

A photograph of two elderly women smiling warmly at each other. The woman on the right has short, straight white hair and is wearing glasses and a grey cardigan over a yellow top. The woman on the left has white curly hair and is also wearing glasses. They are both looking towards each other with joyful expressions. The background is a plain, light-colored wall.

WA Department of Health

WA Residential Aged Care Market Supply and Demand Analysis

19 December 2024



Building a better
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Ernst & Young
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Canberra ACT 2600

Release Notice (1/2)

The terms and conditions of this notice is applicable to Third Party Recipients (i.e. any party that is not EY's Client who engaged EY to undertake the work).

Ernst & Young ("EY") was engaged on the instructions of WA Department of Health to undertake an analysis of the WA aged care market, in accordance with the contract dated 19 September 2024.

The results of EY's work, including the assumptions and qualifications made in preparing the report, are set out in EY's report dated 19 December 2024 ("**Report**"). The Report should be read in its entirety including the transmittal letter, the applicable scope of the work and any limitations. A reference to the Report includes any part of the Report.

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Our work commenced on 10 September 2024 and was completed on 19 December 2024. No further work has been undertaken by EY since the date of the Report to update it. Therefore, our Report does not take account of events or circumstances arising after 19 December 2024 and we have no responsibility to update the Report for such events or circumstances arising after that date.

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EY

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Readers are advised that the outcomes provided are based on many detailed assumptions underpinning the scenarios, and the key assumptions are described in the Report. These assumptions were selected by the Client. The modelled scenarios represent estimated future demand for residential aged care, and it must be acknowledged that many alternative futures exist. Alternative futures beyond those presented have not been evaluated as part of this Report.

During the course of our work, we have also relied upon the following sources of information:

- Meetings and Discussion with the WA DoH
- Stakeholder engagement sessions with WA Residential Aged Care ("RAC") providers
- Desktop analysis of the WA aged care sector including but not limited to sources published by the Department of Health and Aged Care and the Australian Bureau of Statistics ("ABS")
- Refer to Appendix Section 1, Data sources used for analysis, for a detailed data sources breakdown

Our work has been limited for the following reasons:

- Our work consisted primarily of analytical procedures applied to the data and information and explanations provided to us. We relied on data and information provided to us and on enquiries and discussions with the Department and the participating RAC providers. We were not be in a position to verify the accuracy of the data or the information and explanations provided to us.
- To the extent that as part of the engagement we used publicly available information or other third-party sources, we will not verify the accuracy, reliability or completeness of such information or sources. However, we will consider whether such information is, in general terms, consistent with other information that we use and our own experience in the sector.

Whilst each part of our Report addresses different aspects of our work, the entire Report should be read for a full understanding of our findings and advice.

The analysis and Report do not constitute a recommendation on a future course of action.

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1

Executive summary

Executive Summary

Purpose of this report

EY has been engaged by the Department to confirm whether there are short-term and/or long-term supply shortages of residential aged care beds.

Overview

The purpose of this report is as follows:

- ▶ Undertake a market analysis of the Western Australian aged care market, looking at current and forecast demand for aged care in Western Australia ("WA"). This includes demographic analysis to identify pressure points in the market;
- ▶ Analysis of the supply of aged care in WA to understand where new beds have come online, and to explore whether there are reasons as to why supply has not kept pace with demand.

Methodology

We engaged with specific datasets and engaged directly with the aged care sector to inform our analysis.

Process and methodology

In forming our advice, we undertook the following:

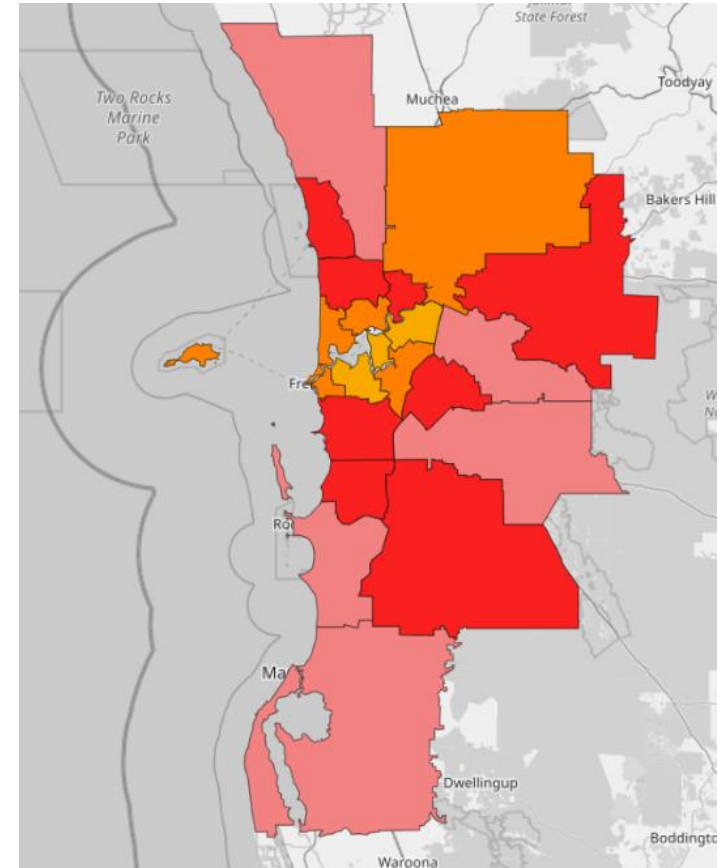
- ▶ Detailed analysis of demand (demographic) and supply (number of beds) by Statistical Areas 3 ("SA3") to understand whether, based on historical and known demand for residential aged care by age bracket (85+, 74-85, <74), there appears to be a current shortage of beds, or a potential shortage of beds approaching;
- ▶ We have forecast demand for residential aged care beds to 2029. Given the high level of uncertainty as to the true impact of the Support at Home reforms on demand going forward, there is little utility in forecasting any further. That said, the impacts of Support at Home needs to be closely monitored by the Department;
- ▶ Engaged with a number of leading aged care providers in WA to understand:
 - ▶ the current state of its aged care facilities,
 - ▶ explore whether there were any offline beds within their facilities that could be switched back online;
 - ▶ The current impediments to refurbishing ageing facilities (or beds if specific to an area of a facility); and
 - ▶ The current cost of construction for new beds, including timeframes from preparing a business case to opening the facility.

There are acute shortages of residential aged care beds across Greater Perth, driving higher demand for hospital services and delayed discharge for older Western Australians

Acute residential aged care supply pressures are contributing to bed block in metro WA hospitals

- ▶ Evidence suggests that parts of the Western Australian aged care system is operating at close to capacity with acute shortages in some areas of Greater Perth
- ▶ Shortages are resulting in extensive waitlists for both Residential Aged Care (“RAC”) and Home Care (“HC”) services. This strains the broader health system as RAC is a critical discharge pathway for people awaiting aged care services in hospital impacting patient flow and contributing to bed block
- ▶ On any given day over 150 WA metropolitan hospital beds are occupied by patients who no longer require hospital care and are awaiting aged care services. This impacts on the efficacy of the hospital system and care for Western Australians while costing the WA health system around \$150m per year.
- ▶ Significant investment by the WA Government in Transition Care Program reform and a residential respite trial (with Commonwealth support) rely on latent physical capacity in the aged care sector for their success. Progress is being hindered by a lack of short-term and long-term aged care capacity
- ▶ While aged care funding reforms are expected to have improved the financial sustainability of the market, this will take time (especially the benefit of refundable accommodation deposit (“RAD”) retentions) and does not (and cannot) address the immediate need for increased aged care supply

Residential aged care occupancy in Greater Perth by SA3*, 2023



Data used to measure occupancy includes beds that are not operational and likely understates actual occupancy levels. Providers have indicated that Greater Perth occupancy exceeds 95%

