

# Annual Wage Review 2020-2021 – Leading Age Services Australia Post-Budget Submission

14 May 2021

# About LASA

## Who We Are

Leading Age Services Australia (LASA) is the national association for all providers of age services across residential care, home care and retirement living/seniors housing.

## Our Purpose

Our purpose is to enable high performing, respected and sustainable age services that support older Australians to age well by providing care, support and accommodation with quality, safety and compassion—always.

## Our Members

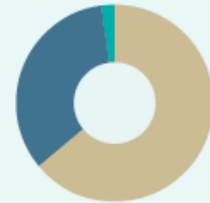
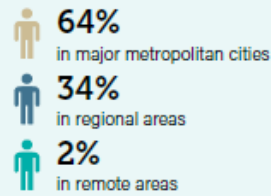
We represent providers of age services of all types and sizes located across Australia's metropolitan, regional and remote areas. We are dedicated to meeting the needs of LASA Members by providing

- a strong and influential voice leading the agenda on issues of importance;
- access to valuable and value-adding information, advice, services and support; and
- value for money by delivering our services and support efficiently and effectively.

## LASA supports all providers of aged care



## Our Members are located across Australia



## Our Affiliates

LASA Affiliates are proud supporters of the critical role played by the age services industry in caring for older Australians. Their value-adding products and services help age services providers apply innovative solutions that improve the provision of efficient and quality care.

## Our Strategic Objectives

1. Be the credible and authoritative voice of aged care representing the views of our Members for the benefit of older Australians.
2. Build sector capability and sustainability by delivering valued services and support to Members
3. Lead continuous improvement by promoting and celebrating excellence and innovation in age services
4. Deliver value for money for Members and Affiliates.
5. Be a high performing, respected and sustainable association that cares for our purpose, our Members and our people.

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## Key Points

1. Aged care providers broadly support increased pay for their workforce, particularly for care staff. However, for a number of years the ability of providers to deliver pay increases has been constrained by:
  - Inadequate funding;
  - Significant price regulation by Government; and
  - The limited capacity of many older Australians to pay for increases in service costs.
2. Between 1999-2000 and 2018-19, funding subsidy levels increased by 70.3% in nominal terms, whereas provider input costs increased by 116.3% (see Figure 1 below) according to analysis prepared for the Royal Commission into Aged Care Quality and Safety. Consequently, the average residential aged care home lost \$8.14 per resident per day in the December Quarter of 2020 (see the Recent financial performance data of the LASA Submission).

**Figure 1 Royal Commission analysis of aged Care Costs vs indexation of subsidies**



Source: Aged Care Royal Commission, RCD.9999.0522.0018

3. The historic \$17.7 billion Budget package should ultimately transform the aged care sector in a way that allows staff to be paid more. This transformation however is unlikely to occur for another two years. It would be incorrect to assume that this gives aged care providers the capacity to deliver significant wage increases in the 2021-22 financial year.

We ask that the Expert Panel in the Annual Wage Review give these matters due consideration in making decisions about the quantum and timing of changes to minimum award wages.

## Recent Financial Performance Data

The most recent data on the financial performance of the sector is provided by the [Aged Care Financial Performance Survey undertaken by accounting firm StewartBrown for the December quarter of 2020](#) (the December 2020 StewartBrown report).

The Survey includes data for 1,200 residential care facilities (approximately 44% of the residential care sector) and 45,553 home care packages (approximately 30% of the home care sector).

The data in this survey indicates that:

- The average residential aged care facility operated with a deficit of \$8.14 per resident per day, excluding the impact of COVID-19, with the bottom 75% of homes having a deficit of \$18.67 per bed day.
- The average home care service operated with modest operating surplus of \$4.53 per client per day.

## Effect of Budget Announcements

The Federal Government announced a historic package of aged care reforms and a funding package worth approximately \$17.7 billion over the forward estimates as part of the 2021-22 Budget. However, it would be incorrect to assume that this gives aged care providers the capacity to deliver significant wage increases in the 2021-22 financial year.

