



Speaking Notes

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Developments in the Aged Care Sector

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Developments in the Aged Care Sector


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- I have been invited here today to provide an update on developments in the aged care industry.
- Within this broad scope I will endeavour to provide a very brief overview of the industry and our own context within it at Mercy Health.
- In adding some statistical rigour to my observations today I am indebted to the publications of the Australian Institute for Health and Welfare and Commonwealth Department of Health and Ageing, and several of the many industry review papers that have been published in recent times.

Mercy Health

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Mercy Health 

- Founded by the Sisters of Mercy, to serve communities locally.
- Our services span a broad continuum of health, aged care and community care settings.
- We employ over 4,200 people at more than 20 locations across Victoria, southern NSW and the ACT.
- We provide direct care to almost half a million people every year.

- Mercy Health was founded and is wholly owned by the Sisters of Mercy to operate health, aged care and community services.
- Our Health Services include specialist, acute and sub acute hospitals, early parenting, mental health and palliative care.
- In aged care, we are a major provider of residential, respite and transitional care, and a growing range of home-based services.
- We now employ over 4,200 people at more than 20 locations across Victoria, Southern NSW and into the ACT.
- Caring for almost half a million people every year. This means that in Victoria alone, about one in twenty families are touched by the Mercy services each year.

Our Mission in Aged Care

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Our Mission in Aged Care

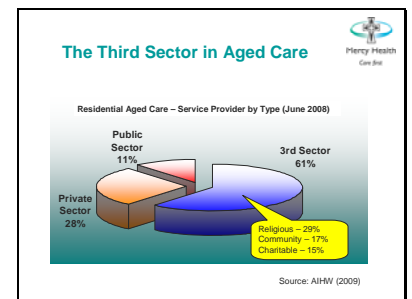


- Care for the aged is central to our mission.
- We are seeking to improve standards of care and quality of life for the frail aged.
- In the current year we will open 350 new aged care beds across four facilities and create over 300 new jobs in aged care.
- We remain committed to growing our services and are continuing to do so despite the current challenges facing the industry.

- Much of our growth in recent years has been in response to recognition of the challenge that our ageing population presents to the community.
- Working to meet this challenge is 'core' to our mission.
- In doing so, we seek to improve standards of care and quality of life for the frail aged in our community.
- This year we will open 350 new aged care beds across four facilities and create over 300 new jobs in aged care.
- Our commitment to growing our aged care services remains strong despite the current economic environment and well-documented funding and regulatory challenges.

The Third Sector in Aged Care

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- Mercy Health is part of the third sector, comprised of religious, charitable and community-based providers.
- The third sector, that is neither public nor private sector, continues to be the predominant provider of services in the Australian aged care industry, despite a slow trend toward increasing private sector presence in recent years.
- This third sector presence is evident across almost all state jurisdictions and geographic settings – from the major cities to the very remote.



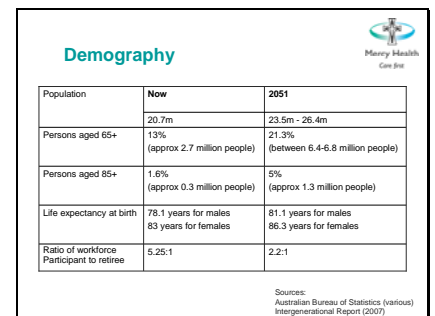
Industry Snapshot

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- Before we look at the aggregate data, it is always important to maintain the perspective that aged care is about supporting people to maintain the best possible quality of life. For them and their families, it is not business, it is infinitely personal.
- This is one of our residents, enjoying the raised garden beds at our Colac facility in Victoria's south-west. A temperate rainforest region with few water restrictions.

Demography

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The table is titled 'Demography' and is part of a presentation slide. It contains a table with three columns: 'Population', 'Now', and '2051'. The data is as follows:


Population	Now	2051
	20.7m	23.5m - 26.4m
Persons aged 65+	13% (approx 2.7 million people)	21.3% (between 6.4-6.8 million people)
Persons aged 85+	1.6% (approx 0.3 million people)	5% (approx 1.3 million people)
Life expectancy at birth	78.1 years for males 83 years for females	81.1 years for males 86.3 years for females
Ratio of workforce Participant to retiree	5.25:1	2.2:1

Sources:
Australian Bureau of Statistics (various)
Intergenerational Report (2007)

- The data on aged care will not be new to many of you.
- While much of the mainstream commentary is currently focussed on the impact of the 65+ cohort, as an aged care provider it is the four-fold increase in our population over 85 years which is of more interest.
- A less publicised, but arguably just as significant, forecast for the industry is the change in the dependency ratio - or workforce participation ratio.
- How do we meet the increasing demand for care with a reduced workforce and reducing taxation base?

