



Aged Care Pricing Commissioner
Annual Report

1 JULY 2016 – 30 JUNE 2017



Australian Government

Aged Care Pricing Commissioner

Office Of The Aged Care Pricing Commissioner
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Tel: 1300 550 970

The Hon Ken Wyatt AM, MP
Minister for Aged Care
Parliament House
Canberra ACT 2600

Dear Minister

In accordance with Section 95B-12 of the *Aged Care Act 1997*, I present to you the Annual Report of the Aged Care Pricing Commissioner covering the Commissioner's operations for the year 1 July 2016 to 30 June 2017.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'K. Cull'.

Kim Cull

Aged Care Pricing Commissioner

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Commissioner's Overview

Fourth Annual Report of the operations of the Aged Care Pricing Commissioner.

As this is now the 4th Annual Report of the Aged Care Pricing Commissioner and we approach the statutory timetable expiration for the renewal of those applications approved pre 1 July 2014, I thought it would be timely to reflect on the trends evident in accommodation pricing above the Minister's statutory threshold of \$550,000 as well as to report on the 2016/17 year.

Prior to the regulation of accommodation prices as part of the 2013 reforms of the aged care sector, issues raised included:

- information asymmetry with a lack of information available to residents when choosing accommodation;
- price determination according to residents' means rather than the value of the accommodation; and
- inconsistency across the sector in how accommodation was valued and priced. In particular, accommodation amounts could be charged that did not reflect quality, amenity, cost and value of accommodation to the resident.

Since the introduction of the Aged Care Pricing Commissioner the capacity to assess accommodation offerings above the threshold has steadily grown, based on both objective features and comparative pricing in the market. The majority of applications for prices above the threshold have originated from metropolitan cities and in particular Sydney and Melbourne, reflecting in part, the higher median house prices of these areas. The proposed prices are assessed with the quality and amenity of the accommodation in entirety being considered with the guiding principle being that of what is of value to the resident. The diversity of accommodation offerings, business models and providers is recognised within this framework. Making an application for prices above the threshold requires each provider to apply an internal logic to pricing structures, that is, to rooms priced above the \$550,000 threshold relative to each other, but also relative to rooms priced below the threshold. These applications are considered within the competitive market operating in particular geographic locations.

Accordingly we have observed a number of developing trends over the past 4 years which have continued during this reporting period which I outline below:

- Almost 30% of all approved rooms from 2013/14 until 30 June 2017 were in facilities that have either been newly built or have been subject to significant refurbishment. For the 2016/17 year this figure has risen to 42% compared with 2013/14 when the proportion was less than 8% of all applications approved. This reflects the increasing investment in the sector by industry to meet increasing demand.
- There has been a steady increase in the number of rooms for which applicants sought approval in 2016/17, that is, from 4142 in 2015/16 to 7236 this reporting year.
- The number of applications that have been substantially reframed or withdrawn has decreased in 2016/17 and this would appear to reflect an enhanced understanding of the relevant factors in assessment of applications. These factors include:-

1. Quality and amenity

- Room size;
- Features such as light and views, balconies and garden or courtyard access;
- Whether kitchenettes, ensuite bathrooms and living areas are provided;
- The standard of interior design and furnishings of rooms and common areas;
- Standard of common areas and services provided.

2. Specific design, for example, for those residents with dementia

3. Median house price;

4. Development and construction costs;

5. Expenditure on the refurbishment and upgrade of particular rooms;

6. Maintaining a particular proportion of supported/low means residents;

7. Bond history;

8. Competitor and market analysis; and

9. Occupancy rates.

The communication with providers of the approach to pricing has contributed to this trend, combined with the increased transparency of the market based approach to publication of prices. It also reflects an increasing consistency in what is offered to the resident at various price points with respect to quality and amenity in similar geographic locations.

- Of all rooms approved since 2013/14, 46% are within 0-10km radius of metropolitan CBD locations, 30% in an 11-20km radius of the CBD, 19% in a 21-30km radius of the CBD and 5% in the 40km+ radius of the CBD.

Commissioner's Overview (continued)

We have continued to work with industry and the banking sector to ensure a rational, streamlined application process is attained. The confidence of providers and the sector in our regulatory approach has been reflected in extremely positive survey and anecdotal feedback. Our continued decreasing decision making times have resulted in an 18 business day average timeframe for applications to be assessed and decisions given in the 2016/17 year.

