Whiddon Response to IHACPA - Consultation Paper on the Pricing Framework for Australian Residential Aged Care Services 2024–25

This paper responds to the IHACPA consultation request, for submissions regarding the Pricing Framework for Australian Residential Aged Care. Specifically, we draw on over seventy-five years of experience, to highlight the need for additional funding reform to support regional aged care services.

Through this submission and drawing on our experience, we will illustrate the key challenges and specific areas that impact the ability of regional aged care providers to deliver sustainable operations. In concluding, we offer numerous options to consider, to address the issues raised.

Central to Whiddon's position is the critical role aged care services play in our regional communities, not only in supporting health outcomes, but as a vital community asset keeping families and loved ones connected and providing economic benefits through employment and procurement.

About Whiddon

Whiddon is a Not-For-Profit aged care provider and has been caring for older Australians in regional and remote communities for over 75 years. Whiddon employs approximately 2800 people, with an additional 300 volunteers, and operates close to 1800 residential aged care places across 21 locations throughout New South Wales (NSW), and Queensland (QLD), in addition to our considerable home care and retirement village operations. Whiddon is recognised as having pioneered evidenced based, client well-being programs aimed at truly enriching the lives of those with care needs. Whiddon is also considered a trusted industry voice in regard to rural and regional aged care services.

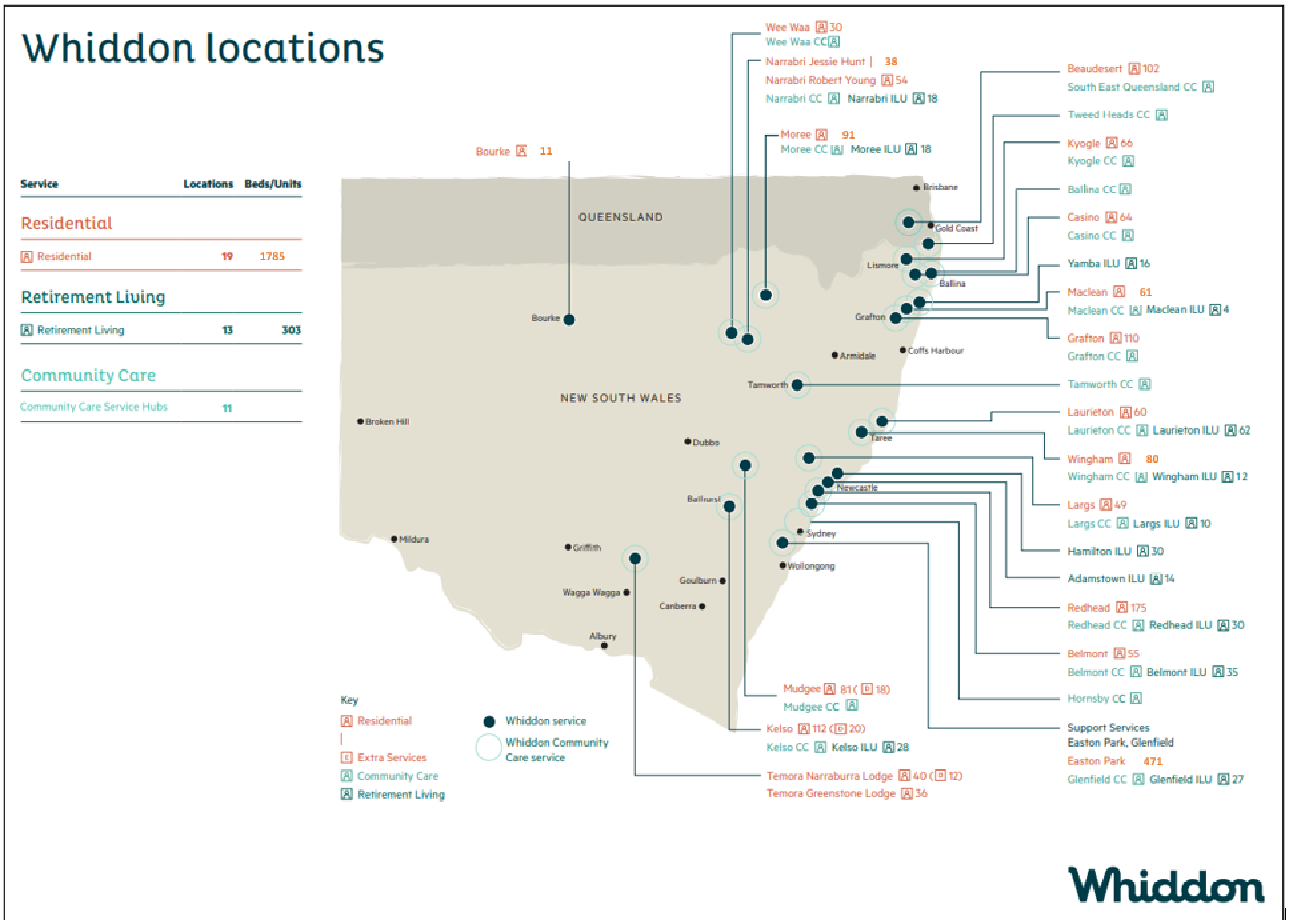
Whiddon have received numerous accolades and more recently were recognised by the Future of Ageing Awards 2022 for their Australian first COVID-19 Point-of-Care rapid testing, as well as the innovAGEING Awards in 2022, for the launch of its new reablement program, Exercise 4 Life, which has shown a 50% reduction in pain symptoms for residents.

