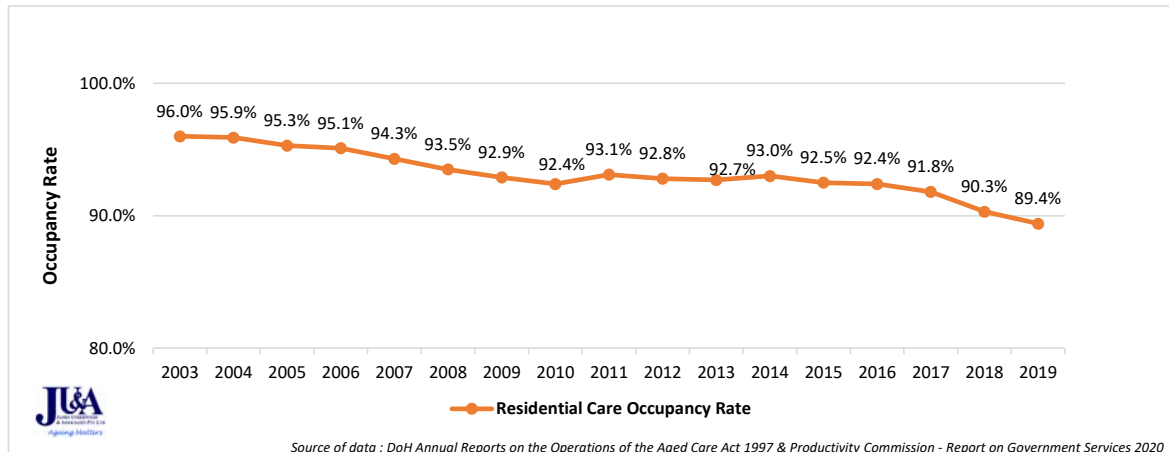
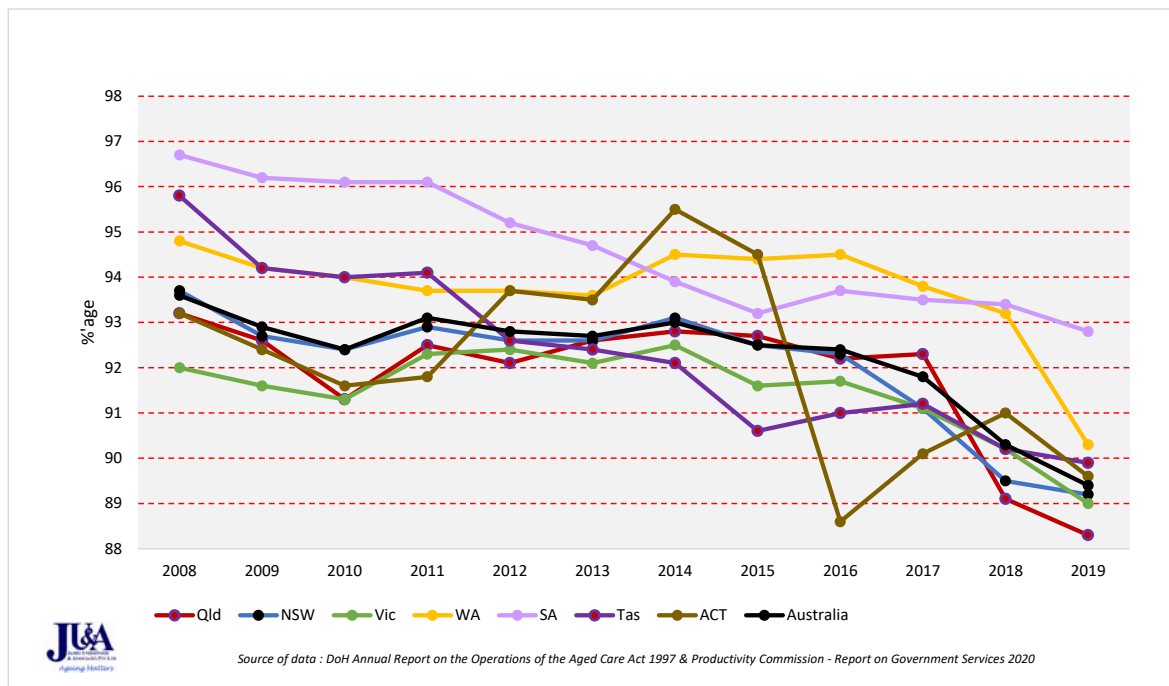


**Witness Statement Supporting Documents
of James Hugh Thomas Underwood for the
Royal Commission into Aged Care Quality and Safety
27 May 2020**

Graph 1. Australian Residential Aged Care Occupancy Rate – 2003-2019




Graph 2. Australian Residential Aged Care Occupancy Rate – 2008-2019 – State by State



**Witness Statement Supporting Documents
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Royal Commission into Aged Care Quality and Safety
27 May 2020**

Table 1. Number of Australian Residential Care Places Allocated in ACAR vs Built – 2007-2019

 YEAR	Extra Beds Allocated	Extra Beds Built
2007	6,525	4,081
2008	5,850	5,146
2009	4,722	3,732
2010	Nil	4,557
2011	7,747	2,553
2012	7,314	3,067
2013	Nil	1,820
2014	11,076	3,005
2015	9,907	3,119
2016	Nil	3,455
2017	9,911	4,864
2018	Nil	6,453
2019	13,500	6,255
TOTAL	76,552	52,107

Source: DoH Aged Care Service Lists 2007-2019; DoH ACAR Allocations 2007-2019.

