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Financially unviable: grim diagnosis for Australia's residential aged care sector

Australia's outdated regulatory and pricing arrangements threaten the viability of the aged care sector by suppressing incentives to invest in modern infrastructure, according to research released today.

Diminishing returns are impeding investment at a time of unprecedented demand and projected growth in the number of elderly Australians needing care, according to research author Grant Thornton.

The comprehensive study warns that significant investment is needed to re-shape the sector for an ageing population, and that the current funding model is discouraging the construction and operation of modern nursing homes ('high care facilities*').

Overall, average earnings** for aged care providers have dropped away by ten per cent in just one year, from \$3,211 per bed per annum in 2007 to \$2,934 in 2008.

Modern, high care facilities with single bedrooms (offering the levels of resident accommodation most preferred by consumers) reported the worst results (\$2,191 per bed per annum), with earnings for older, shared room facilities making almost double the returns (\$4,233). Grant Thornton estimates that the average return on investment for new, single room facilities is now just 1.1% and falling.

Although the cost of building and operating modern facilities is much higher than running older-style shared room accommodation, the current funding model does not provide additional compensation for operators that meet consumer demands for privacy and dignity. This means that providers are effectively disincentivised from developing much-needed facilities, because it is financially unviable for them to do so.

Cam Ansell, National Head of Aged Care Services at Grant Thornton, commented:

“Almost half of the facilities in the survey were over 20 years old and the current system does little to incentivise operators to refurbish or rebuild to meet current consumer preferences. Our survey indicates that most providers with new single-room facilities can barely afford to keep their existing facilities running, let alone provide for their redevelopment when they become outdated.

“The research revealed that many operators are incurring unsustainable operating losses, suggesting that many more major operator failures are inevitable unless this problem is addressed.”

The author of the *Review of Pricing Arrangements in Residential Aged Care 2004*, and a collaborator in this new research, Professor Warren Hogan, Senior Lecturer and Economist at the University of Technology Sydney, concluded:

“This research comes at a critical moment of demographic change in Australia, ironically limiting the options facing the generation that invented the very concept of consumer choice. We need to review the existing regulatory and pricing framework, and overhaul it to ensure the system is able to offer quality, equitable, efficient and sustainable care. The results from our survey provide the strongest evidence to inform funding matters now being considered by the political and administrative leaderships in Canberra.”

Grant Thornton has presented the conclusions of its report to the Federal Government, urging that key recommendations from the 2004 Review be revisited, in particular those promoting deregulation, a new funding model for the sector and improved performance monitoring***.

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Notes to editors:

Copies of the Grant Thornton Aged Care Survey are available on request.

Currently, there are over 2.8 million Australians aged over 65 years, half of whom require some level of assistance with their everyday activities. The number of elderly people receiving subsidised care between 1998 and 2007 increased by more than 50% between 1998 and 2007. Over the next four decades, the number of people aged over 85 will quadruple to around 1.6 million.

*High level care is delivered by facilities who provide accommodation and related services, personal care services and nursing care. Due to the rise of community care services which support people at home, the needs of Australians in residential care have become increasingly acute. 70% were assessed as requiring high care (30 June 2007), compared to 58% a decade ago (1998).

**Figures calculated on reported average earnings before interest, taxation, depreciation and amortisation (EBITDA), to allow for like-for-like financial performance analysis across the for-profit and not-for-profit sectors. These trends are consistent with findings in research conducted by Grant Thornton over previous periods.

*** The Grant Thornton Aged Care Survey proposes:

- A review of the regulatory and funding arrangements to direct greater investment into modern infrastructure, improving current and future consumer choices.
- Over-hauling the system will lift the burden of regulation, encourage competition and innovation in services design and delivery, to help create a more resident-centred system.
- A commitment to better matching care subsidies to the actual costs of delivering care. At the moment there is no direct correlation between price and funding.
- Improved, tailored financial reporting and industry benchmarking, conducted by an agency independent of funding and policy development.

About the survey

The Grant Thornton Aged Care Survey was undertaken to provide an independent perspective of the impact of changing demand on our aged care industry.

Aged care providers were asked to submit information regarding their financial performance, major influences on their operations and development options for the future. Industry specialists within the Grant Thornton team collated and analysed survey responses to ensure the integrity and objectivity of the information provided. Grant Thornton staff followed up with survey participants and sought further feedback on critical challenges and opportunities in the sector.

Detailed survey responses were submitted from almost 700 facilities located throughout the country, representing around 25% of all facilities. Some late submissions have not been incorporated into this report but will be presented in subsequent publications. The Grant Thornton Aged Care Survey represents the most comprehensive independent survey of its kind ever conducted in Australia and provides a balanced statistical population analysis of For Profit and Not-for-Profit entities in all major regions. The number of Residential and Care Facilities Surveyed in Each State is presented below:

NSW/ACT	31%
NT	1%
WA	10%
SA	12%
QLD	22%
TAS	2%
VIC	24%

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