Regional Aged Care Services

Core to Whiddon's operations and benevolent approach is the provision of care services to regional Australia. Whiddon currently operates across an expansive geographic footprint. In regional locations alone, Whiddon's services extend from Temora, in the NSW Riverina district, to Bourke in Far North-Western NSW, then across to Moree and east across the Northern Rivers district. Whiddon provides residential aged care services to over 700 residents, in regions designated as MMM4-7, within 15 separate homes. The full list of Whiddon locations, along with their respective Modified Monash Model (MMM) rating is as follows:

Whiddon Service	MMM Category	MMM Rating
Belmont	**Highly Accessible**	1
Glenfield (4 homes)		1
Largs		1
Redhead		1
Kelso		3
Grafton		3
Wingham		3
Beaudesert	**Accessible**	4
Casino		4
Laurieton		4
Moree - Hostel		4
Moree - NH		4
Mudgee		4
Narrabri – Jessie Hunt		4
Narrabri – Robert Young		4
Kyogle	**Moderately Accessible**	5
Maclean		5
Temora		5
Temora - Greenstone		5
Weeronga (Wee Waa)		5
Bourke	**Very Remote**	7

Further to this, Whiddon also operates retirement villages in many of these locations along with an expanding Community Care operation. Whiddon has also played a key role in supporting regional homes in distress and as such have acquired homes over the years in locations such as Wee Waa, Walgett, Moree, Mudgee and Bourke.



Whiddon Location Map

Central to our approach to regional aged care, is ensuring that the communities we serve have equal access to quality care and our various person-centred programs. It's also critical that all services are part of an ongoing refurbishment strategy and that residents and employees alike, benefit from continuous improvement initiatives and our research and innovation agenda.

In addition to this Whiddon also recognises the vital role that aged care homes play in keeping regional communities connected. We have experienced first-hand, the benefit to residents of having family and loved ones residing in close proximity and we have also witnessed the impact and pressure that results when family members are forced to travel vast distances to visit loved ones.

This issue was highlighted through research conducted in 2012 (MA Bernoth, E Dietsch, C Davies) who concluded, “When rural residential aged care places are inaccessible in a person’s home community, the sense of exile is felt not only by the person moving away, but also by their family, friends and community. For this reason, rural residential aged care service delivery should be based on the identified needs of the older person and those who love and care for them”.