3. HIGH CARE SURPLUS/(DEFICIT) BY ROOM OCCUPANCY AND AGE OF BUILDINGS

ROOM OCCUPANCY

The National Survey seeks information on the number of residents accommodated per room. In this 2006/07 survey, we provide comparisons to the results for all years since 2001/02.

In the survey, the numbers of each different type of room are detailed for each service – single rooms, doubles, four-place wards, etc. An average is then calculated for the respondents in each group: High Care, Low Care and merged services. For example, if half the rooms in a group are single and half are double, then there would be an average of 1.5 residents/rm.

The Bentleys MRI/JU&A National Surveys have shown a remarkable fall in the average numbers of residents accommodated per bedroom in High Care over recent years, as below:

2002	1.8 res/rm
2003	1.8 res/rm
2004	1.6 res/rm
2005	1.6 res/rm
2006	1.4 res/rm
2007	1.3 res/rm

This reduction is because all new services must meet a mandated Australian Government maximum of an average of 1.5 res/room and most have been built with only single rooms. In addition, many of the older multiple-bed ward services are being rebuilt and these also must meet the new requirements.

An analysis is undertaken of the level of surplus/(deficit) by average number of residents per room. No similar analysis is prepared for Low Care services because almost all residents are in single rooms (an average of 1.02 residents/room across the 115 participating services). No analysis was prepared for merged services as these are also overwhelmingly single-room services (an average of 1.05 residents/room).

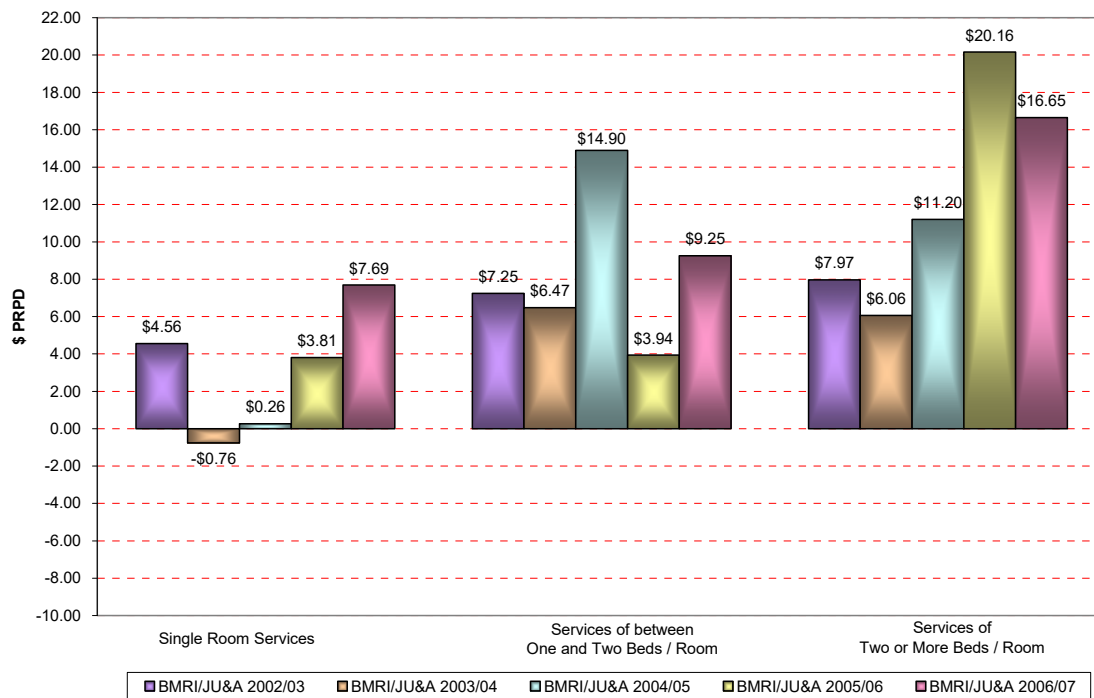
The analysis of High Care surplus/(deficit) by the number of residents/room showed strong correlations. Across the 81 participating services there was an average of 1.3 residents/room with substantial numbers of services with residents accommodated in four-bed rooms. This average compares to 1.8 residents/room in the 2002/03 survey, just four years earlier.