As we encourage providers to focus on pricing considerations from a consumer perspective and to employ a logical approach to differentiate prices within this context, flexibility in approach has enabled the office to assess applications from a diverse range of providers, from small business operators through to large publicly listed companies.

The need for a consistent approach to pricing based on the consumer experience is re-enforced as I visit facilities to understand the trends and developments from both the consumer and industry perspectives and how these have evolved since the introduction of the 2013 reforms.

Given that many approvals made prior to 1 July 2014 will lapse at 1 July 2018 (expiration of 4 years approval duration) I would encourage those providers to think about their re-applications early in 2018 so that they can be processed efficiently during the first 6 months of 2018.

I am proud of our performance this year where we have seen an increase of 74% in the number of rooms approved, but with a reduction in decision making time while operating with a similar number of staff to the 2015/16 year. It has been an overriding expectation of this office to provide a sensible, pragmatic regulatory regime that achieves its consumer protection obligations in the most efficient way. I again thank the many stakeholders and their representative organisations that have supported the office during 2016/17.

Functions of the Office of The Aged Care Pricing Commissioner

The functions of the Aged Care Pricing Commissioner include the approval of proposed accommodation payments that are higher than the maximum amount determined by the Minister, and the approval of increases to Extra Service fees.

1. Applications for accommodation payments

As at 30 June 2016, there were 949 approved aged care providers nationally (compared to 972 in 2014/15), operating 2,669 services / residential aged care facilities (compared to 2,681 services in 2014/15), with a total of 195,825 places (compared to 192,370 places in 2014/15).¹

This shows the continuing consolidation in the residential aged care sector, with a reduction in the number of providers and services but an increase in the total number of residential aged care places.

In the period 1 July 2016 to 30 June 2017, 291 individual applications were made for the approval of prices above the maximum amount determined by the Minister, an increase from 216 applications in 2015/16.

From the establishment of this office the Commissioner has approved applications from 138 aged care providers (14.5% of all providers) representing 278 services (10.4% of all services), for 20,016 distinct rooms (10.2% of all aged care places).

There has been a steady decrease in the number of withdrawn and reframed applications over the last 3 years. In 2014/15, the total number of withdrawn applications was 38; in 2015/16 it was 13 and fell to 8 in 2016/17. A similar downward trend emerges for the number of reframed applications. For reframed applications in 2014/15, the total was 36; this decreased to 25 in 2015/16 and then declined further to 21 in 2016/17. There were no applications rejected in the 2016/17 year but the 21 reframed and 8 withdrawn applications represent those that would not otherwise have been approved.

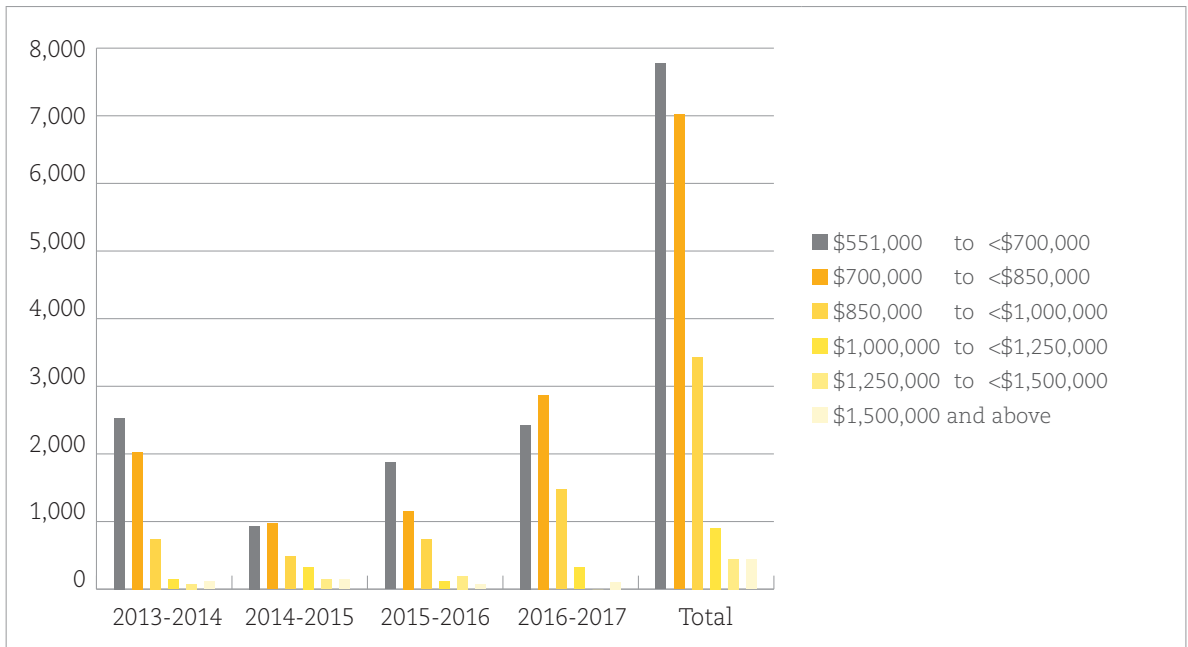
1. Based on figures from the Aged Care Financing Authority's *Report to inform the 2016-17 review of amendments to the Aged Care Act 1997 – Part Two – Appendices* (p 48). And, from the 30 June 2016 Stocktake of Australian Government Subsidised Aged Care Places (last updated 31 October 2016), Department of Health: <https://agedcare.health.gov.au/news-and-resources/publications/research-and-statistics/links-to-the-30-june-2016-stocktake-of-australian-government-subsidised-aged-care-places>.