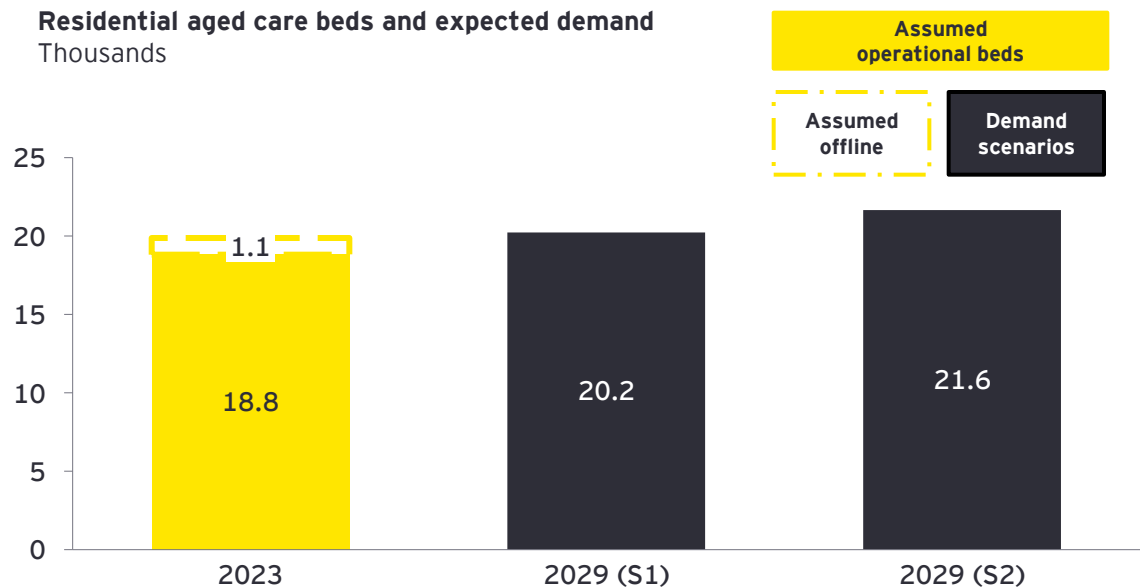
Occupancy:

Under 85% 85% to 90% 90% to 95% 95% and above

Significant investment is required in residential aged care in the medium term with high barriers to invest in facilities for lower income residents

Investment is needed despite uncertainty over future supply needs

- ▶ Commonwealth Government policy is enabling older people to age in their home longer with the sector currently in a transitional phase with a higher share of people receiving HC supports relative to RAC. We expect this to continue, supported by the new Support at Home reforms.
- ▶ Whilst this may slow the demand for residential aged care as the average entry age increases, the WA population is ageing. Accordingly, we expect the number of older people requiring a residential aged care place will continue to grow.
- ▶ We estimate that between 1,400 and 2,800 additional residential aged care beds will be needed in WA by 2029 requiring between \$700m and \$1.4b of investment in new beds from the market (see page 20 for more detail).
 - This assumes that the transition towards home care continues along the same trajectory for the next 3-5 years.
- ▶ To invest in new and existing capacity, the Return on Investment needs to be adequate for providers and needs to exceed their cost of capital. We expect that funding reforms from the Commonwealth (including AN-ACC and RAD retention) could achieve this at the aggregate level and market commentators anticipate investment to pick up.
- ▶ A key headwind is high construction costs in WA, which are amongst the highest in the country for aged care facilities.
 - Providers have consistently reported constructions costs of \$500k per bed which is unlikely to be investable for facilities with a higher supported resident mix and in areas that derive lower RADs (where room prices are lower than this cost).



2

Overview of the Aged Care market in WA

WA market snapshot

>90%

62% SA3's in Greater Perth currently operate at over 90% **occupancy**. Consultation with leading providers suggests much of Greater Perth is operating at, or very close to, capacity.

2,462

Current known RAC placement **waitlist** between 7 major providers in WA (who have ~60% of beds in metro WA). Full WA waitlist is unknown

\$150m

In metropolitan **hospital costs** in 2023-24 due to patients awaiting aged care services (on average 150 patients daily)

1,400-2,800

Additional beds may be needed in WA by 2029 if Home Care transition continues (assuming 100 bed facilities, an additional 14-28 facilities will be needed)

+47%

Construction costs in WA have increased since June 2020 compared to 32% nationally.

-67%

Decline of 67% in the **value of building work done** on residential aged care facilities in WA between 2020 and 2024

\$700m-\$1.4b

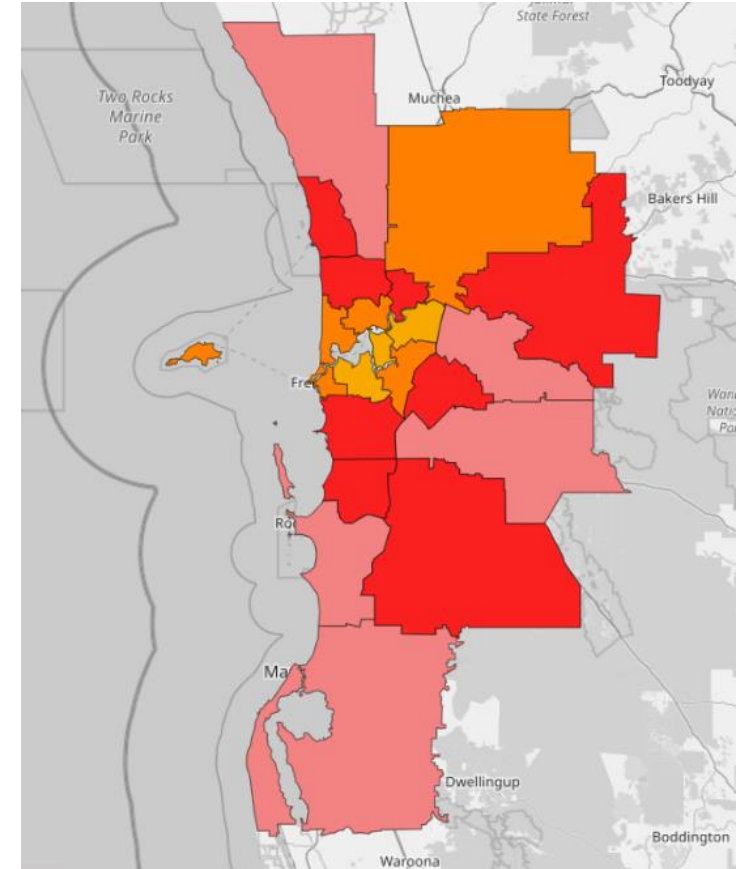
Investment of between \$700m and \$1.4b in new capacity in real terms is estimated to be needed

* Note: Providers accounting for ~60% of the market currently operate at occupancy ~95% in metro regions, implying that reported Federal Government capacity is likely overstated in some locations