TABLE 3.1 REVIEW OF HIGH CARE EBITDA BY NUMBER OF RESIDENTS PER ROOM – 2006/07

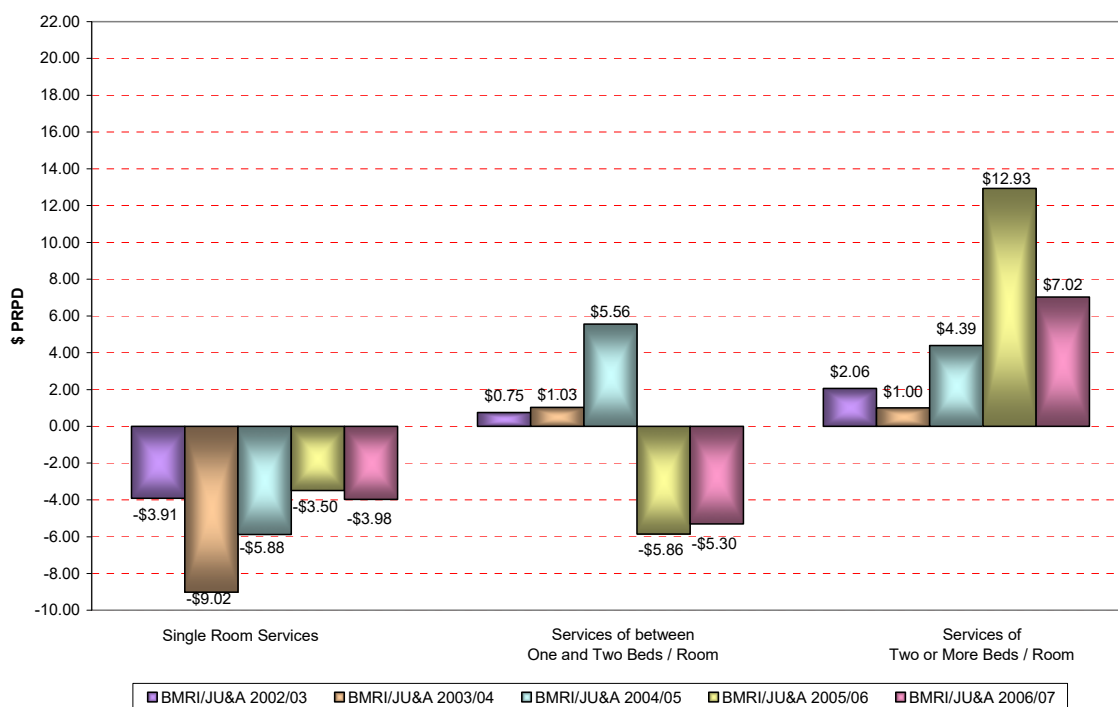
Room Type	Number of Services	EBITDA (\$prpd)	Other Costs (\$prpd)	Surplus / (Deficit) After Other Costs (\$prpd)
All Single Rooms	20	7.69	11.67	(3.98)
>One and < Two Res/Rm	42	9.25	14.43	(5.30)
Two or more Res/Rm	19	16.65	9.63	7.02
Total or Average	81	10.60	12.68	(2.08)

The results indicate that single-room High Care services have the poorest results before other (capital) costs. These results for 2006/07 show very similar trends to the previous surveys, as shown in Graphs 3.1 and 3.2.

**GRAPH 3.1 MOVEMENT IN EBITDA BY ROOM TYPE
HIGH CARE**



GRAPH 3.2 MOVEMENT IN SURPLUS/(DEFICIT) AFTER OTHER COSTS BY ROOM TYPE HIGH CARE



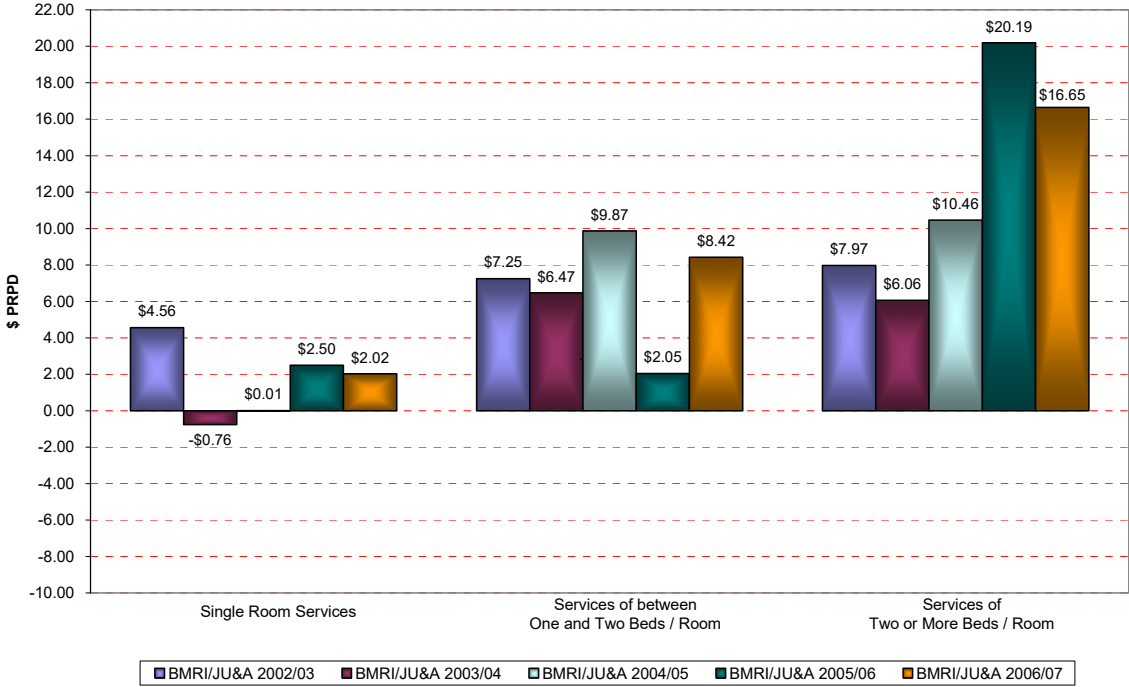
There are eleven Extra Service (ES) facilities participating in the High Care benchmarks in 2006/07. These eleven are all in services of less than 2 residents/room, most with all or almost all residents accommodated in single rooms. After exclusion of their generally more positive results, the average level of return of the single room services is much poorer, as shown below.

