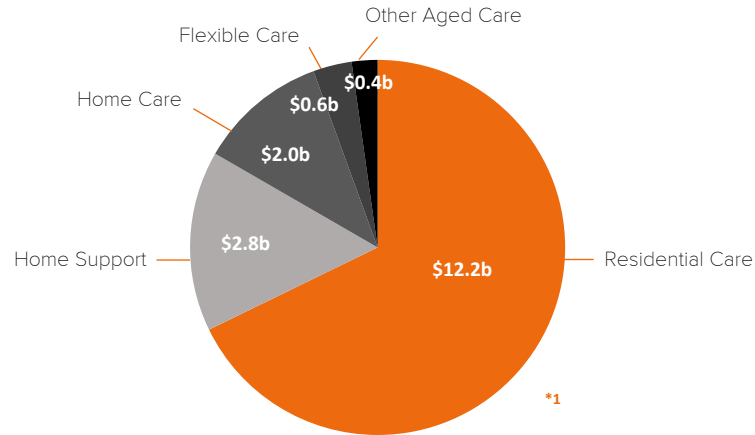
Whilst care for those living within the community is heavily reliant on support of informal carers, the total aged care sector expenditure in **2017-18** was around **\$18.1 billion**, making a significant contribution to the Australian economy. The industry has been the largest growing in terms of employment since 2015 and is expected to be the **fastest growth budget item** after the National Disability Insurance Scheme.



Source: Derived from Navigating the Maze: An Overview of Australia's Current Aged Care System, February 2019, The Royal Commission into Aged Care Quality and Safety.

Aged Care Overview

Of this expenditure, nearly **70%** was on residential aged care as illustrated in the diagram below.



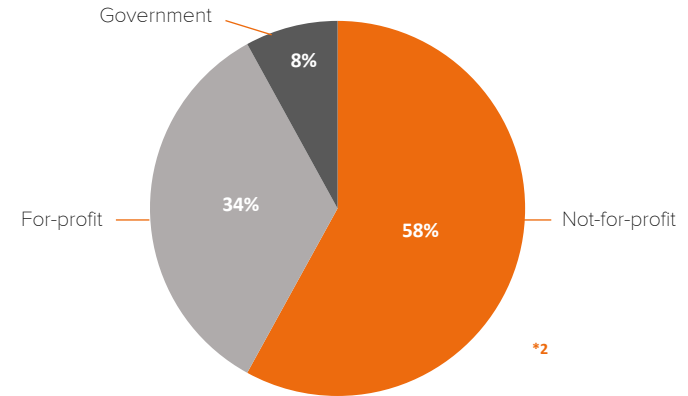
Total Expenditure: \$18.1 Billion

Research by the Australian Institute of Health showed that in 2013-14, **63,000 people across Australia entered permanent residential aged care for the first time**. Of this population, there were over **1,000 different pathways through the system** before entering permanent residential aged care. Respite care was the most likely to be used prior to someone becoming a permanent resident.

**1 Source: Data: Australian Institute of Health and Welfare, ROACA key facts, 2019, referring to Australian Department of Health, 2017-18 report on the operation of the Aged Care Act 1997, 2018.*

**2 Source: Data: GEN Aged Care Data, Australian Institute of Health and Welfare*

The majority of services provided in remote locations are provided by **not-for-profit organisations**, with the government providing the remaining services. For-profit organisations do not provide services in remote areas.



Mainstream Residential Care Services

Of the people in permanent residential aged care on 30 June 2018:

31% of people had a high care need rating in all three of the assessment areas

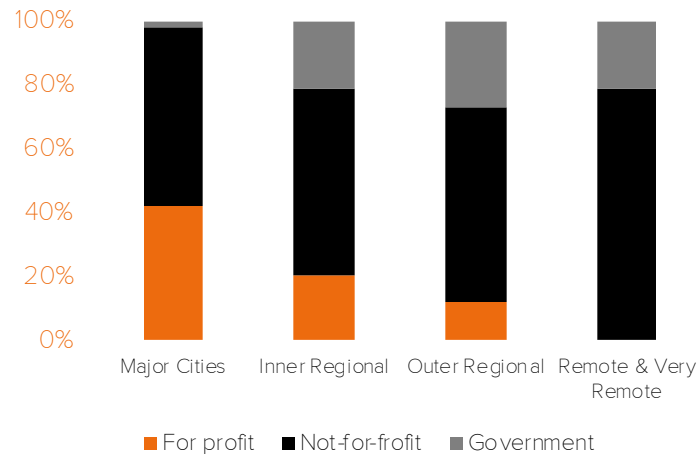
86% of people were diagnosed with mental health or behavioural conditions with depression being the most common diagnosis

52% of people were diagnosed with dementia

The largest proportion of care needs rated as “high” (64%) was in the cognition and behaviour assessment area

Aged Care Overview

As can be seen in the graph below, the majority of mainstream residential aged care services are provided by **not-for-profit** organisations.