Market Summary

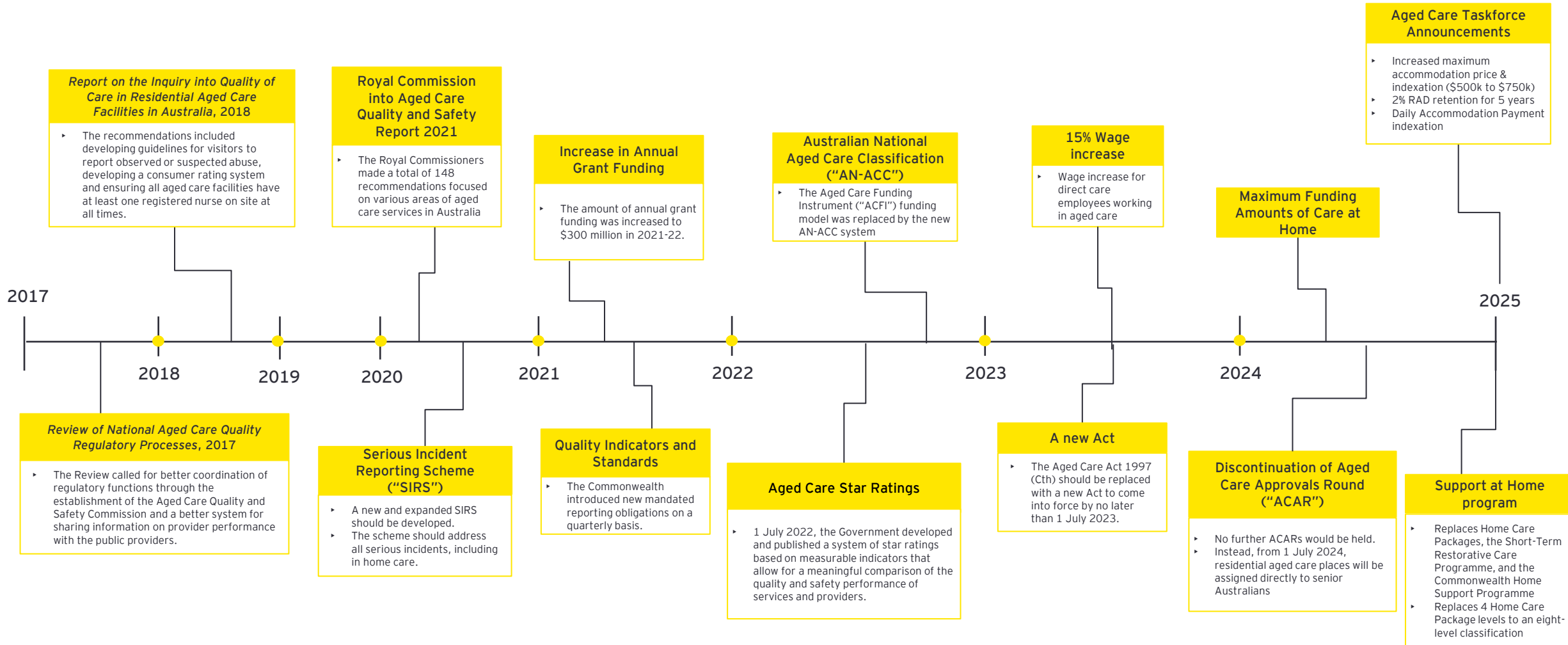
- ▶ Evidence suggests that parts of the Western Australian aged care system is operating at close to capacity with acute shortages in a number of areas of Greater Perth.
- ▶ Stakeholder feedback suggests that there is insufficient capacity for both (1) individuals with dementia and complex behaviours, and (2) concessional residents.
- ▶ Contributing factors include high local construction costs, workforce shortages and recent challenging financial conditions which have constrained new supply of beds since 2020.
- ▶ WA's population is younger than the broader Australian population, however it is aging with the share of 75+ increasing 1.4pps. A net increase of ~55k people of the 75+ cohort is forecast between 2025 to 2029
- ▶ The recently announced Federal Government Support at Home program may have similar effects to that of the current Home Care transition, slowing residential demand, however the true effects are uncertain at this time.
- ▶ It takes approximately 4-5 years to build a new residential aged care facility. Accordingly, new supply needs to be planned today to meet the future expected demand through to 2029 and beyond.

Residential aged care occupancy in Greater Perth by SA3*, 2023

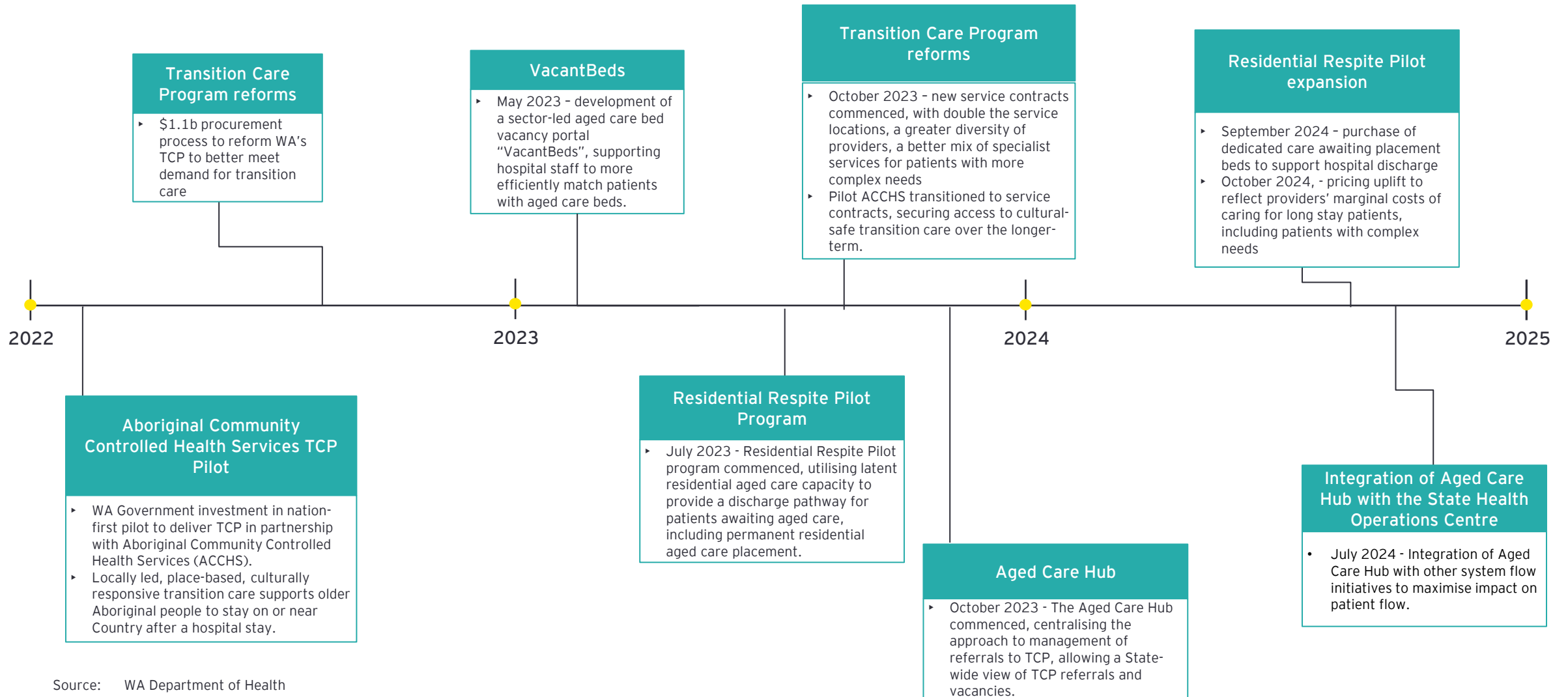


Occupancy:
■ Under 85% ■ 85 to 90% ■ 90 to 95% ■ 95 and above

Australia's aged care landscape has undergone significant change in recent years with a series of reviews and incremental reforms



The WA Government has made significant investment to maximise uptake of all available aged care discharge pathways



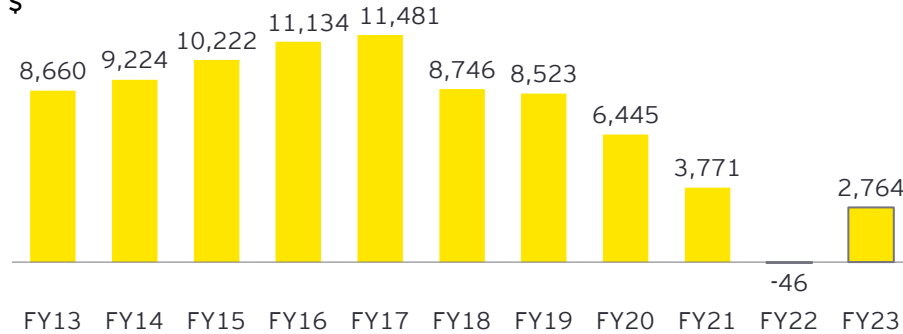
Source: WA Department of Health

The financial performance of the residential aged care sector has improved following the introduction of AN-ACC and recent aged care funding reforms

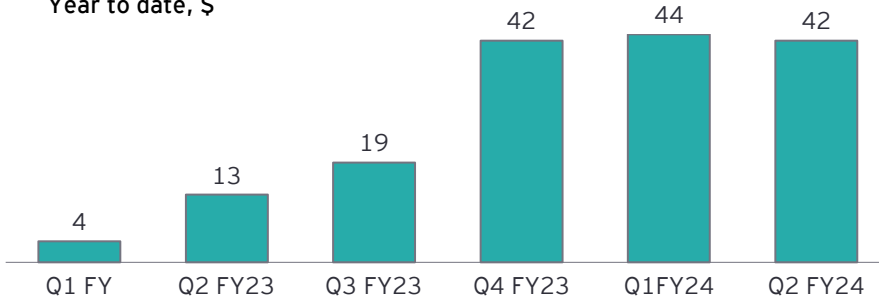
Recent data shared by the Department confirms the sector is recovering