TABLE 3.2 REVIEW OF EBITDA BY NUMBER OF RESIDENTS PER ROOM – 2006/07 (HIGH CARE EXCLUDING EXTRA SERVICES)

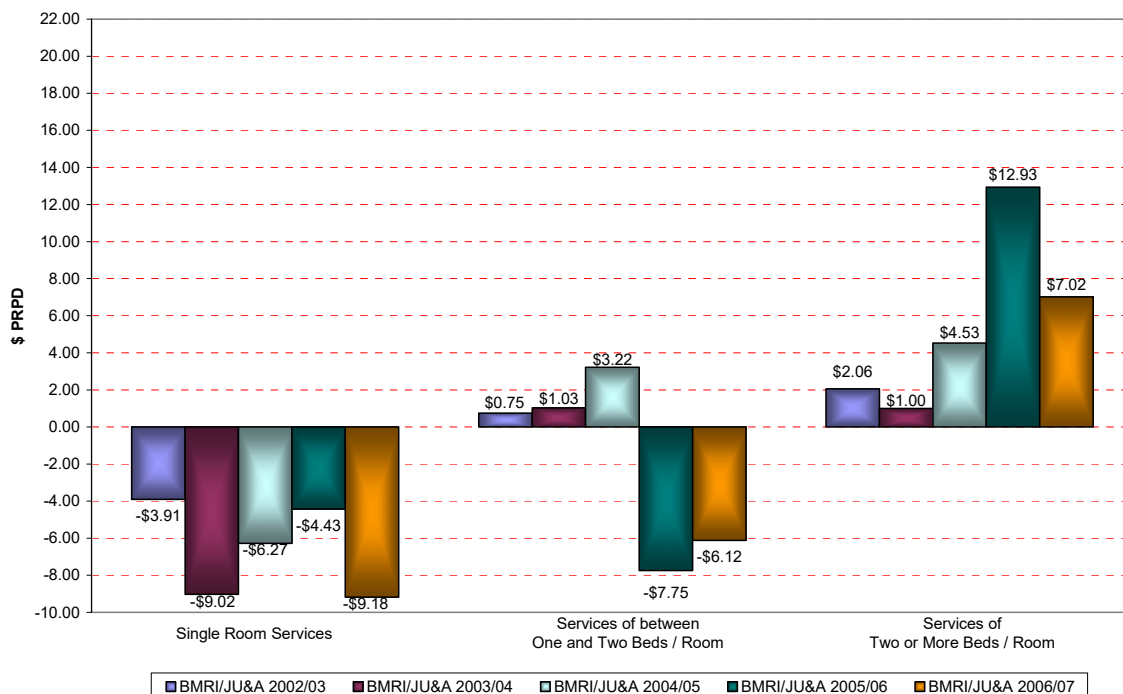
Room Type	Number of Services	EBITDA (\$prpd)	Other Costs (\$prpd)	Surplus / (Deficit) After Other Costs (\$prpd)
All Single Rooms	13	2.02	11.20	(9.18)
>One and < Two Res/Rm	38	8.42	14.54	(6.12)
Two or more Res/Rm	19	16.65	9.63	7.02
Total or Average	70	9.46	12.59	(3.12)

After excluding ES facilities from the 2006/07 averages, single-room High Care services are showing an average EBITDA some \$14.63 prpd or \$5,325 prpa less than services of two or more residents per room.

**GRAPH 3.3 MOVEMENT IN EBITDA BY ROOM TYPE
HIGH CARE
(EXCLUDING EXTRA SERVICES IN 2004/05, 2005/06 & 2006/07)**



**GRAPH 3.4 MOVEMENT IN SURPLUS/(DEFICIT) AFTER OTHER COSTS BY ROOM TYPE
HIGH CARE
(EXCLUDING EXTRA SERVICES IN 2004/05, 2005/06 & 2006/07)**

