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AGED CARE FUNDING BUDGET ANNOUNCEMENT (MAY 2023)

Abstract
The announcement by the Government of additional funding totalling $11.3 billion over 4 years to deliver a pay increase to over 250,000 workers is a very positive initiative that will be supported by all stakeholders in the aged care sector.

The additional funding includes staff in residential and community aged care services. Due to the complexity of the residential aged care funding streams and it being the major portion of the additional funding, we have focussed this analysis on residential aged care.

This additional funding, together with the legislated mandated minutes of direct care per resident per day effective from 1 October 2023 and the Star Ratings regime should provide the drivers to improve the quality of residential aged care service delivery, retain and attract staff and gain further trust of the sector from the community.

Based on our initial modelling, the funding package announced should be sufficient to cover the Fair Work Commission ruling to increase the wages of direct care staff including recreation and lifestyle workers by 15% from 30 June 2023.

Direct Care Funding (AN-ACC)
Funding for residential direct care delivery is determined by an independent assessment of the acuity and care requirements for each resident in an aged care home. The Australian National Aged Care Classification (AN-ACC) is the Government (taxpayer funded) subsidy funding mechanism that is paid to providers to deliver the direct care services and accounts for 96% of the direct care revenue with 4% being received from the resident through a means testing component.

The new AN-ACC subsidy starting price, as included in the additional funding announcement, should also alleviate the initial shortfall in the current AN-ACC starting price which was affected by significant increased indexation and staff costs that were unable to be projected when the initial AN-ACC price was set.

The original AN-ACC starting price of 216.80 per resident per day (prpd) was comprised of two components:
- $206.80 prpd funding for the direct costs associated with providing care to residents
- $10.00 prpd Basic Daily Fee Supplement to support the costs of providing everyday living services

A fundamental change included in the new funding package is that the Basic Daily Fee Supplement has been removed from being remitted via AN-ACC and will be separately funded by the Hotelling Supplement of $10.80 prpd. This is a positive change as it provides more clarity as to the respective funding for direct care (AN-ACC) and funding support for daily services.

The AN-ACC price ($prpd) will increase from $206.80 to $243.10, which represents an increase of $36.30 or 17.6%.

Analysis
The following analysis of the increase in the AN-ACC price is based on the data from the StewartBrown Survey for the six months to December 2022.

	$ per resident per day
Total direct care staff costs *including all oncosts*[1]	152.81
Lifestyle staff costs *including all oncosts*	4.46
Worker's compensation costs	4.11
Payroll tax	0.63
Total direct care staff costs including on-costs *(average cost of labour)*	**$ 162.01**
15% FWC increase (A)	*$ 24.30*
Current AN-ACC starting price dedicated to direct care costs[2]	206.80
New AN-ACC starting price	243.10
Increase (17.6%) (B)	*$ 36.30*
Excess over FWC 15% pay increase (B) - (A)	**$12.00**
Estimated shortfall in original AN-ACC price	$ 6.87
Remainder to cover indexation for FY23 and possibly FY24	$ 5.13

[1] Registered nurses, enrolled and licenced nurses, other unlicenced nurses/personal care staff and agency staff s
[2] Excludes basic daily fee supplement of $10 per day

This analysis, and previous analysis conducted, positively suggests this additional funding package as announced should provide sufficient funding levels to meet the requirements of the mandated care minutes (from October 2023) and to pass on the full quantum of the increase in award pay rates to employees. The higher pay rates should assist providers to retain existing staff and encourage new workers to enter the aged care workforce.

Hotelling Supplement

Daily (everyday living) services provided to residents including food, cleaning, laundry and utilities are by majority paid for by the resident through the Basic Daily Fee which is set as being 85% of the single pension (currently $58.98 per day). Providers are entitled to charge an additional fee where the daily services provided are of a higher standard or choice. The additional fees will incur additional costs to provide these services.

The announcement of the new Hotelling Supplement of $10.80 per resident per day is to assist in providers recouping the costs of providing these daily services. The Hotelling Supplement replaces the current Basic Daily Fee Supplement with an effective increase of 80 cents prpd to fund the FWC wage increase for head chefs/ cooks and establishes a mechanism to fund other non-care professionals for future FWC decisions.

At the present time, the costs of providing the daily services exceed the revenue (including the Basic Daily Fee Supplement) by in excess of $6.30 prpd. In our opinion, this shortfall should not be met by Government (taxpayer funded) but instead should be met through further structural reform allowing for providers to charge a higher Basic Daily Fee for those that can afford to pay, and in turn providing a higher quality of daily service to all residents.

It is important to note that the AN-ACC (direct care) subsidy is not intended to supplement the costs for the daily services.