- ▶ The latest financial information from providers shows a significant turnaround in overall financial performance of RAC providers following a series of funding reforms including AN-ACC and the hotelling supplement
- ▶ The percentage of residential aged care providers reporting a positive EBITDA result to Q1 FY24 was 83.5%, up around 50 percentage points since the introduction of AN-ACC which commenced on 1 October 2022
- ▶ The median EBITDA margin increased to 9.75% up 5.2 percentage points compared to a year earlier

Residential care provider average EBITDA per resident per year
\$



Residential care provider average EBITDA per occupied bed day
Year to date, \$



Recent aged care funding reforms



From 1 January 2025 to increase the \$550,000 cap that limits providers charging a higher RAD to \$750,000



Allow providers to deduct and retain 2% of the RAD for 5 years to create greater alignment between the lump-sum RAD and DAP



Introducing Daily Accommodation Payment indexation to ensure payments to providers do not reduce over time in real terms



By 2035, after a 2030 review, phase out RADs for aged care accommodation, shifting to a resident rental model to provide greater certainty around cash-flow and remove risk caused by large liabilities that could fall due at any time



Independent Health and Aged Care Pricing Authority ("IHACPA") to provide advice on the appropriate Hotelling Supplement to ensure providers can supply high quality hotelling services



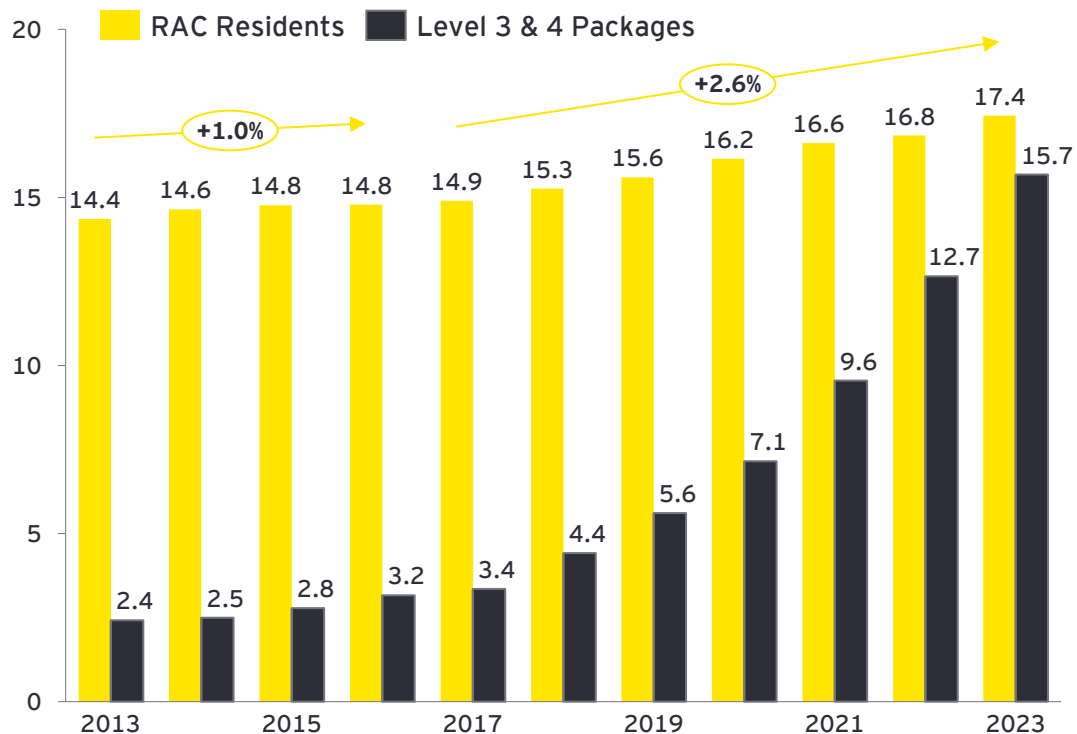
Allow providers and residents to negotiate a higher basic daily fee for higher quality services



Expanding government funding to fully cover the cost of clinical care while residents pay a greater contribution towards accommodation and daily living expenses.

The aged care market is in transition as home care packages ramp-up, however residential aged care demand remains strong in WA

Residential aged care use and Home Care Packages level 3 and 4 use in WA
Thousand persons



Annual growth 2013-2023, %	
RAC	HCP (3&4)
2.0	20.5

Home Care Package ("HCP") levels in WA, 2022-23

Package Level	1	2	3	4
Patient acuity	Basic	Low	Intermediate	High
% of HCP	1.9%	26.3%	36.0%	35.8%
Daily subsidy	\$29.01	\$51.02	\$111.04	\$168.33
Annual subsidy (\$000's)	10.6	18.6	40.5	61.4

Source: AIHW GEN database, myagedcare

New Support at Home arrangements from 1 July 2025

Package Level	1	2	3	4	5	6	7	8
Patient acuity*	Basic	Low	Intermediate	High	Very high			
Annual approximate (\$ 000's)	11.0	16.0	22.0	30.0	40.0	48.0	58.0	78.0

Note: Patient care needs not yet defined under support at home program. Estimated based on current support levels
Source: Support at Home program handbook

- ▶ Funding per person under the new Support at Home arrangements are largely consistent with current levels with only level 8 allocated a higher budget
- ▶ The higher classification may put some downward pressure on RAC uptake however the care needs of most RAC clients are generally significantly higher than those in HC

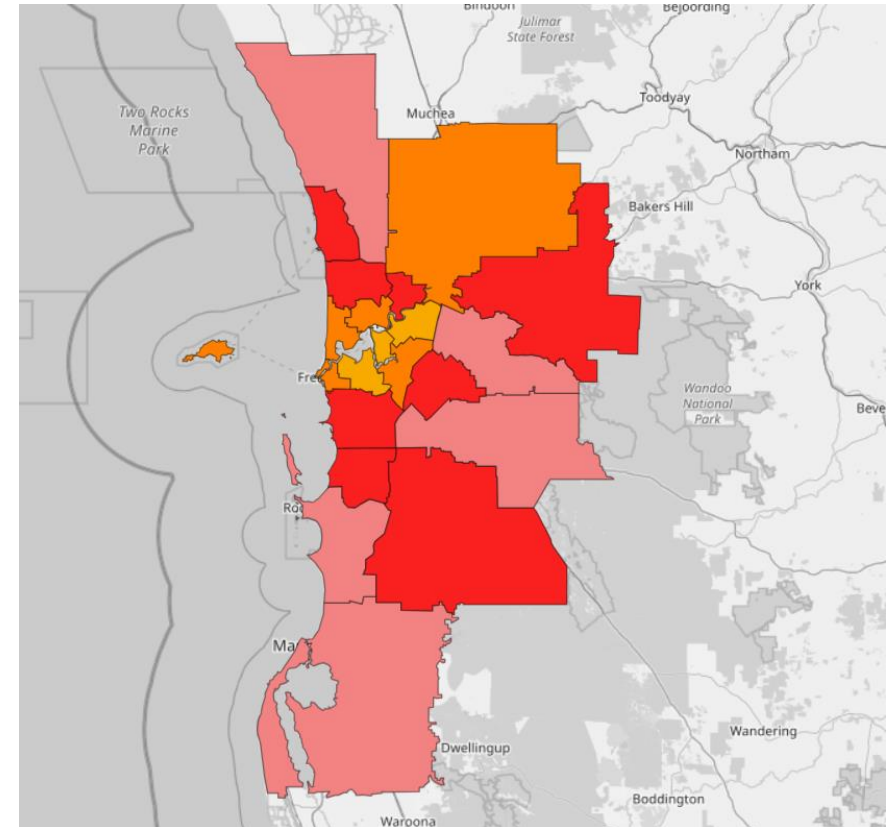
Continued high demand for RAC is coinciding with acute supply pressures in some areas of Greater-Perth which may be greater than suggested in the data due to offline capacity

DRAFT

The majority of Greater Perth is operating at close to full capacity at levels of 90% or above

- ▶ The average occupancy rate for Greater Perth was 90% in 2023 according to official Commonwealth data sources
- ▶ 40% of Greater-Perth's SA3 regions recorded occupancy rates of greater than 95% and above which would be indicative of full capacity (given turnover of one third of residents each year on average)
- ▶ Concerns have been raised around the accuracy of Commonwealth data on the number of operational beds which may overstate the number of online beds. Based on our consultations with providers, the experience on the ground suggests that there is very little capacity in facilities to accept new permanent residents
 - Data is compiled from the Australian Institute of Health and Welfare's ("AIHW") GEN database
- ▶ Given the high waitlists, both in the community and in patients awaiting aged care services in hospital, there appears to be limited capacity across metropolitan Perth