Demand & Occupancy

Demand remains strong for aged care services within these regions. Although the past three years have seen a declining trend, which has obviously been impacted by COVID, Stewart Brown recently reported (Aged Care Financial Performance Survey Report March 23) that rural and remote services continue to average occupancy of 88.7% and 90.8% for inner regional Homes. Whiddon’s own data is consistent with this data, with some homes at full occupancy, while others have reduced occupancy levels due to refurbishments works. The current workforce shortages are also impacting occupancy with at least one regional home having closed a wing temporarily due to the inability to fill the roster. Without this measure, we projected that the home would be at near full occupancy.

Regional Financial Pressures

Whiddon is uniquely positioned to assess the financial performance of its operations through the lens of its metro-based homes, alongside its regional services. Numerous themes and trends, that place significantly more pressure on regional operations, have become evident drawing on this experience. Much of this information is substantiated by Whiddon data, noting that there are also industry sources of this information to support our position.

Workforce

The workforce challenges in regional locations had already been embedded structurally pre-pandemic. COVID further exacerbated the problem, which required the implementation of numerous costly strategies, focussed on attracting and retaining suitably skilled people to these locations.

Whiddon's data indicates that standard clinical roles can take twice as long to recruit, when compared to urban centres. In some locations this can result in an eight-week recruitment cycle for an Assistant in Nursing (AIN). Key roles, such as senior clinicians and management roles can take up to twelve months or longer, again placing significant pressure on operations and further eroding financial performance. Competition from other health employers who advertise large sign-on bonuses, paid accommodation and retention bonuses require aged care providers to dig even deeper financially to attract and retain clinicians to the industry. This is particularly challenging in regional locations and creates disharmony with existing loyal employees.

Specifically, the workforce shortages that impact regional aged care rosters daily, have a direct impact on the financial performance and viability of these operations. The introduction of 24 X 7 nursing requirements and the upcoming mandatory care minute legislation to commence in October, will further exacerbate these issues.

Examples of workforce cost pressures include:

- **Relocation Costs –** Providing an allowance or reimbursement to support relocation costs to regional locations (Upward of $5,000 per person inclusive of 4 weeks accommodation costs)

- **Recruitment Costs –** The increased use of agencies for recruiting key roles can bring with it an additional fee of $15,000- $20,000 per appointment. In certain cases, relocation, Visa and accommodation costs are expected in addition for these candidates.

- **Overseas Recruitment –** Whiddon has extensive experience accessing the overseas workforce when recruiting for key roles. Accessing migrant workers is an extremely important workforce strategy in the context of our regional aged care homes. In the past twelve months alone, Whiddon has recruited or is in the process of recruiting approximately 35 new employees on Visa programs (all of which will be transferred to regional locations). The costs associated with sponsorship, migration agents and relocation can require charges of approximately $20,000 per person.

- **Accommodation Costs –** Whiddon currently holds two leases in regional communities, specifically aimed at supporting the intake of overseas workers to regional locations. Another four residential homes were purchased in MMM4 and MMM5 locations, as a viable alternative to leases, which were previously in existence in these locations. This type of long-term accommodation strategy is essential in supporting new migrant workers transition to regional communities. Costs associated with leases or property ownership are extensive, exceeding $1.5M, and extend beyond maintenance and fixed property costs and often include the provision of internal furnishings and in many cases an initial refurbishment. It should also be noted that hotel / motel usage is also regularly required to support incoming agency staff contracted for short term appointments. Again, these costs are extensive and for the twelve months to 30th June 2023, Whiddon has directed approximately $900,000 towards hotel / motel accommodation and travel costs to support workforce solutions.