The Dementia Epidemic

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Henry Health
Care

The Dementia 'Epidemic'

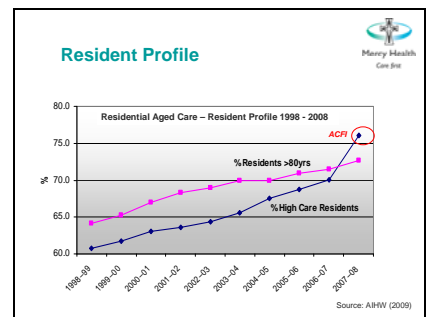
- Currently there are 245,000 of Australians with dementia.
- This number is forecast to reach 1.1 million by 2050.
- Significant implications for funders, service providers and the community.
- Dementia is already the largest cause of disability for older Australians (65+ years of age).
- Dementia is currently responsible for \$3.2 billion in direct health costs each year.

Source: Alzheimer's Australia / Access Economics

- An ageing population will be one in which neurodegenerative conditions are increasingly common.
- In a recent publication, Alzheimer's Australia commissioned Access Economics to model the future impact of dementia on the Australian community.
- As our population ages, the number of Australians suffering from dementia is expected to rise from 245,000 now to 1.1 million in 2050.
- Such a forecast has significant implications for both the aged care industry and the community as a whole, given that dementia is already the largest cause of disability in those over 65.
- Indeed, our healthcare system already commits \$3.2 billion per year in managing dementia – predominantly in the residential aged care setting.

Resident Profile

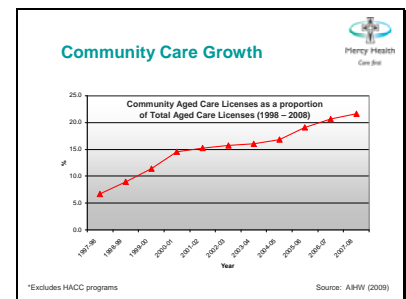
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- While many demographic and epidemiological forecasts contemplate change over the longer term, a look at the current resident profile in aged care facilities identifies some clear trends.
- The average aged care facility resident has been getting progressively older and frailer over the past 10 years. Their care needs are becoming more complex.
- Interestingly resident profile can be influenced as much by our regulatory frameworks as population health. Note the significant increase in 'high care' residents since the introduction about 18 months ago of the new Aged Care Funding Instrument, ACFI.
- The low level of funding now applicable to residents still qualifying for low care under ACFI, will spell the end of residential low care as we once knew it.

Community Care Growth

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- Of course, the changing profile of residential aged care is occurring in the context of rapid growth in the range and scale of community care programs.
- And at face value this is a tremendous development in offering greater choice and flexibility to a consumer for whom there is usually 'no place like home.'
- However the erosion of low care and the funding gap between a residential care place and a community package has the potential to create further inequities in an already complex and arguably flawed system
- Often the loser in this situation is the unpaid and under-recognised carer. Carers must shoulder an increasing burden to make up for the gap in service provision when community packages fall short and residential low care is not accessible.

An Ageing Workforce

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An Ageing Workforce

• The aged care workforce is particularly vulnerable to our broader demographic changes.

	Residential Aged Care	Health & Community Services	All Industries
	%	%	%
Female	94	78	45
Part time	65	43	29
45 years or older	57	46	37

Source: Productivity Commission (2008)

- Access to an appropriately skilled workforce for the delivery of aged care services, either institutionally or in the community, is already challenging at a number of levels.
- You can see from this table, from the Productivity Commission’s 2008 Report ‘Trends in Aged Care’, that the residential aged care workforce represents one of the oldest industry segments. It is likely to be most vulnerable to the coming retirement of the Baby Boomer generation.
- I recently attended the International Association of Homes and Services for the Ageing (IAHSA) Conference in London – 34 countries, 700 delegates. The workforce characteristics in aged care were very similar across OECD countries, an older, predominantly part-time and overwhelmingly female workforce earning about 60% of the basic wage.

A Changing Workforce

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A Changing Workforce

Recent data also indicate the professional mix of the aged care workforce is changing.