Residential aged care occupancy in Greater Perth by SA3, 2023



Occupancy:

Under 85% 85% to 90% 90% to 95% 95% and above

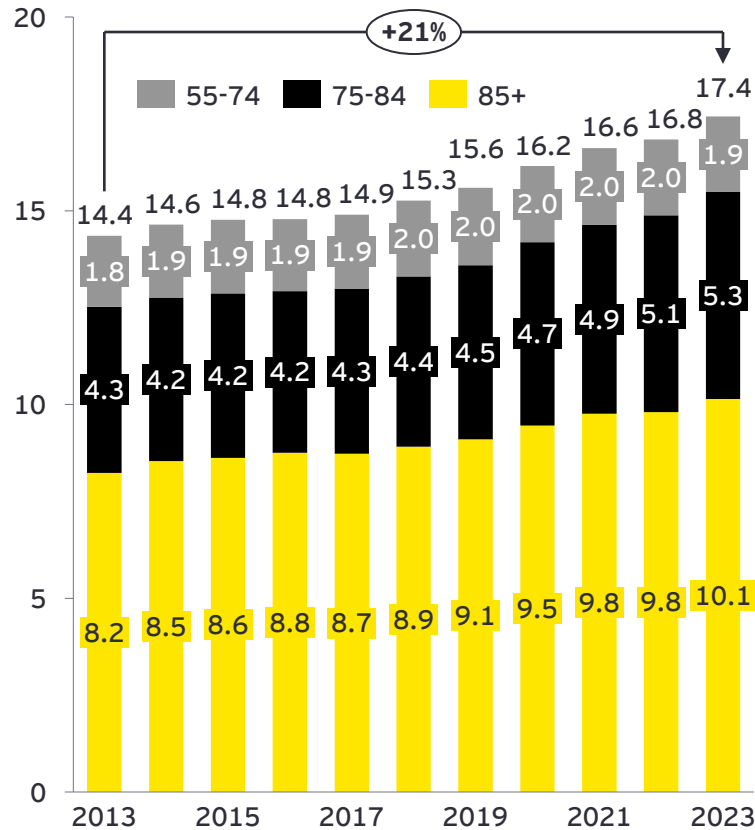
* Note: Providers accounting for ~60% of the market currently operate at occupancy ~95% in metro regions, implying that reported Federal Government capacity is likely overstated in some locations. We suspect areas under 85% occupancy to have higher occupancy than that is shown from publicly available data.

3

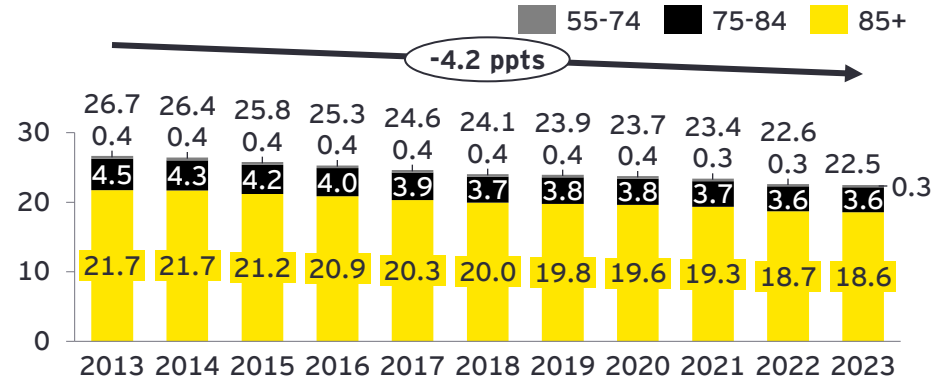
Demand and supply of aged care beds

Demand for residential aged care in WA has grown by 21% over the last decade despite the proportion of people using aged care declining 4.2ppts

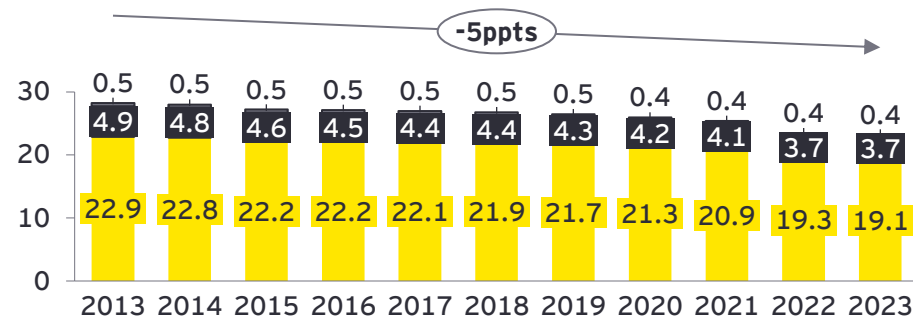
Residential aged care use in WA by age
Thousand persons



Share of people in residential aged care by age cohort in WA
% share of total population



Share of people in residential aged care by age cohort in Australia
% share of total population



Commentary

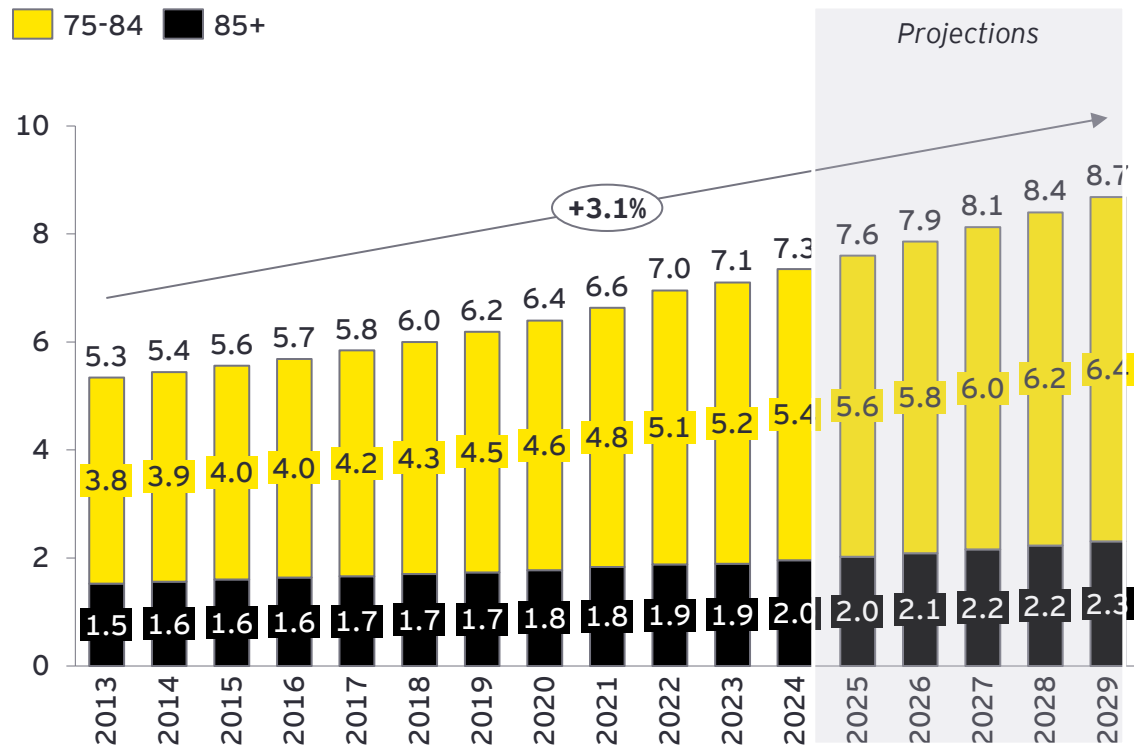
- ▶ The number of people in residential aged care has increased by 21% over the last decade to reach 17.4k residents
- ▶ Around 60% of residents are aged 85+ and 30% aged 75-84
- ▶ Despite higher numbers, the share of the individuals in residential aged care as a share of the total population has decreased 4.2ppts in WA over the decade
- ▶ The decline in residential aged care use as a share of the population is consistent with trends nationally which has declined by 5ppts over the same period
- ▶ The decline coincides with the increase in Commonwealth Home Care Packages which have enabled people with higher care needs to live longer in the home
- ▶ Our forecasts on future demand of residential aged care assumes that these trends are expected to continue over time, and ultimately this trend is expected to determine the number and locations of beds required