Source: Data: GEN Aged Care Data, Australian Institute of Health and Welfare

Funding sources for residential aged care

Funding for residential aged care is made up of both operational and capital funding. Operational funding supports services such as nursing and personal care, living and accommodation expenses while **capital finding** supports the construction of new facilities and refurbishment of existing facilities.

Residential aged care is supported by the government and residents themselves, with the fees paid by residents determined by a means test based on both income and assets.

The figure below illustrates the different **sources of funding** and their contribution to services provided.



Source: Aged Care Financing Authority, Annual report on funding and financing of the aged care sector, 2018, p 89.

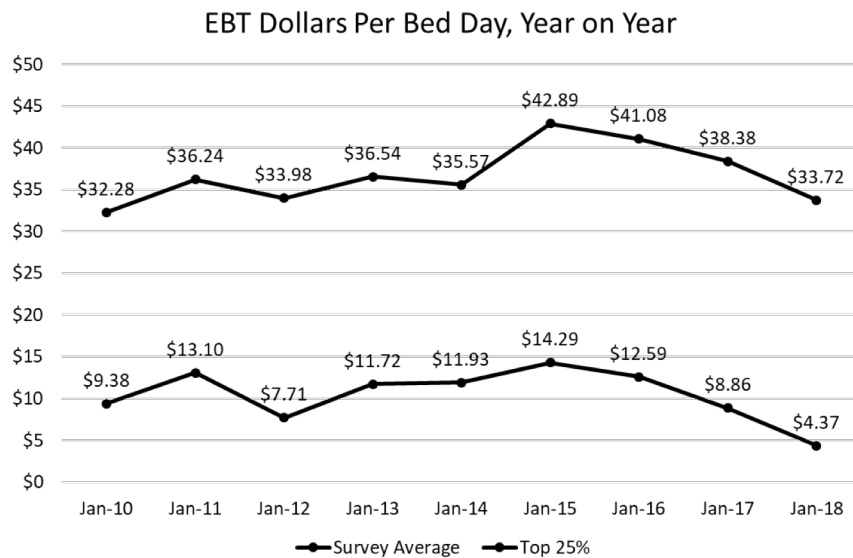
The means test, known as the **Aged Care Funding Instrument (ACFI)**, also determines the government contribution to residential aged care providers. This is the most significant funding source accounting for **60.5% of revenue in 2016-17**. The next main source the basic daily fee paid by residents for living expenses (**18%**) followed by the Commonwealth accommodation supplement for supported residents (**5%**) and daily accommodation payments from residents (**4%**).

Residential aged care providers are required to publish the maximum price that they charge for each room with the average accommodation bond in **February 2017 being \$391,000**. This has risen sharply from an average in **2013-14 of \$296,000**. These bonds form a significant contribution to funding capital investments in residential aged care with the total value of deposits held by providers being **\$24.7 billion**.

Aged Care Overview

Financial health of the sector

Stuart Brown conducts ongoing industry surveys focused on the financial performance of the aged care sector. The survey for the quarter ending September 2018 highlights the **continuing financial difficulties** faced by many aged care providers. Key statistics include a gradual decline in calculated Facility Result (EBT) since 2015 as illustrated in the graph below.

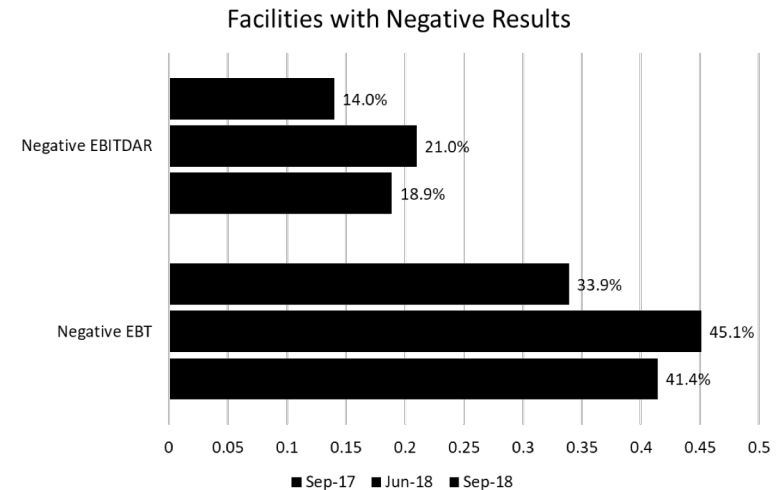


Source: Aged Care Quality and Safety Commission, Stuart Brown, page 3

What is not shown in these averages is a significant proportion (**41.4%**) of residential aged care facilities recording a negative trading profit for the September 2018 quarter. This is an increase from **33.9%** in the same quarter for 2017. This is illustrated in the graph to the right.