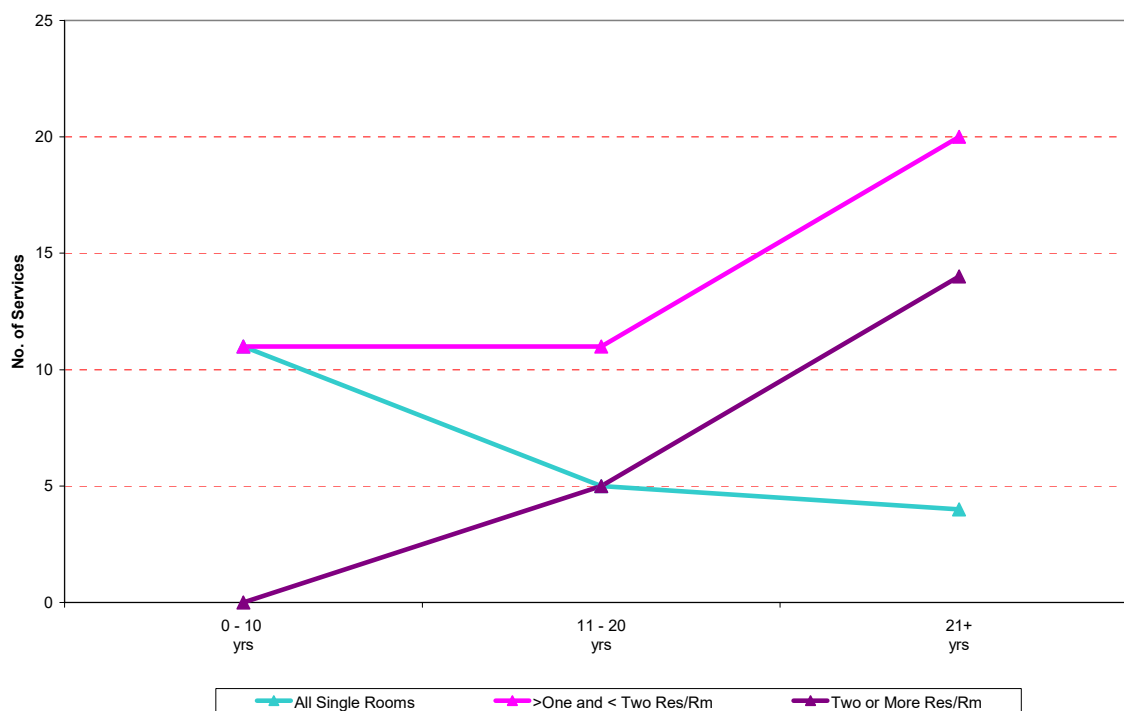


There is strong and continuing evidence from the survey results that single-room High Care services (other than ES) are non-viable and that multiple-occupancy room High Care services achieve much better returns. As High Care services across Australia are rebuilt to include more single rooms, then more loss-making High Care services appear inevitable under current income arrangements, unless more services take up full or partial ES arrangements or find some other sources of income or cross-subsidy.

The average age of the High Care buildings is shown below in the order of the average number of residents per room.

**TABLE 3.3 AVERAGE AGE OF BUILDINGS BY ROOM OCCUPANCY – 2006/07
HIGH CARE**

Room Type	0-10 yrs	11-20 yrs	21+ yrs	Total
All Single Rooms	11	5	4	20
>One and < Two Res/Rm	11	12	21	44
Two or More Res/Rm	-	4	13	17
Total	22	21	38	81

**GRAPH 3.5 AVERAGE AGE OF BUILDINGS BY AVERAGE ROOM OCCUPANCY – 2006/07
HIGH CARE**

The above graph identifies:

- Some 55% of the single-room High Care services have been built in the last ten years;
- Only 25% of the services averaging between one and two residents per room are in facilities built in the last ten years; and
- Every one of the High Care services averaging two or more residents/room were in buildings aged 11 years or older, with 76% being more than 20 years old. These services would not meet the government certification requirements for **new** buildings of a maximum of 1.5 residents/room and may not meet future customer demands.

Many reasons have been advanced over the years as to why there is such a dramatic difference in surplus/(deficit) amongst High Care services across the country. The results of the six surveys analysed – 2001/02 through to 2006/07 – indicate that one clear area of differentiation

is in the area of the number of residents accommodated per room. Moving from multi-bed rooms to single rooms increases **operating costs** very substantially, not just **capital costs**. As both High Care subsidies and High Care fees for general High Care services are capped by the Australian Government, this results in a reduction in average profitability.

AGE OF BUILDINGS

The large difference in the average age of buildings across the three types of services is shown in the table below:

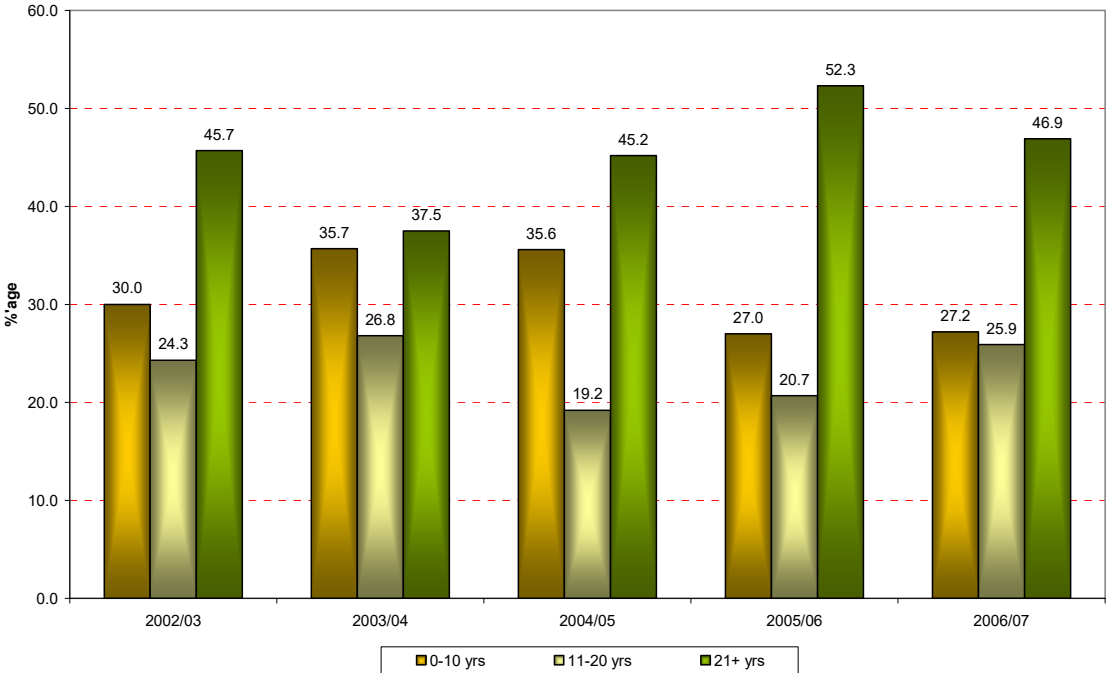
TABLE 3.4 AVERAGE AGE OF BUILDINGS – 2006/07