Source: AIHW GEN database

Demand for residential aged care services will continue as WA's population ages with the share of people aged 75+ growing to 8.7% by 2029

Share of age cohort by total WA population

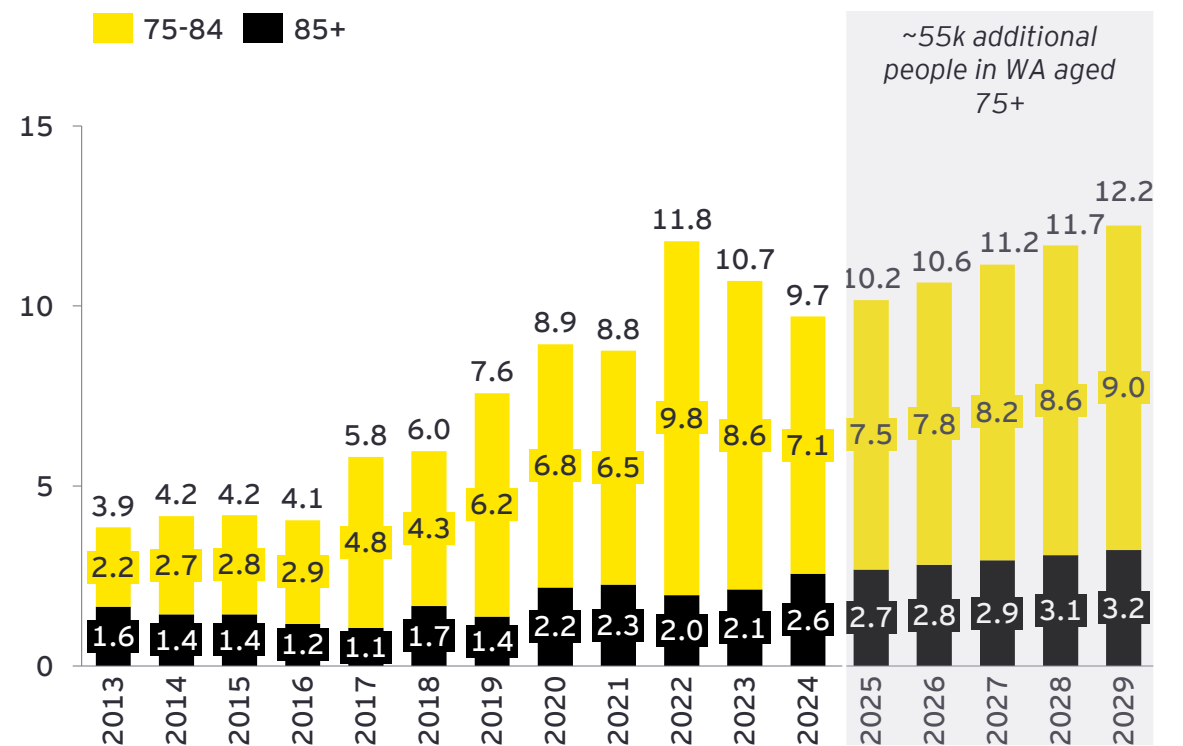
% share of total population



Source: ABS WA historical population and ABS WA population forecast medium series

Net population increase by cohort in WA

Thousand persons

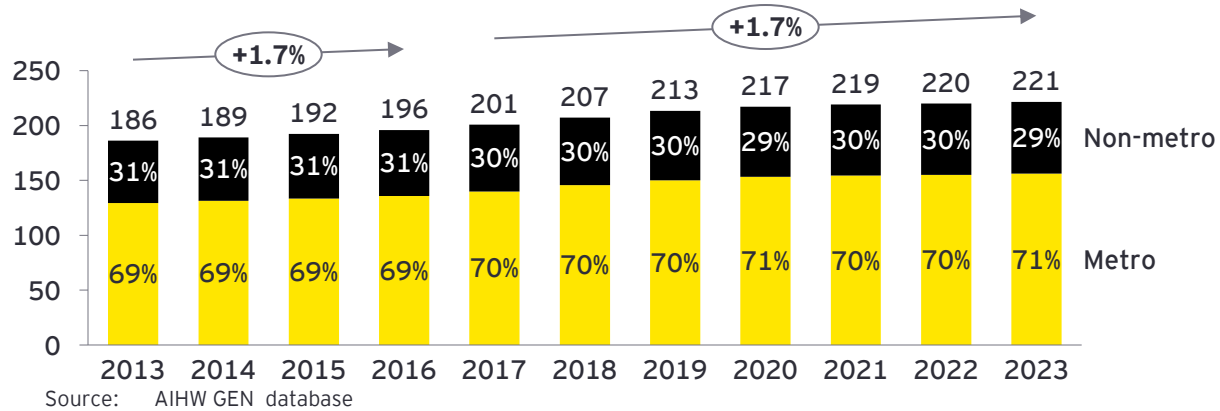


Source: ABS WA historical population and ABS WA population forecast medium series

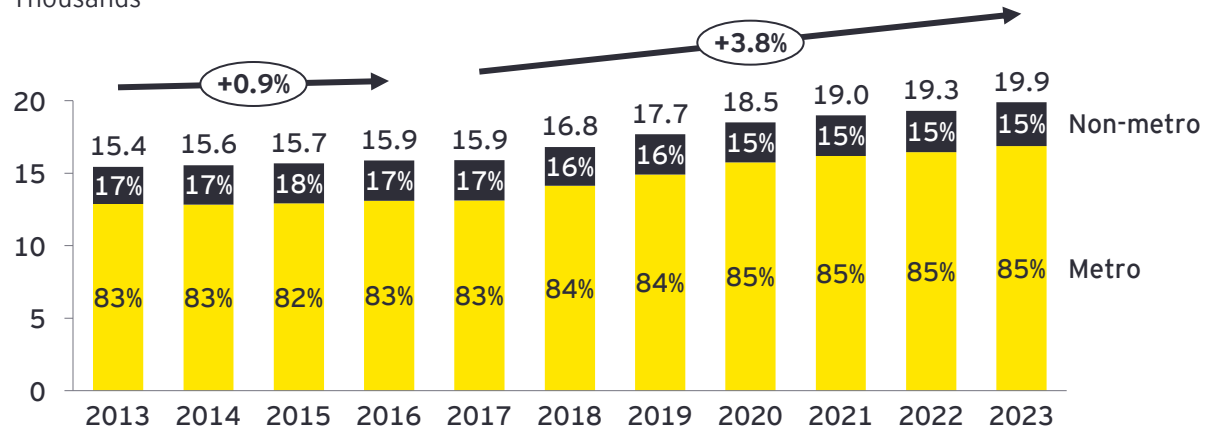
Note: Approximately 58% of people living in permanent residential aged care (RAC) in Australia are aged 85 and over, while over 30% are aged between 75 and 84. The 65-74 age group accounts for ~10% of total permanent RAC residents in Australia.