Financial Sustainability

Much discussion continues as to the financial sustainability of the residential aged care sector. The Governments Quarter 1 (September 2022) Financial Snapshot stated that the average loss for that quarter was $27.90 prpd and 66% of providers incurred a loss. The StewartBrown Survey which includes more granularity at the individual aged care home level reported an average loss of $21.29 prpd and 70% of aged care homes (not providers) incurring a loss. The StewartBrown Survey excludes all outliers, and if these were included (as is the case with the Government Snapshot) the overall loss was an average of $26.49 prpd, similar to the loss reported by the Government.

Historically, providers have made a small surplus (margin) on the direct care component, being that the direct care funding received (previously ACFI) was greater than the costs (predominantly staffing) required to deliver these services. This margin effectively subsidised the costs in delivering daily (everyday living) services and accommodation, as well as funding the administrative overheads required to operate residential aged care.

The Royal Commission made specific comment that the taxpayer funding for direct care services (now AN-ACC) should not be used to cross subsidise daily services and accommodation, which are the responsibility of the consumer to pay unless they do not have the financial means to do so. We would advocate that a margin should still be achieved through efficiency.

However, the direct care margin has progressively declined through reduced funding in real terms from fiscal year 2017 to be virtually break-even at fiscal year 2022. This has been the major reason that the financial results for residential aged care have decreased considerably to be the current ongoing losses.

Effect of AN-ACC on Financial Sustainability

The introduction of the AN-ACC subsidy model from 1 October 2022 had, on average, a transitional financial benefit, due to the subsidy including funding for additional direct care staffing minutes, however the mandated minutes are not obligatory to be met until 1 October 2023. In essence, this represents a form of funding in advance.

For context, the average direct care staffing minutes per resident per day for the six months ended 31 December 2022 was 186 whereas the funding was for 200 minutes. In the period to 1 October 2023, providers will be required to increase the staffing minutes by the shortfall of 14 minutes with no additional funding being received. This additional staffing cost will erode the transition benefit over this period.

The effect of this transition benefit was $13.22 per bed day when comparing the Direct Care result from the December 2022 quarter in isolation (AN-ACC subsidy) to the September 2022 quarter (ACFI subsidy).

The table on the following page provides more explanatory detail in relation to the direct care margin.

Direct Care - All Homes	Sep-22	Dec-22	Difference
Direct Care Revenue	$ 196.97	$ 216.77	$ 19.80
Direct Costs			
Staff costs	$ 160.68	$ 165.34	$ 4.66
Agency staff	$ 13.49	$ 14.88	$ 1.39
Other	$ 5.82	$ 6.46	$ 0.64
Expenditure - Direct Care Services	$ 179.98	$ 186.67	$ 6.69
Operational Overheads	$ 16.48	$ 16.37	-$ 0.11
Direct Care Expenditure	$ 196.46	$ 203.05	$ 6.58
Direct Care Result	**$ 0.50**	**$ 13.72**	**$ 13.22**

In summary, the December 2022 quarter was an improvement on the previous quarter for this reason, however each quarter the margin (direct care result) will progressively decline as the funding will not change until 1 July 2023 however the costs will increase as the number of minutes per resident per day increases to meet the legislated mandated number.

Please note that this refers to the direct care margin, however the daily services and accommodation costs are greater than the related revenue, and accordingly the overall result (direct care + daily services + accommodation) forms the overall operating loss position for residential aged care providers.

In the case of the funding announcement, the table included in the Analysis indicates that the new AN-ACC funding price ($243.10 prpd) will cover the FWC 15% wage increase ruling together with the current An-ACC shortfall and some indexation uplift. We do not believe it will improve the overall financial sustainability from 1 October 2023, but will have a transitional benefit for the September 2023 quarter where providers are receiving the full funding for the mandated direct care minutes but some will still have fewer actual minutes (and costs) for that period.

Summary

The Government's commitment to fully fund the FWC ruling to increase direct care workers, recreational officers and head chefs/cooks by 15% has been met with the budget announcement. This must be applauded and will have considerable flow-on benefits for staffing and quality of care. It is a significant and important funding initiative.

Next Steps

The next steps for the sector must involve ensuring that the financial sustainability improves from the current level which is unsustainable. This significant funding injection will not provide substantial improved financial performance once the AN-ACC transition period concludes on 1 October 2023. Essentially, the additional funding will be absorbed through the increased (and necessary) staff costs to meet the FWC ruling.

The overall funding regime must allow for additional consumer contribution, not for direct care services, but for the daily services including accommodation where the consumer has the ability to pay a fair and reasonable amount to not only cover the actual costs but provide an acceptable return to providers to encourage further investment into the sector.

The funding reform implementation necessary to increase the consumer contribution will require consultation and agreement of the design principles by the respective stakeholders, and particularly consumers and providers, in the first instance to ensure that it has broad based support and enshrines equity for all residents irrespective of their respective personal financial circumstances. This process, which will take some time to work through properly, needs to commence now.