- **Agency Staffing** – Agency staff have been used extensively throughout COVID and continue to structurally impact the financial performance of our regional homes. Hiring agency or contract staff in regional areas typically attracts a significant premium applied to the hourly rate, over and above that applied in metro locations. Further, travel and accommodation costs are also added to these charges, which in the context of locations such as Moree (from Metropolitan centres), are generally very high. For example, while an average hourly rate for an RN in a metro location is $82, the same service in a regional location attracts a charge of $94. Similarly, an AIN in a metro location costs on average $54 per hour, compared to $60 per hour in a more regional home. This is of course compounded by the penalties and loadings that apply to the base rate, for after hours and weekend services. The workforce shortages experienced in regional locations have seen up to 10% of rostered shifts taken up by agency employees, placing severe pressure on the viability of many of our regional homes. For Registered Nurses, this percentage is much greater in some of our homes, and at times agency RNs have filled over 50% of the rostered shifts. Furthermore, given agencies ability to pay much higher wages than providers, poaching of existing staff has become an increasing issue, in particular for our regional homes.

- **Secondments** - During periods of extended recruitment (i.e., where vacancies cannot be filled) and for an organisation of Whiddon's size, secondments from other homes within the Group can offer a temporary solution. However, where this occurs, these secondments often involve subsidising travel and accommodation, that again can increase the workforce costs by many thousands of dollars, in addition to the cost of "back-filling" employees at the home at which the employee was seconded from.

- **Workforce Administration** - The support required from a People and Culture / Human Resources perspective to manage such processes cannot be understated, given the complexities attached to recruiting in regional and remote locations. Anecdotally, the time spent on a regional / rural and remote appointment is vastly disproportionate to that spent on recruiting in metropolitan locations, thus creating an additional cost premium. Whiddon has increased central resources by one additional FTE to support our regional locations with recruitment strategies. It is estimated that at least one additional FTE is required to support the ongoing additional workforce strategies attached to our regional locations.

- **Training and Education –** Training and education is often difficult to access in regional locations. Recognising this, the Whiddon Scholarship program was introduced over a decade ago and has allocated over $1M towards aged care tertiary education, to support the growth and development of its employees. Approximately 40% of this spend has been directed to employees in MMM3 - MMM6 regions, many of which require the financial support to undertake these studies. The underrepresentation of tertiary qualified Australians in regional communities is well documented, with numerous studies conducted into this area, informing government policy. This manifests itself within the aged care sector and requires the additional investment in training programs, learning management systems, third party education, along with sponsored learning.

Operational Costs

In addition to the workforce costs detailed above, aged care operations are also impacted by other cost pressures, that homes in metropolitan locations do not experience.

- **Building and Maintenance** - Due to the lack of access to trades, maintenance and contractor costs come at a premium in regional locations, which in some cases also require contractors to be brought in from larger centres and accommodated, to complete relatively standard work (e.g., painting). Whiddon has had to incorporate accommodation costs into building and maintenance related commercial agreements in locations such as Moree, Narrabri and Bourke. Additionally, the current climate for building and maintenance services has seen the price of materials and labour steeply increasing with a 30% premium, across many trades, occurring post COVID compared to pre-COVID.

- **Food Costs** - Fresh produce, such as fruit and vegetables, in our regional locations can vary between 16% - 89% to the prices paid for identical items in Sydney. Poultry and meat can vary between 2% - 83%. Obviously, these cost pressures have a significant impact on regional operations, as Whiddon does not compromise menus and services standards as a result of these price points. This approach is embedded at Whiddon, to ensure the quality of care and services are delivered equitably across the group to all residents, regardless of location. Whiddon's residents create the food menus with our chef team in order to ensure choice, variety and a person-centred approach to our food and dining operations. All of which are required standards under the ACQSC framework.

- **Freight and Cartage** – Transport costs are obviously a contributing factor to these cost fluctuations. This is also evident through the transportation of standard items such as furniture and beds. Our experiences indicate that when delivering equipment and property outside of the Sydney / Hunter region, we experience a premium of up to 3 – 4 times of that typically paid. Specifically, a standard shipment of furniture to a regional location can attract an additional $1,500 - $3,000 in freight costs.