Official data suggests RAC supply has increased in recent years with a net increase of 600-900 beds per year since 2017, however the number of online will be lower than 19.9k

Number of Residential Aged Care beds in Australia
Thousands



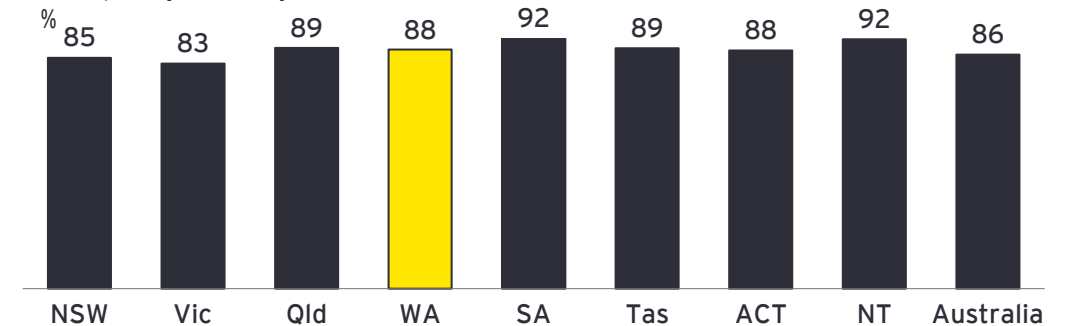
Number of Residential Aged Care beds by region in WA
Thousands



Commentary

- ▶ RAC beds have increased steadily across Australia over the decade increasing by 1.7% p.a. noting that there has been little growth since 2021 due to COVID, financial viability issues and uncertainty over funding reforms
- ▶ This contrasts to reported operational beds in WA which has increased more sharply growing by 3.8% p.a. since 2017 translating to an increase of between 600 to 900 beds per year with most of the growth occurring in metro areas
- ▶ The data collected by the Commonwealth Department of Health and Aged Care ("DoHAC") suggests that occupancy rates are around 88 per cent in WA
- ▶ The Aged Care Financial Report submitted by providers reports occupancy in residential care, however this also includes offline beds which may have been taken offline due to factors such as workforce shortages, unsaleable rooms (i.e. shared rooms) or site redevelopments. Accordingly, based on consultations with providers we expect that the occupancy of online beds is materially higher than the 88% reported by the DoHAC.

Occupancy rates by State, 2022-23

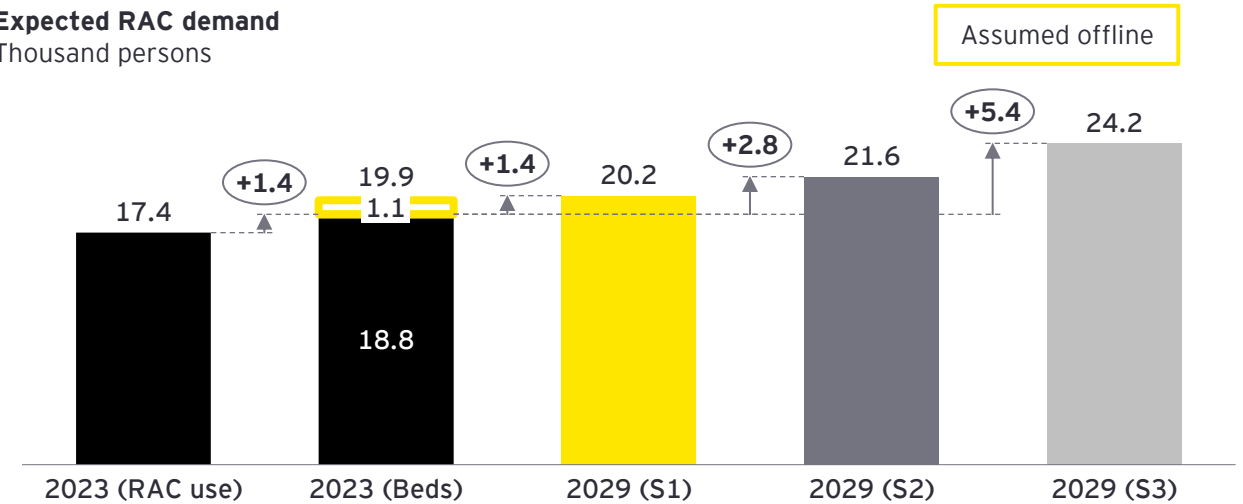


Up to 2,800 new beds are needed at a cost of up to \$1.4b noting uncertainty due to rising share of support at home

Modelling future demand for RAC

- ▶ Based on WA's population forecasts we expect demand to continue to increase however there is significant uncertainty over the medium term and a range of modelled outcomes:
- ▶ **Internal Commonwealth modelling:** We have received modelling from the Commonwealth Department which suggests that there will be limited growth in RAC uptake to the end of this decade in WA
 - ▶ We understand the modelling is built on the assumption that there will be significant uptake in Support at Home packages
 - ▶ We have modelled a scenario (S1) where it is assumed that the share of population using aged care continues to decline in line with the last decade, broadly in line with Commonwealth modelling
- ▶ **Financial report on Australian Aged Care sector ("FRAACS") modelling:** suggests 50,000 beds are needed by end of the decade nationally. WA accounts for approximately 10% of the RAC market, suggesting ~5,000 additional beds are needed
 - ▶ We have modelled a scenario (S3) which assumes the share using aged care converges in line with the national average and is held constant which is in line with the FRAACS forecast. This suggests that there is no further transition towards home care which we think is unlikely given recent trends and the new Support at Home arrangements
- ▶ Given the uncertainty around effects of the new Support at Home arrangements, we have provided a **central scenario (S2)** which assumes the transition towards more care at home continues for the next 3 years (following Support at Home roll out commencing July 2025) before normalising and growing in line with population growth

Expected RAC demand Thousand persons



Source: ABS WA historical population and ABS WA population forecast medium series, GEN aged care, EY analysis

Implications for supply

- ▶ RAC demand is expected to increase to between 20.2k and 21.6k by 2029 if home care transition continues. The upper range of 24.2k is unlikely given recent trends and Support at Home arrangements.
- ▶ We have assumed that there are currently 18.8k operational beds (taking into account reduced capacity due to offline beds)
- ▶ This implies a growth task of between 1,400 to 2,800 additional beds needed in WA by 2029 under scenarios 1 and 2 where there is a continued transition towards care at home, based on a construction cost of \$500k per bed
- ▶ This implies investment needs of between \$700m and \$1.4b in new capacity in real terms, however ultimately depends on the cost per bed, which will vary depending on location and design of the facility
- ▶ This does not account for investment in existing capacity which would include maintenance and replacement of aging stock which is understood to be significant in WA

WA metro SA3 key statistics summary

SA3s throughout WA (both metro and regional) experience different levels of demand, supply and growth. The table below and overleaf provides information regarding each SA3 around key demand age groups, supply of RAC beds and key population growth areas compared both the WA and national average.

SA3 Name	Metro / Non-metro	RAC sites	Beds	75+ population	85+ population	Share of 85+ population			85+ population growth			Population 85+ per bed	
						SA3	WA	National	SA3	WA	National	SA3	National
Armadale	Metro	6	330	5,475	1,322	1.2%	1.9%	2.2%	8.4%	4.7%	4.1%	4.01	2.7
Bayswater	Metro	8	622	7,328	2,007	2.3%			2.7%			3.23	
Belmont	Metro	8	618	4,692	1,264	1.6%			0.4%			2.05	
Canning	Metro	15	1,349	7,508	1,985	1.5%			0.7%			1.47	
Cockburn	Metro	9	816	7,804	2,130	1.6%			6.6%			2.61	
Cottesloe	Metro	10	909	7,466	2,162	3.0%			2.2%			2.38	
Fremantle	Metro	7	762	3,974	1,202	2.9%			3.2%			1.58	
Gosnells	Metro	6	468	8,459	2,129	2.0%			5.9%			4.55	
Joondalup	Metro	10	638	13,200	3,102	1.9%			6.1%			4.86	
Kalamunda	Metro	6	405	5,838	1,560	2.5%			6.4%			3.85	
Kwinana	Metro	1	131	2,601	628	1.1%			17.0%			4.80	
Mandurah	Metro	10	860	12,894	3,441	3.1%			4.0%			4.00	
Melville	Metro	15	1,237	10,974	3,312	3.0%			1.2%			2.68	
Mundaring	Metro	2	167	4,393	1,001	2.1%			8.4%			6.00	
Perth City	Metro	25	1,844	7,553	2,078	1.6%			1.9%			1.13	
Rockingham	Metro	8	770	8,875	2,156	1.4%			3.4%			2.80	
Serpentine	Metro	1	68	1,584	345	0.8%			10.6%			5.08	
South Perth	Metro	9	923	4,070	1,138	2.5%			1.6%			1.23	
Stirling	Metro	20	1,857	18,623	5,594	2.6%			2.1%			3.01	
Swan	Metro	8	714	8,064	1,888	1.0%			8.7%			2.64	
Wanneroo	Metro	11	1,159	12,291	3,186	1.2%			8.3%			2.75	