	0-10 yrs	11-20 yrs	21+ yrs	Total
High Care	27.2%	25.9%	46.9%	100%
Low Care	14.8%	32.2%	53.0%	100%
Merged	51.9%	26.0%	22.1%	100%

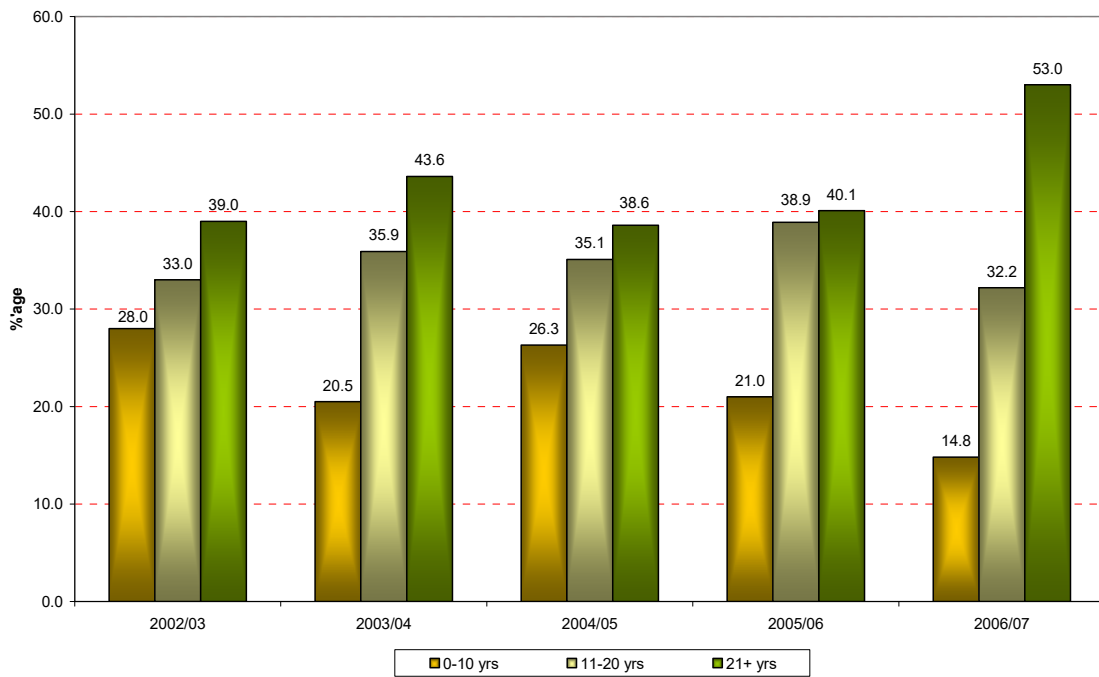
The majority of merged services are in newer buildings, with over half in buildings only 10 years old or less.

Surprisingly, whilst there are many older High and Low Care buildings (about half of High and of Low Care services are 21 years or more old), there are proportionally more newer High Care buildings (0-10 yrs old). Similar results were seen in 2005/06. This suggests there has been strong re-building works and building of new services in High Care and substantially less so in Low Care. This large reduction in numbers of residents per room (see Chapter Three of this report) indicates a massive change in the type of buildings being used for High Care in Australia, with an accompanying change in **costs** as services move to single room High Care.

GRAPH 3.6 AVERAGE AGE OF BUILDINGS – HIGH CARE



GRAPH 3.7 AVERAGE AGE OF BUILDINGS – LOW CARE



GRAPH 3.8 AVERAGE AGE OF BUILDINGS – MERGED



18. EXTRA SERVICES

HIGH CARE SURPLUS/(DEFICIT)

The 2004/05 survey – was the first survey to capture the financial information from a significant number of ES High Care services – 14.7% of all High Care participants had some or all ES places. This compares to just 5% in 2003/04 and 1.4% in 2002/03. The 2005/06 survey had 6.3% ES participants in High Care and this 2006/07 survey has 13.6% of High Care participants with ES.

In 2005/06 there were seven High Care ES services with an average EBITDA of \$21.19 prpd compared to just \$7.59 prpd for the other 74 High Care services. The results for 2006/07 are very similar: the eleven participating High Care ES facilities averaged an EBITDA of \$17.81 prpd compared to just \$9.46 prpd for the other 70 High Care services.

LOW CARE SURPLUS/(DEFICIT)

There are only five Low Care ES facilities or 4.3% of Low Care participants. This is a reflection of the aged care sector in general – **most** ES facilities are in High Care or merged care, not Low Care. Low Care services can gain bonds from new Low Care admissions and can charge higher fees through periodic payments. Accordingly, ES status is not necessary for viability **unless** increasing numbers of High Care residents are being directly admitted.

Three of the five ES facilities are in the voluntary sector.