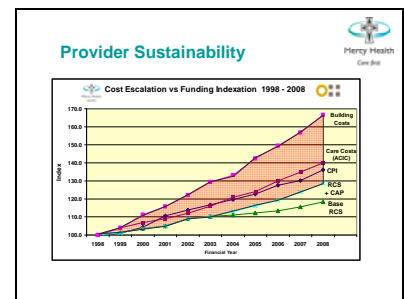
Occupation	2007	
	Equivalent full-time (%)	Equivalent full-time (%)
Registered Nurse	21.4	16.8
Enrolled Nurse	14.4	12.5
Personal Carer	56.5	64.1
Allied Health	7.6	6.6

Source: Commonwealth Department of Health and Ageing (2009)

- However the ageing of our workforce is likely to be preceded by more immediate funding pressures, which are a large factor in a dramatic shift in the professional mix seen in a residential aged care setting.
- With staffing contributing around 70-80% of total costs, it is not surprising in the current funding environment to see a shift away from the higher cost nursing staff to personal carers across the industry.
- This is particularly concerning given the trend toward an older, frailer resident profile with more complex high-care needs.

Provider Sustainability

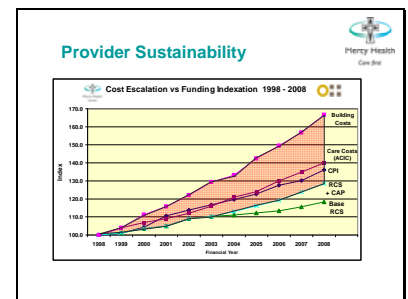
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- I have already alluded to the various funding pressures facing the aged care providers in the current regulatory environment.
- This chart, which I presented last year at the Aged and Community Services Australia (ACSA) Conference, illustrates the growing magnitude of the funding shortfall, in terms of care costs and also building costs.
- While not capturing the impact of ACFI in the past year, the graph shows the former residential classification scheme (RCS) base payments, the RCS plus the ‘temporary’ conditional adjustment payment and the substantial gap between that and the CPI, and of greater importance, the care cost index derived by the Aged Care Industry Council (ACIC).

Provider Sustainability (cont...)

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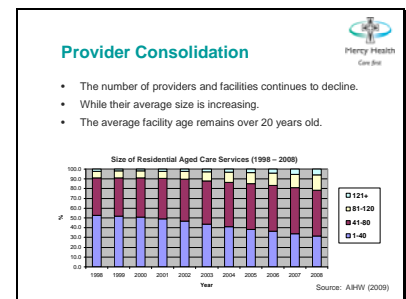


- The status quo is clearly not sustainable.
- Grant Thornton, in their 2008 industry survey report, found that modern residential aged care facilities are delivering an average return on investment of 1.1%

NB: ACIC is a peak body comprised of Aged Community Services Australia, Aged Care Association Australia and Catholic Health Australia.

Provider Consolidation

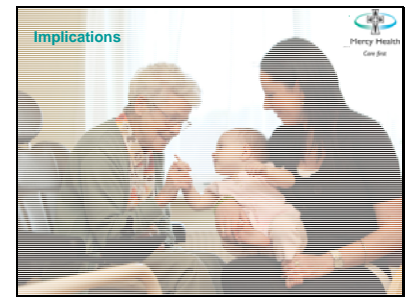
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- In response to this environment, the industry has developed various 'survival techniques' over the past 10 years or so. Workforce role substitution is one example, another is deferral of capital stock upgrades and replacement.
- At a macro level, we are seeing a gradual trend of consolidation of both providers and facilities.
- Yet this is happening more slowly than was anticipated. In Professor Warren Hogan's 2004 review of the industry, many small 'third sector' providers are showing a remarkable resilience and ability to hold on in the current environment.
- While the average age of an aged care facility remains over 20 years, the few providers that are still willing and able to invest capital in the industry are building larger, more economic facilities of 90-120 beds.

Implications

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- A quick reminder that this is really about people.
- This is one of our residents enjoying time with family in one of our more recently developed facilities at Shepparton in Victoria's Goulburn Valley.

- Hogan (2004)
- Senate Inquiry (2005)
- PriceWaterhouseCoopers (2007)
- Access Economics (2008)
- Grant Thornton (2008)
- Productivity Commission (2008, 2009)
- Bentleys MRI (2008)
- Aged Care Industry Council (2008)
- Senate Inquiry (2009)
- National Hospital and Healthcare Reform Commission (2009)

An Industry under review

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- In preparing this presentation for you today there was certainly no shortage of data and expert opinion upon which to draw.
- The Aged Care Industry is no stranger to review, and in fact, it has been in a state of constant review at least since Professor Warren Hogan's landmark report in 2004.
- And the recent commentary from the National Hospital and Healthcare Reform Commission is the latest addition to an overwhelming weight of evidence that demands action.