Key findings from analysing the data include:

- The top 25% performers resulted from both higher ACFI revenues and lower costs across all categories
- In general, administration and labour costs have risen significantly - 5.4% increase from September 2017. Growth in direct care staff costs has outstripped increases in ACFI funding over the past five years
- The increase in direct care staff costs is a combination of increasing hour worked as well as rising pay rates
- Everyday living continues to be in deficit across the board



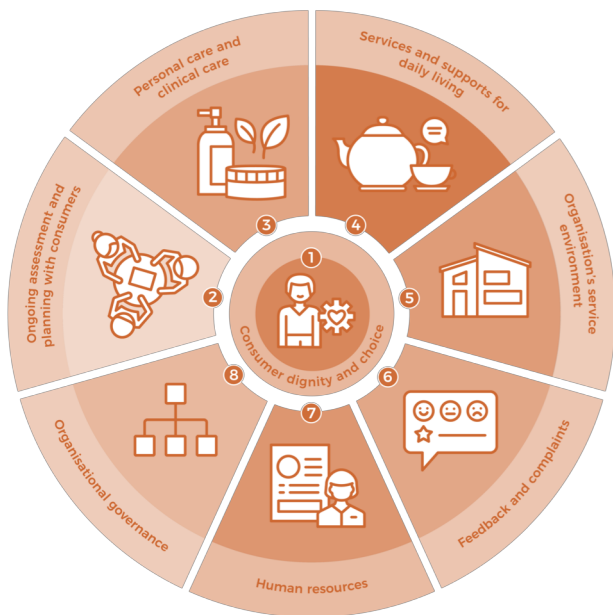
Source: Aged Care Quality and Safety Commission, Stuart Brown, page 3

Whilst aged care providers claim the increase in claims above indexation is a result of the **increasing frailty of residents**, the government doesn't believe this is the single reason for this increase in claims.

Aged Care Overview

Regulatory pressures on the sustainability of the sector

A new set of **Aged Care Quality Standards** has replaced various superseded standards in the aged care industry as of July 2019. This is a direct result of the **Royal Commission's** aim to align the quality of aged care services with the changing needs of the community.



Source: Guidance and Resources for Providers to support the Aged Care Quality Standards, Aged Care Quality and Safety Commission, May 2019, page 2.

A prominent feature of the new standards is feedback from residents and their experience of the quality of care and services they receive. **Site audits must be undertaken which seek feedback from at least 10% of residents and their representatives.** This will not only place pressure on the service provider's internal resources to carry out the audits, but also potentially lead to significant pressure taking action on the findings from the audits.

The Aged Care Quality Standards are a single set of eight standards covering various aspects of aged care provision.

The primary standards relevant to the management of residential facilities are:

Standard 4 - Services and supports for daily living. 4(3)(g) requires the service provider to demonstrate that equipment provided is safe, suitable, clean and well maintained. Evidence that the organisation must provide includes suitable arrangements for purchasing, servicing, maintaining, renewing and replacing equipment.

Standard 5 - Organisations service environment. Requirement 5(3)(b)(i) requires the service provider to demonstrate the environment is safe, clean, well maintained and comfortable, while 5(3)(c) requires that furniture, fittings and equipment are safe, clean, well maintained and suitable for the consumer. Arguably some of the older residential care facilities may struggle to provide evidence that demonstrates these two requirements due to design factors and deterioration of the facilities.\

Standard 8 - Organisational governance. Requirement 8(c)(i) requires the service provider to demonstrate effective information management systems, including systems to monitor and evaluate how the provider performs against strategic and other objectives for safe and quality care and services. It is worth noting that information systems is historically one of the areas where most non-compliances come from. Requirement 8(c)(iii) requires that financial governance systems and processes manage the finances and resources that the organisation needs to deliver safe and quality care and services.