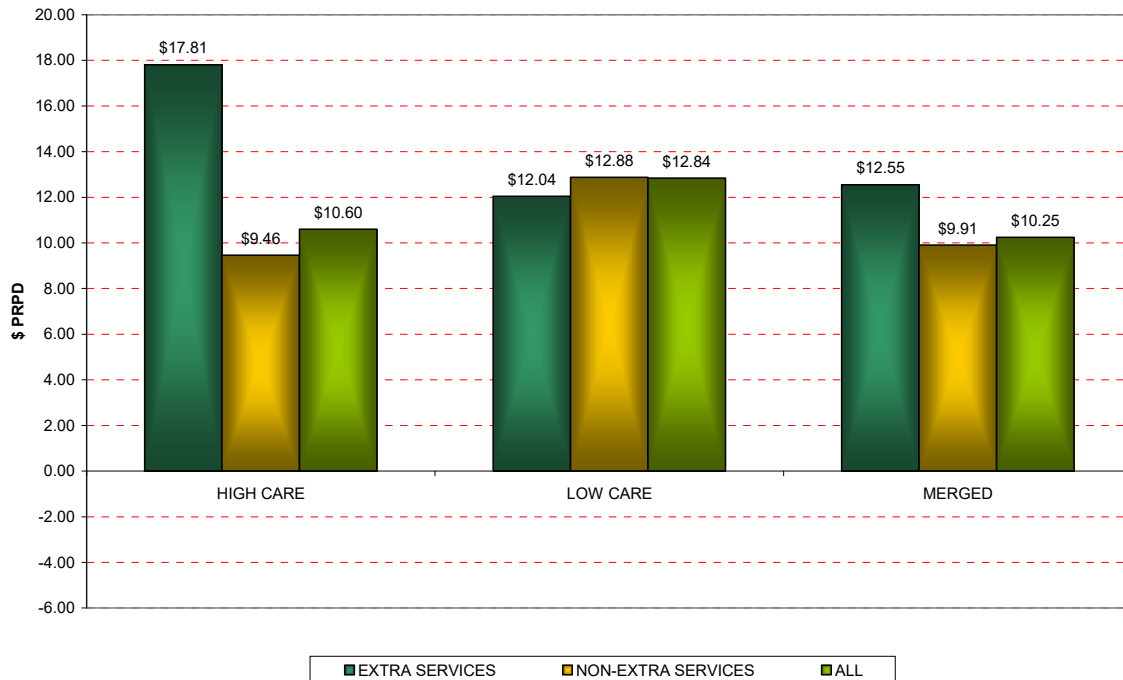
The Low Care ES facilities did not show a return above non-ES facilities.

MERGED SERVICES SURPLUS/(DEFICIT)

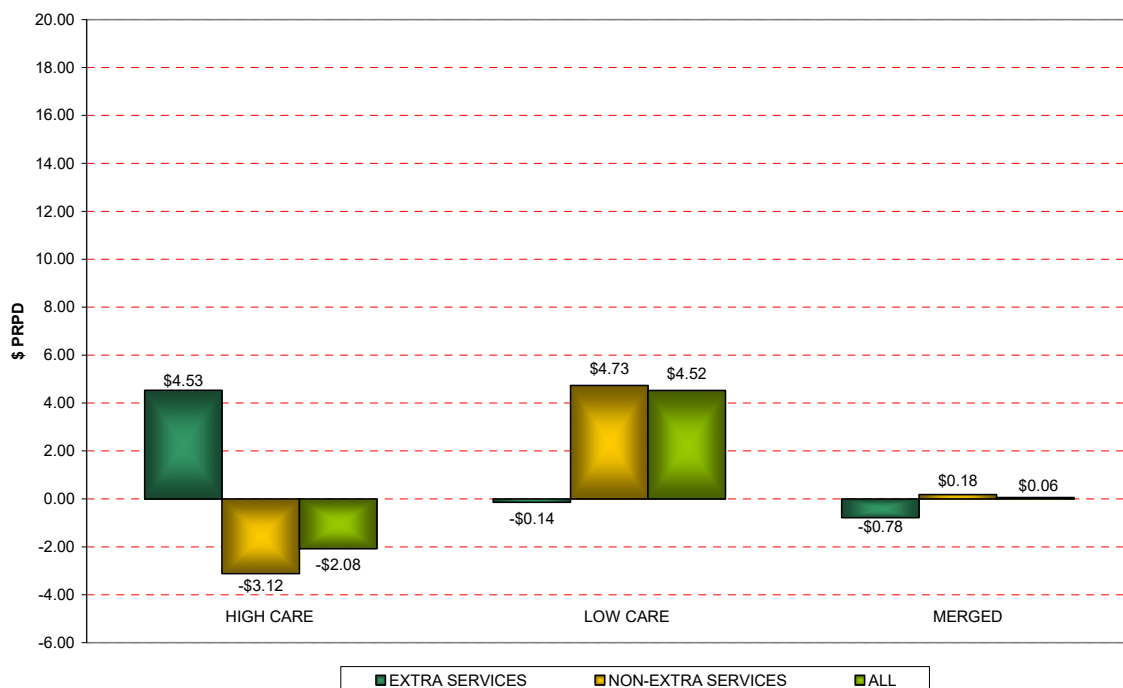
The ten merged services with ES status for all or some of their places comprised 13.0% of all merged services participants, up from 11.8% in 2005/06.

The ES facilities showed an average return before other costs of \$12.55 prpd, compared to the average non-ES merged services return of \$9.91 prpd.