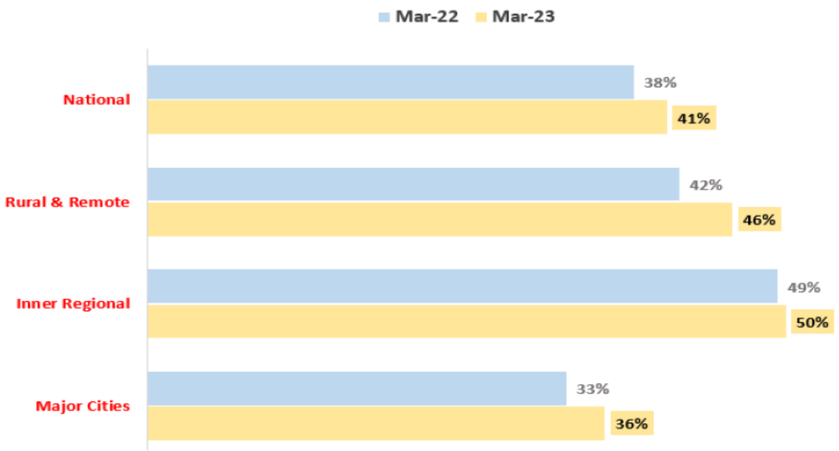
- **IT Support Services & Technician Availability** - Sourcing ICT technicians to support Aged Care related technology in regional communities presents formidable challenges. The scarcity of skilled professionals in remote areas, combined with the specialised requirements of Aged Care technology, frequently results in a limited pool of qualified technicians. Geographical remoteness and inadequate infrastructure further exacerbate the issue, making the recruitment and retention of technicians challenging. This dilemma is further compounded by the considerable costs associated with bringing qualified technicians from metropolitan areas and major cities. These costs encompass transportation, accommodation, and potential business disruptions while equipment awaits technician attendance for resolution. To address these multifaceted challenges, innovative solutions such as remote support options, tailored training initiatives, and incentives to attract technicians to remote regions are crucial. However, these generally incur additional costs and do not yield equivalent benefits to those services provided in less regionally disadvantages locations.

Overall, these regional cost trends are further supported by local cost indices (locality factors) that we have experienced, working with quantity surveyors on projects. This premium can vary from 5% in locations such as Bathurst to up to 28% in locations such as Bourke and are supported by industry publications and construction cost handbooks.

The financial under performance and commercial pressures facing regional aged care providers, in contrast to their city counter parts, is further illustrated through the graph below, extracted from the Stewart Brown provider survey (March 23 results). Specifically, this data emphasises the significant disparity in EBITDA performance, between inner regional and rural and remote homes and the major city counterparts.
This further supports the cost pressures outlined above, experienced in regional settings, and also illustrates the funding gap that exists. This trend has been reported by Stewart Brown for a number of years and should be viewed as a major concern due to the direct relationship EBITDA has to cash flow.

Number of Aged Care Homes making an EBITDA loss

Figure 4: Aged care homes making an EBITDA (cash) loss by remoteness



Capital Projects and Regional Aged Care Investment

Given the capital-intensive nature of residential aged care, ongoing maintenance, refurbishment and new development works are a constant area of focus. Within a regional setting, it is often difficult to deliver significant upgrades, improvements or in fact, innovative development, supported by a reasonable return on investment. Obviously, regardless of the provider profile (i.e., NFP / FP), a return on investment is necessary in order to remain viable and fund the ongoing capital expenditure associated with the operation.

In the absence of Commonwealth Capital Grant programs (that are quite limited), our experience suggests that little, or no, financial incentive exists to embark on large scale redevelopment projects. This is due to the fact that Refundable Accommodation Deposit (RAD) levels and values are significantly lower in regional locations, given their relationship to median house prices, and compounded by the declining levels of profitability in these regions (outlined above), that do not offer an incentive to invest.