Functions (continued)

The table that follows indicates rooms approved in various price bands. Of those places approved at above threshold prices in 2016/17, 73.2% have been approved in the price range of

\$551,000 to under \$850,000 as a Refundable Accommodation Deposit (RAD) or Daily Accommodation Payment (DAP).

Indicative chart – Number of Rooms by Approved Price



Approved Price Ranges of rooms 2016/17

- \$551,000 to under \$700,000: 33.55%
- \$700,000 to under \$850,000: 39.65%
- \$850,000 to under \$1,000,000: 20.40%
- \$1,000,000 to under \$1,250,000: 4.48%
- \$1,250,000 to under \$1,500,000: 0.44%
- \$1,500,000 and above: 1.48%

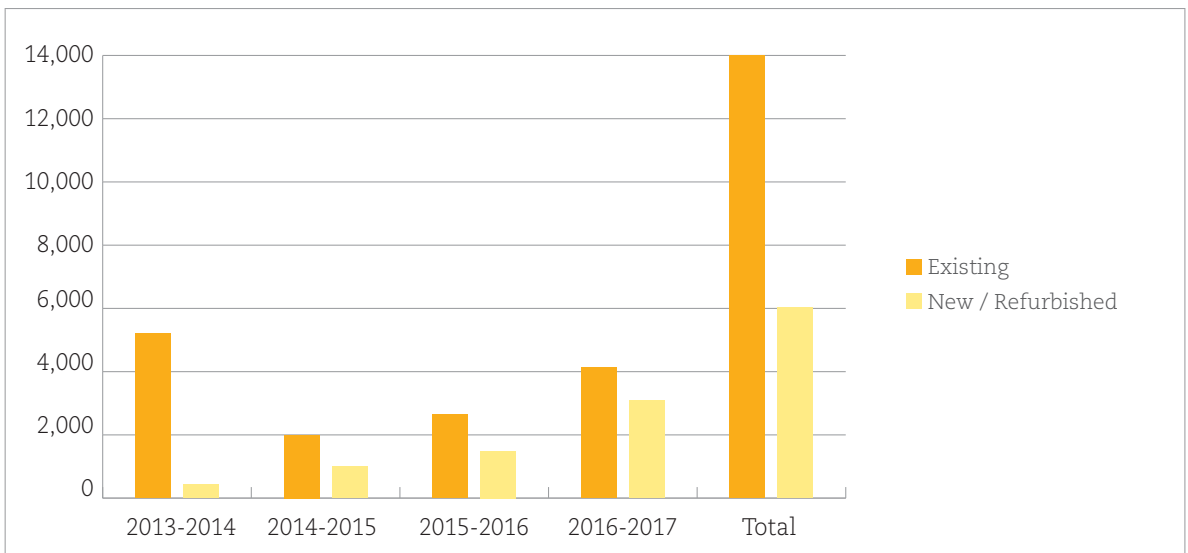
Approved Price Ranges of rooms 2013/14 to 2016/17

- \$551,000 to under \$700,000: 38.82%
- \$700,000 to under \$850,000: 35.07%
- \$850,000 to under \$1,000,000: 17.16%
- \$1,000,000 to under \$1,250,000: 4.54%
- \$1,250,000 to under \$1,500,000: 2.23%
- \$1,500,000 and above: 2.18%

Of all rooms approved by the Commissioner in 2016/17, 6.4% have been above \$1,000,000 and overall since 2013/14, 8.95% of rooms approved have been above \$1,000,000.