**GRAPH 18.1 NATIONAL AVERAGE EBITDA – 2006/07
EXTRA SERVICES VS NON-EXTRA SERVICES FACILITIES**



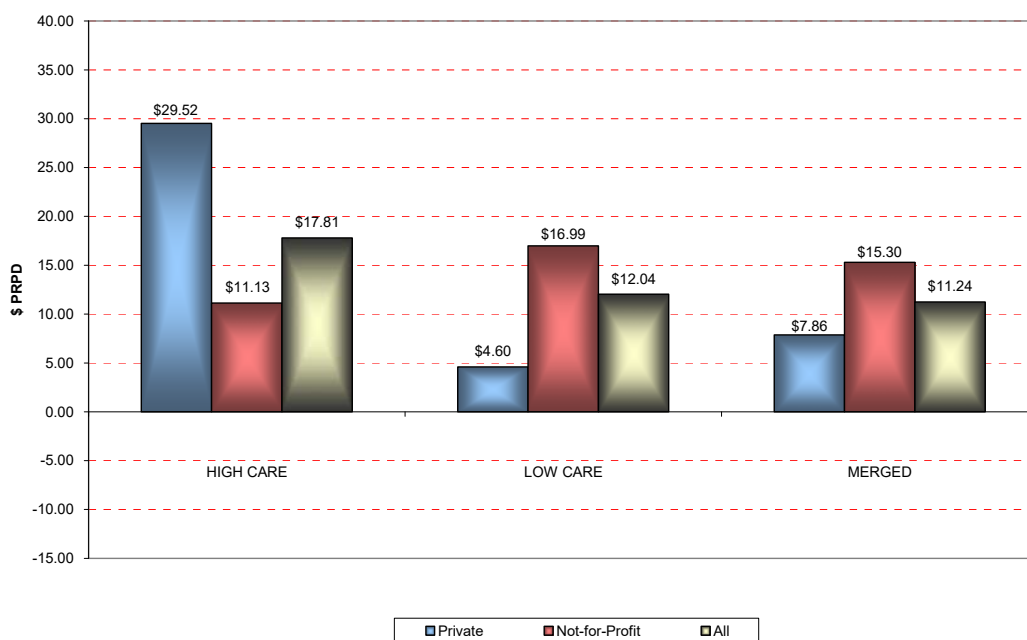
**GRAPH 18.2 NATIONAL AVERAGE SURPLUS/(DEFICIT) AFTER OTHER COSTS – 2006/07
EXTRA SERVICES VS NON-EXTRA SERVICES FACILITIES**



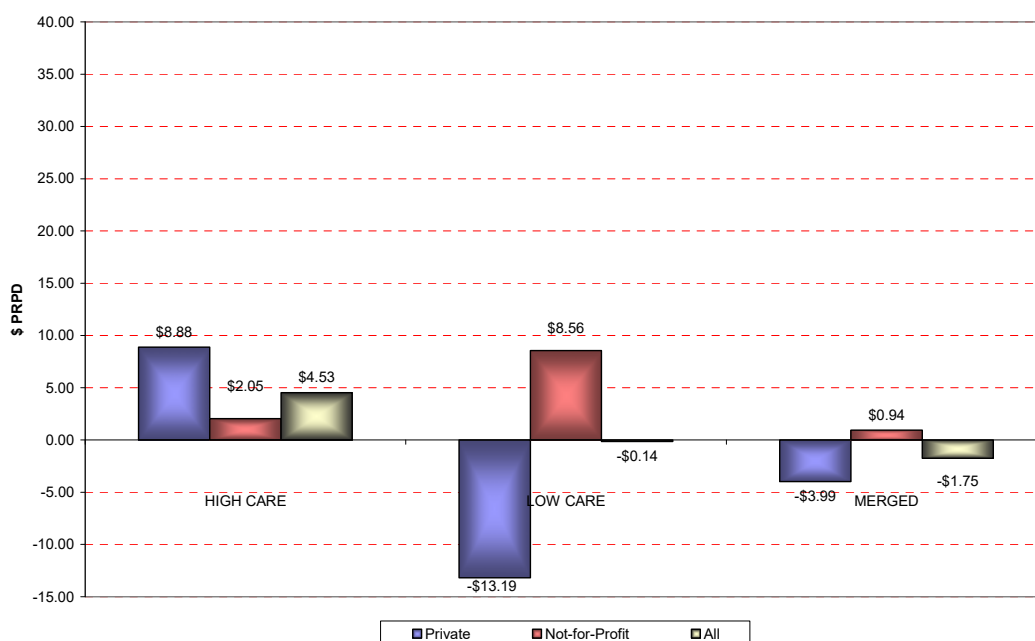
PRIVATE SECTOR VS NOT-FOR-PROFIT EXTRA SERVICES

The private sector ES High Care facilities showed returns well above the average returns in the not-for-profit services. This was not the case in Low Care (where only two private sector ES Low Care services participated) or in merged care.

GRAPH 18.3 NATIONAL AVERAGE EXTRA SERVICES EBITDA BY OWNERSHIP – 2006/07



GRAPH 18.4 NATIONAL AVERAGE EXTRA SERVICES SURPLUS/(DEFICIT) AFTER OTHER COSTS BY OWNERSHIP – 2006/07



ACCOMMODATION BONDS

All ES facilities showed much higher average bond holdings than non-ES facilities.

**GRAPH 18.5 AVERAGE MONEY HELD IN ACCOMMODATION BONDS AT 30 JUNE 07
EXTRA SERVICES VS NON-EXTRA SERVICES FACILITIES**