- 1% return on investment
- Aged infrastructure
- Increasing complexity of care needs
- Limited access to workforce and skills
- Administrative burden of compliance
- Provider consolidation or exit
- Postponement of capital programs

Implications for Providers

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- As it stands today the future for aged care providers is a challenging one, despite unprecedented demand.
- At an industry level, a compromised funding model and predominantly aged infrastructure must continue to support the provision of increasingly complex care needs.
- It is becoming increasingly difficult to attract an appropriately skilled workforce and the administrative burden of regulatory compliance continues to escalate.
- The trend of provider exit or consolidation is likely to continue and capital programs based on commercial investment criteria will continue to be postponed in all but the most affluent of locations.

- Access and choice
- Limited flexibility of service provision
- Facility design and amenity
- Increased social isolation
- Increased burden on carers

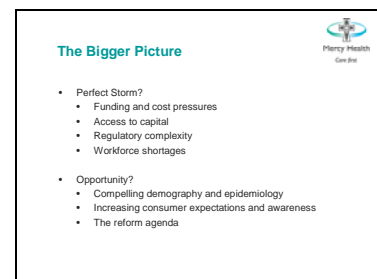
Implications for Consumers

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- For consumers, continuation of the current environment has the potential to further restrict access and choice – and create some significant inequities on the basis of socio-economic factors.
 - Models of care are constrained by funding inadequacies and regulatory fragmentation that restricts the flexibility by which care can be tailored to the individual.
 - Furthermore, facility design and amenity risks being compromised in the interests of financial survival rather than care or consumer preference. For example, the construction of shared rooms.
 - The persistent myth that Home Care will replace residential options fails to recognise the true cost of such care and risks increasing social isolation for the aged, and is predicated on the availability of a family carer.

The Bigger Picture

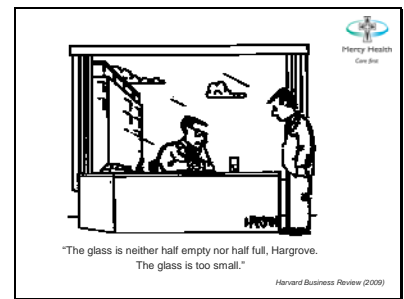
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- If we are to take a long-term view of the aged care industry, what is our perspective? Is it a ‘Perfect Storm’ of financial pressures, regulatory complexity and workforce shortages or is it counterbalanced by opportunity.
- Demographic and epidemiological forecasts support more than 30 years of almost uncapped demand. The challenge therefore is one of supply – what services? How are they delivered? And how are they funded?
- The Federal Aged Care Minister, Ms Justine Elliott, is often portrayed in the press as having a ‘glass half full’ view of the industry.
- If I can offer the Minister my view, the glass is neither half empty nor half full. The glass is too small.

Cartoon

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- Perhaps a new perspective is required of an industry that is projected to grow and exceed the GDP expenditures of Defence and Education.

Voice of the Customer in Aged Care

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- A long-term vision for aged care requires that the 'Voice of the Customer' be heard:
 - Values and beliefs about aged care
 - Priorities for independence, care and accommodation
 - Willingness to pay (direct/indirect)
- A comprehensive dialogue can inform:
 - Models of Care
 - Facility Design
 - Advocacy

- A new perspective starts with a long term vision for aged care and a plan.
- While the current funding and regulatory issues cannot be ignored, if we are to build a case for change, the 'voice of the customer' needs to be heard on issues of ageing such as values and beliefs, priorities for service delivery, and of course who pays and how.
- No one is vigorously disputing the wealth of data of seemingly endless reviews.
- It is time now to develop a plan beyond the limitations of an electoral cycle.

Next Steps

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Next Steps



- Mercy Health remains committed to aged care for the long-term.
- We are seeking to work with other industry stakeholders and the community to engage in a wider dialogue on the future of aged care with our communities.

- Despite the current and future challenges we at Mercy Health remain committed to aged care for the long-term. As do many other service providers, community groups and industry stakeholders.
- As part of that commitment we are now seeking to work with the community to build a vision for a sustainable aged care system that places care first.



Thank You

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- Ladies and gentlemen, I wish to conclude with a reiteration that aged care is about people. It is personal.
- The weight of evidence and review clearly forecasts 30 years of unparalleled demand for services.
- The economics of the industry are unstable and not conducive to meeting the demand or sustaining both a quality of care or an appropriate quality of life.
- Minister, the 'glass' is too small and is now time to act and develop a long term industry vision and plan that engages the industry and the voice of the consumer.
- Thank you for your attention this afternoon and I would welcome any questions you may have.
- Thank you.

- ENDS -

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Slide 4 – The Third Sector in Aged Care

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Slide 9 – Community Care Growth

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