This is because in the *Australian Government Response to the Final Report of the Royal Commission into Aged Care Quality and Safety* (May 2021) the Government has indicated that it does not accept the Royal Commission's recommendation to link subsidy indexation to award wage changes. As this is the case, the current formula will continue to be applied to calculate the indexation amount for aged care funding subsidies. Our estimate of the likely indexation amount for aged care funding subsidies in July 2021 is an increase of about 1%.

In the future, this will be addressed through the directions of the Independent Pricing Authority, however this will not occur for at least two years. The outcome of this is that in the next two years there will be significant limitations on the resources of providers in the sector to fund higher wages for staff.

The largest immediate change to the subsidies received by aged care providers is the supplement to the basic daily fee of \$10 per resident per day from 1 July 2021 for residential care providers. However, this increase barely offsets the average loss reported as of December last year (see the December 2020 StewartBrown report). It should also be noted that this funding is aimed at improving the quality of food and meals as there will be reporting against food and nutrition criteria as a condition of providers receiving this funding.

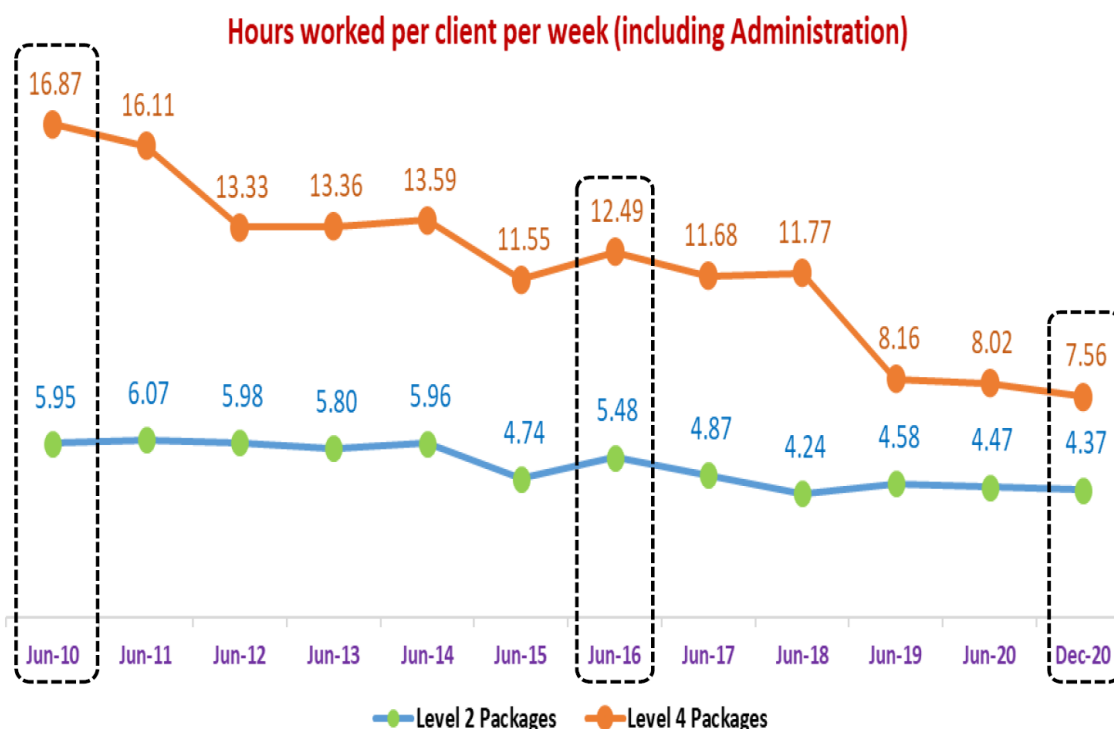
For home care, there has been a significant number of additional home care packages announced to be released in the next two years. However, it is important to recognise that this does not increase the subsidy per client.

As noted above, home care is in a better starting position in terms of financial performance than residential care. There are significant unspent funds in home care packages – averaging \$7,904 per client – but this is not evenly distributed and may only be set aside for capital purchases or emergencies.