However, in the context of all aged care places, this proportion is small and equates to .91%, that is, less than 1% of all aged care places in Australia may charge a RAD or DAP over \$1,000,000.

Indicative chart – Number of Approved Rooms by Facility Type



In 2016/17 over 42% of all rooms approved were in facilities that have either been newly built or have been subject to a significant degree of refurbishment or extension works. Overall since 2013/14 some 30% of all rooms approved were newly built, or significantly refurbished or extended as compared to less than 8% in 2013/14.

Rooms Approved By Jurisdictions over the 4 Years

The 4 year period (2013/14 to 2016/17) shows the total percentages of rooms approved for the following jurisdictions:

- New South Wales: 54.13%
- Victoria: 28.69%
- Western Australia: 6.82%
- Queensland: 4.01%
- South Australia: 3.81%
- Australian Capital Territory: 2.52%
- Tasmania: 0.02%

Functions (continued)

2. Applications for approval of Extra Service fee increases

The Commissioner's responsibilities in respect of the approval of proposed Extra Service fees took effect from 1 July 2014. In the period 2016/17, the Commissioner received 58 applications to increase Extra Service fees, which is an increase on 2015/16 and brings the total over the 4 year period to 158 applications received.

3. Internal and external review

Decisions made by the Commissioner in respect of proposed accommodation prices and Extra Service fee increases are reviewable decisions under the *Aged Care Act 1997*. In the year to 30 June 2017, no affected person sought a review of a decision by the Commissioner.

4. Freedom of Information requests

The Commissioner received no Freedom of Information request during 2016-17.

The Commissioner provides an Information Publication Scheme entry and Freedom of Information disclosure log on the Commissioner's website.

About the Office of The Aged Care Pricing Commissioner

5. Corporate governance

The Commissioner's spending of public money is regulated by the *Financial Management and Accountability Act 1997* and *Financial Management and Accountability Regulations 1997*. Spending must also comply with the *Commonwealth Procurement Rules*.

The Commissioner exercises expenditure powers under delegation from the Secretary of the Department of Health pursuant to the *Public Governance, Performance and Accountability Act 2013*.

6. Budget and staffing

To meet the variability of volume in applications, the Commissioner was supported by up to 5 staff during the 2016-17 year. This included assessment officers and administrative support.

The Commissioner's budget allocation for 2016/17 was \$860,000 which included staff salaries and the Commissioner's remuneration. There has been a continuing focus on prudent budget management.

7. Performance

Applications for approval of accommodation payment amounts

Performance measurement relates to the statutory timeframes for making decisions on applications for accommodation payments above the maximum amount determined by the Minister. *The Fees and Payments Principles 2014 (No 2)* provide that the Aged Care Pricing Commissioner must notify applicants of a

decision to approve, or to refuse to approve an application within 60 days of receiving an application. This time period does not include any period during which the Commissioner formally sought further information in respect of an application.

All decisions made by the Commissioner were within this 60 day period.

Despite an increase of 34.7% in the applications received (291 compared to last year's 216), the average time taken to assess an application and make a decision on proposed accommodation prices was just under 18 business days in the 2016/17 year. In addition, the number of rooms approved in 2016/17 increased by 74.7% from last year's 4,142 to 7,236. The number of applications approved has also risen from last year's 196 to 290 (increase of 48 %).

Applications for approval of Extra Service fee increases

The Commissioner received 58 applications to increase Extra Service fees from 37 residential aged care facilities. All valid applications were approved. 3 applications were withdrawn.

While approved providers may make an application at any time, the Commissioner cannot make a decision to approve a proposed increase to an Extra Service fee unless at least 12 months has elapsed since the date on which the last approval took effect.

The average time taken to make a decision on an Extra Service fee application in 2016/17 (i.e. the time taken from the first date on which the Commissioner could make a valid decision, and the decision date) was just under 3.5 business days.

Contacts

The Office of the Aged Care Pricing Commissioner can be contacted by phone **1300 550 970**, by email on **acpcenquiries@acpc.gov.au**, or by post at:

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Further information about the Aged Care Pricing Commissioner can be found on the Commissioner's website at **www.acpc.gov.au**