Further to this, and as stated previously, advice from project managers and quantity surveyors, along with our own experience, suggests that locality indices applicable to construction costs in regional locations, can escalate from 5% up to as much as 28%. This is to compensate for transport costs associated with materials, along with skilled tradespeople and their travel and accommodation costs that are often required with complex long-term projects.

Whiddon has been successful in obtaining Commonwealth grant funding for a number of regional projects. These include accommodation upgrades at Wingham, Narrabri and Bourke, and previously received support for a number of sustainability initiatives. Without the financial assistance provided by these grants, these works would likely have not proceeded, or would have been significantly scaled back - impacting hundreds of residents now, and into the future.

Current Funding Model

Care Funding:
The key issue impacting regional funding, which is embedded within the new AN-ACC funding model, is the ongoing inclusion of the MMM as a mechanism to apply the Base Care Tariff (BCT).

BCT Category	NWAU	Funding Basis	Funding per occupied place
Standard MMM 1-4	0.49	Occupied Places	$ 119.12
Standard MMM 5	0.55	Occupied Places	$ 133.71
Standard MMM 6-7 (30 beds or less)	0.68	Occupied Places / Total Places	$ 165.31

Base Care Tariff Funding Table

As it currently operates, the MMM defines metropolitan, regional, rural and remote areas based on geographical remoteness, as defined by the Australian Bureau of Statistics. In simple terms, locations are classified as metropolitan, large, medium, small, remote or very remote based on their distance to the nearest large town, as defined by its population. Under the prior funding model (ACFI), aged care operators servicing MMM 4,5,6 and 7 regions, received top-up funding, in recognition of the additional cost of obtaining goods and services, associated with these locations.

With the introduction of AN-ACC, the approach to regional funding saw the application of a Base Care Tariff (BCT) that varies based on location or specialisation. With specific reference to location, the initial BCT consolidated all homes that reside in the first five regions MMM1-MMM5 ("Metropolitan" all the way down to "Small Rural Towns"). This essentially meant that these homes were all considered to have the same costs structures, regardless of whether someone resided in Wee Waa or Wahroonga (Sydney) and therefore, receive no extra funding. The justification for this was the Australian Health Service Research Institute's (AHSRI), Commonwealth commissioned RUCS study, which supported AN-ACC, suggesting that additional funding would be sufficient through other provisions within the model. With this said, the report noted that "**These results should also be considered with caution as the sample size for each of the regional MMM classes is small**".

Following an advocacy campaign, led by Whiddon and supported by the then peak body LASA and a number of local MP's, MMM5 (Small Rural Towns) was extracted from this grouping, with funding subsequently built in to recognise the extra cost burden that aged care homes in these locations required (approximately $15 per day per resident). While this was a welcome concession, MMM4 (Medium Rural Towns) was ignored and continues to be grouped with Metropolitan homes. As a result, a home in Moree is considered to have no lesser cost pressures to a home in Mosman (Sydney), which as an operator of homes across regional and remote NSW, defies logic.

As mentioned previously, regional locations clearly generate a host of cost premiums due to their geographic positioning and their own unique profiles. While the MMM classification scale has had a role to play, our advocacy has previously demonstrated the deficiencies in this mechanism. Essentially, the dynamic environment that we now find ourselves in, requires far more sophistication, than an approach based on the distance it takes to drive to a larger town.

Accommodation Funding:
The accommodation funding model is also subject to a level of disparity between metro locations and those in regional areas. Daily Accommodation Payment (DAP) revenues are based on the room price (RAD) applied to a home, which is significantly lower in regional locations. This eventuates as Providers must consider affordability for incoming residents, who generally raise funds to cover RAD costs based on the sale of a property. As regional property values are considerably lower than those in metropolitan areas, this results in the price variations that we experience. This is particularly evident across Whiddon's services, where a metropolitan home can generate fees that are up to 40% higher than those in regional locations In DAP revenue terms, this can result in a shortfall for regional homes of between $25-$30 per non-supported resident per day ($10,000 per annum). This price differential is further exacerbated by the relatively higher costs for refurbishing and maintaining homes in rural and regional areas as detailed previously.