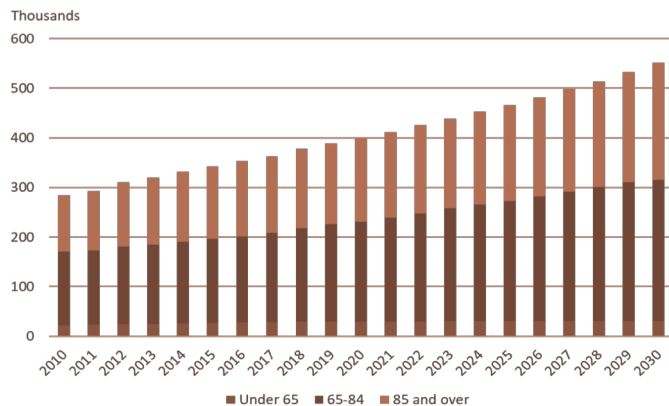
Aged Care Overview

Increasing expectations affecting the sector

As the average wealth of Australians increases, living standards also increase, likely leading to a growing demand for choice in services available. Changes in technology, such as the availability and speed of internet services, also affect the demand for infrastructure to satisfy expectations. The audit process required of the new **Aged Care Quality Standards** could also contribute to residents and their representatives feeling more empowered to push for services that meet their expectations, that they wouldn't have pushed for otherwise.

Aging population pressures

As health care in general is continually improving, the ratio of the people in the workforce to the number of people on the pension will gradually decrease. This will inevitably lead to further pressure on the ability of the government to fund aged care needs. The figure below illustrates the projected age of the Australian population which is also supported by figures published by the Royal Commission suggesting a projected age-pension ratio of 3.1 for 2058, down from today's ratio of 4.2.



Source: AIHW, Australia's health 2018. Chapter 3.14. Canberra: AIHW, 2018.

The implication of the ageing population is two-fold

Older residents will require higher levels of care and will become more likely to have more than one health condition to deal with. An increase in the neurological conditions faced by many very old people, such as Alzheimer's disease, will contribute to a substantial increase in dependency levels and consequently levels of care required.

Building design has also been shown to have an impact on people suffering dementia, with an emphasis on familiarity with their home surroundings having a positive effect on their behaviour. Ideally the design of residents' surroundings should be of a standard equivalent to what they would have experienced in their home environment, as opposed to shared accommodation environments. **The provision of such facilities would lead to an increase in capital costs** as well as ongoing maintenance costs to maintain the facilities in a condition comparable to a home environment.



Much research has been published linking dementia to age, with incidence of the disease increasing dramatically after the age of 70 years. **People with severe dementia require special care.** This has implications for residents without dementia potentially being affected in facilities where both groups co-exist.

Aged Care Overview

How AssetFuture can help deal with these future pressures

AssetFuture is a cloud-based asset intelligence tool that provides a highly data driven means of forecasting operating and capital funding required to maintain residential facilities and equipment to a pre-determined condition and risk level.

The data analytics can not only determine the baseline funding required over the life of the assets, it can also assist with balancing condition and risk in an environment where funding is constrained.

This is especially important to aged care providers struggling for sufficient funding to suit their needs and minimise the cost of maintaining facilities. This helps maintain a healthy balance sheet and ensure the financial viability of the organisation to continue to provide much needed services to the community.

Organisations that implement **AssetFuture** and embed the platform into business processes are able to demonstrate compliance with several requirements within the new **Aged Care Quality Standards.**

Compliance with standard 4 is supported through evidence of processes for the procurement of the right facilities not only in terms of upfront purchase costs but whole of life cost of ownership, leading to more informed purchasing decisions.

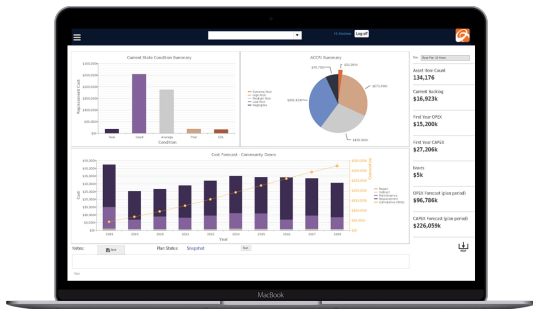


Image: The AssetFuture Platform

Standard 5 is supported through the generation of detailed maintenance plans aimed at achieving a targeted level of condition while managing risk across the asset portfolio.

Standard 8 is supported through the provision an information system which is one of the biggest sources of regulatory non-compliance. Asset data relevant to managing the assets is stored and accessed from a single location making the sustainability of the right decisions made. This asset data includes:

- **A complete list of assets owned**
- **The current condition the assets are in**
- **How much it will cost to replace or refurbish the assets**
- **The consequences of not replacing or refurbishing the assets**
- **Photos demonstrating asset condition and defects**
- **Design drawings**
- **Manufacturers' manuals**

Cost efficiency gains will only increase as the number of facilities grows with the aging population and growing expectation on services provided which require an asset to deliver.



For more information visit: assetfuture.com