However, if wages and therefore home care prices increase, the average hours of care that can be purchased falls. Overall, average hours of care have been decreasing in recent years, as shown in the chart below (Figure 2), extracted from the December 2020 StewartBrown report. This is at least partly a consequence of subsidy indexation failing to match cost increases.

It should be noted that competition for increased staff to meet the ongoing expansion of home care packages is also expected to drive up home care sector wages.

**Figure 2 Trends in home care hours for level 2 and 4 packages**



Source: StewartBrown Aged Care Financial Performance Survey December 2020

## History of Constraints on Aged Care Funding

Analysis undertaken for the Royal Commission found that policy constraints on aged care expenditure have reduced funding by almost \$10 billion a year on an annualised basis:

*Australian government expenditure on aged care has not kept pace with demand since at least 1984-85 because of two main factors:*

- *The growth in number of aged care places was linked to the 70+ population, whereas demand for aged care was more closely correlated to the 80+ population; and*
- *An annual efficiency dividend has been imposed on aged care providers since 1996-97 through the Commonwealth Own Purpose Outlays/Expense arrangements.<sup>1</sup>*

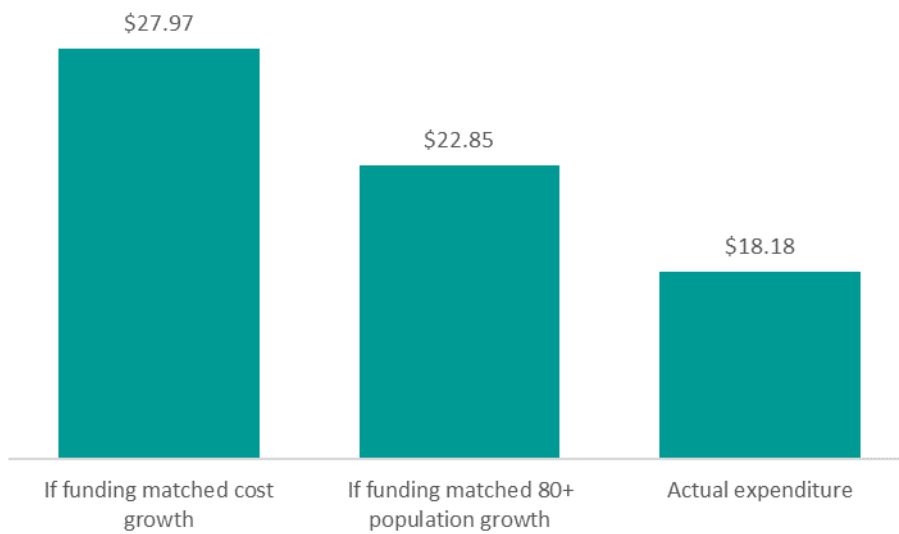
<sup>1</sup> Royal Commission Research Brief – Impact of Expenditure Constraints and Major Budget Savings Measures Paper, GDPPC adjusted (Revised), <https://agedcare.royalcommission.gov.au/system/files/2020-09/RCD.9999.0522.0001.pdf>, 2020 page 1

...the current level of Australian Government expenditure on aged care would be **\$9.791 billion [emphasis added]** more than it actually is if the planning arrangements had ensured that expenditure grew with the demand population and if subsidies had been increased in line with provider input costs

The effect of these constraints on funding is set out in Figure 3.

Specifically with respect to the failure of indexation to account for costs, the analysis states that between 1999-2000 and 2018-19, subsidy levels increased by 70.3% in nominal terms, whereas provider input costs increased by 116.3% (see Figure 1).<sup>2</sup>

**Figure 3 Royal Commission analysis of the effect of major constraints on aged care funding in 2018-19**



Source: Based on <https://agedcare.royalcommission.gov.au/system/files/2020-09/RCD.9999.0522.0001.pdf>

<sup>2</sup> Royal Commission Research Brief – Impact of Expenditure Constraints and Major Budget Savings Measures Paper, GDPPC adjusted (Revised), <https://agedcare.royalcommission.gov.au/system/files/2020-09/RCD.9999.0522.0001.pdf>, 2020 page 8

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