Options to Consider

Alternatives to MMM

As stated previously, using the MMM as a funding reference point has numerous limitations, which do not accurately recognise the cost premiums associated with the operation of aged care homes in many regional locations. The workforce examples, highlighted in this paper alone, show the huge variation attached to the cost of labour. Yet despite this, homes located in regional towns, such as Moree and Narrabri, remain funded in the same manner as services operating in the suburbs of Sydney.

Regional communities deserve equitable access to quality aged care services. To maintain high standards of quality care, a new model or location index should be developed that allocates regional supplements or tariffs with a greater degree of accuracy. A more focussed approach should consider (in addition to geographic location) the size of the home, local population, local cost indices, workforce costs and other local factors impacting the cost of operation.

As a minimum, and in the absence of structural change, the current BCT should recognise homes in MMM4 with an additional tariff, while allowing homes in MMM3 to submit funding applications for additional support.

Capital Grants

The refurbishment and ongoing investment and development of aged care homes is critical in meeting the needs of Australia's ageing population. To support this need in our regional communities, and in the absence of a viable operating return, capital grants are required. Capital grants should be offered and delivered through a regular and consistent cycle that provides certainty in regard to timing (year on year). The grants should also be based on the ability of the development to generate a certain provider return (deemed viable) rather than a fixed percentage allocation. Homes in regional locations should either be given priority based on their location, community need, building upgrade requirements or age / condition of building. A focused aged care regional development grant may assist in separating such a program from other aged care capital grants.

Acquisition and Merger Support

Consideration should be given to providers acquiring new homes that reside in regional locations. Whiddon's experience indicates that these homes often require extensive new systems, quality improvement plans, refurbishment works, training and education and new resident centric programs. The initial transition program also requires a substantial outlay to cover due diligence and legal costs among other areas. All of which result in a significant impact to financial performance, particularly in the first two years following an acquisition, as the home stabilises. Often, these homes are the only aged care service in the community, thus it is essential that they remain operational.

A funding package that specifically supports providers acquiring critical aged care services in regional locations, will not only ensure the successful transition of the acquisition, but it should also offer a greater incentive for providers to proactively acquire and improve critical aged care services in regional locations.

Workforce Support

Given the extensive onboarding costs involved in regional locations, consideration should be given to providing a one-off payment to support providers who successfully attract, recruit and retain workers in specific regional locations. In terms of the greater structural costs associated with agency staff and increased recruitment spend, targeted regional funding through the replacement of the MMM should be designed to support this area.

Additionally, there is a disparity between Commonwealth and State funded health and aged care services in rural locations with NSW Health, which offers significant incentive bonuses and conditions for Registered Nurses to relocate to rural areas. Unfortunately, aged care providers cannot match these payments due to funding limitations. Although outside of IHACPA's scope, consideration should be given to developing integrated approaches in these communities, so that services are collaborating on solutions to meet the needs of the community instead of competing against each other.

Non-Regional Specific Issues

Areas that relate to general aged care funding, residing within the IHACPA's remit, include the ongoing application of fair and transparent annual indexation, along with the introduction of consumer co-contributions for those residents who have sufficient means.

Outside the Scope of IHACPA

Noteworthy matters that reside outside the scope of IHACPA include:

1. Greater integration of State based health resources and assets into the aged care system. This will allow aged care operators and State Hospitals / MPS's to share resources and gain greater efficiencies (staffing / laundry / catering)

2. Greater tax incentives to attract and incentivise people to work in regional locations.

3. Rebates in regard to utility charges and funding support for sustainability initiatives (including electrification, renewable energy maximisation, waste reduction and recycling projects) to encourage greater investment in this area and minimising the impact to the environment.