Source: ABS, Gen aged care, EY analysis

WA regional SA3 key statistics summary

SA3 Name	Metro / Non-metro	RAC sites	Beds	75+ population	85+ population	Share of 85+ population			85+ population growth			Population 85+ per bed	
						SA3	WA	National	SA3	WA	National	SA3	National
Albany	Non-Metro	8	500	6,909	1,834	2.0%	1.9%	2.2%	4.6%	4.7%	4.1%	3.67	2.7
Augusta, Margaret River and Busselton	Non-Metro	5	463	5,785	1,472	1.8%			5.8%			3.18	
Bunbury	Non-Metro	10	814	9,481	2,368	1.8%			5.1%			2.91	
East Pilbara	Non-Metro	1	56	343	45	0.1%			15.5%			0.81	
Esperance	Non-Metro	1	104	1,564	393	1.5%			7.1%			3.78	
Goldfields	Non-Metro	3	140	1,545	337	0.6%			10.6%			2.41	
Kimberley	Non-Metro	4	166	1,010	156	0.3%			10.8%			0.94	
Manjimup	Non-Metro	4	137	2,747	608	1.2%			7.4%			4.44	
Mid West	Non-Metro	3	281	4,838	1,168	1.4%			4.7%			4.16	
West Pilbara	Non-Metro	1	30	382	30	0.0%			15.5%			0.98	
Wheatbelt (North)	Non-Metro	4	156	5,960	1,355	1.1%			5.9%			8.69	
Wheatbelt (South)	Non-Metro	4	161	2,048	517	1.0%			3.1%			3.21	

Source: ABS, Gen aged care, EY analysis






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Investment in new aged care beds

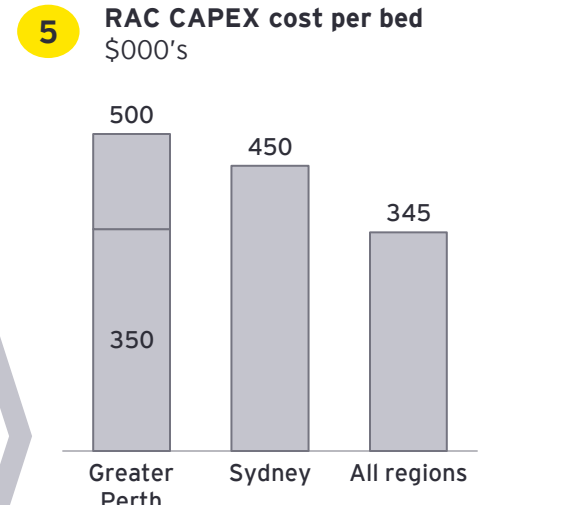
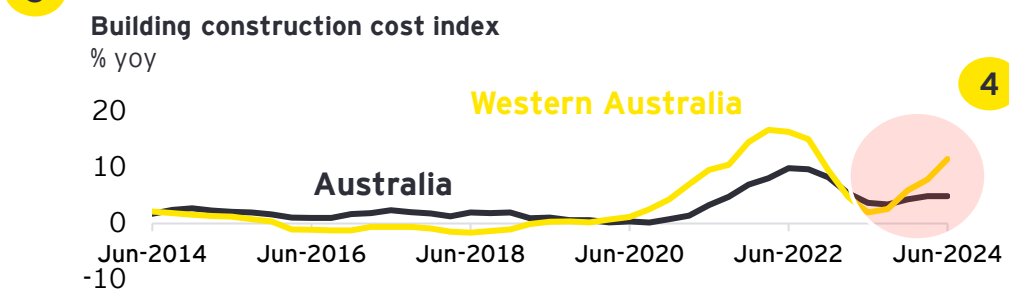
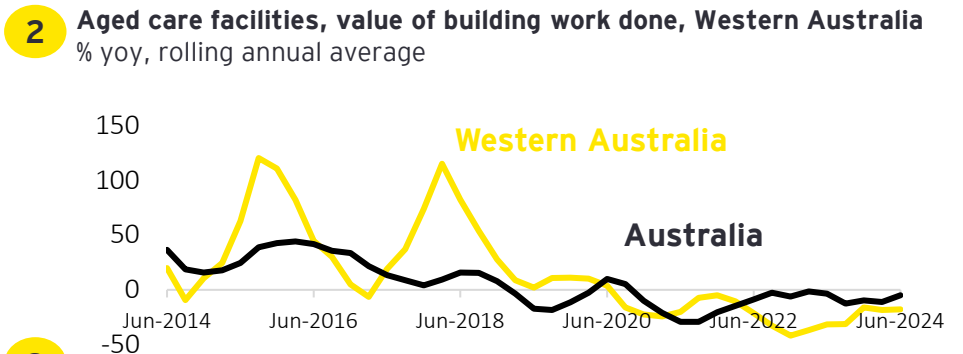
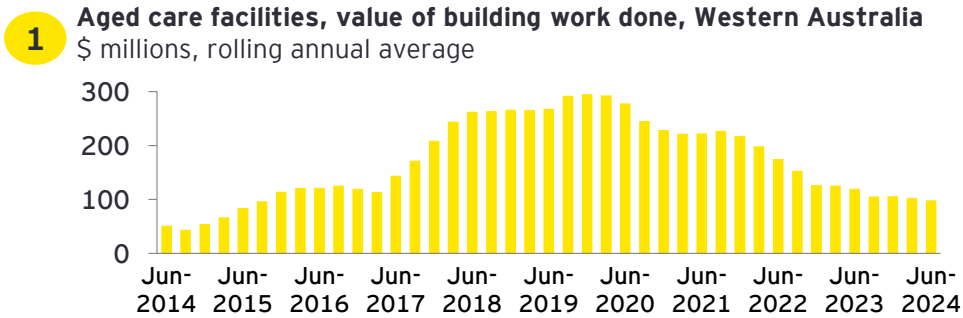
The investment outlook has improved considerably following funding reforms at both the State and Commonwealth level but construction capacity is a key headwind

Our current view of the key factors of investability are set out below. There are a number of other factors driving investability, however the below factors represent the most relevant in the current market.

This view has been informed from consultation with providers. This is an important starting point in framing to understand current state, risk factors and the impact this may have on growth.

Factor of investability	Comments	Current view
Sustainable operational funding	Through the funding reform, significant changes have occurred for RAC, including the replacement of ACFI, case mix classification, RADs and RADs retention, hotel supplements, and WA reforms to TCP	
Viable construction costs	High construction costs, lengthy approval processes, and limited availability of contractors can act as significant barriers, increasing the risk and expense associated with developing new aged care facilities	
Access to credit	Consultations with major lenders have revealed that they are cautiously optimistic on the outlook for RAC however lending appetite is still constrained due to high construction costs and weakness in balance sheets as a result of pre-AN-ACC period with smalls providers deemed high risk	
Sufficient workforce supply	Some providers have reported that workforce pressures may have eased in metro areas. Workforce remains an issue in regional WA with challenges associated with accommodation	
Supportive regulatory settings	Removal of bed licenses has created a more competitive market removing a key barrier to entry Recent quality and safety reforms will contribute to investment in high quality facilities. While some reforms will increase the cost base (e.g. care minutes) this has been broadly offset by increased funding levels	

Investment in WA aged care facilities has more than halved since its peak in 2019-20 with construction costs amongst highest in the country



- ▶ Feedback from providers and financiers suggest the construction costs per bed range from \$350k-\$500k per bed in Perth
- ▶ Based on EY analysis of high-quality builds occurring today, the average capital cost per bed across Australia is \$345k with the vast majority single story
- ▶ Build costs in Greater Sydney are higher at around \$450k as facilities are typically multi-storey and require underground car parks
- ▶ Multi-story facilities are occurring in WA, and construction costs are similar

Commentary




- 1** Value of building work done on residential aged care facilities in WA has fallen from a peak of close to \$300m annually in 2020 to \$100m in 2024 - its lowest level since 2015
- 2** Investment in RAC facilities has been declining since June 2020 which is broadly in line with what has been seen elsewhere across the country
- 3** Construction costs increased sharply during COVID across the country but the pressures were particularly strong in WA
- 4** Construction costs have moderated in line with inflation nationally however have recently spiked in WA
- 4** Construction costs in WA have increased by 47% since June 2020 compared to 32% nationally
- 5** Reported construction costs per bed are around 40% higher in Greater Perth compared to other capital cities excluding Sydney where costs are elevated due to the general need for onsite, underground parking facilities and multi-level

Key consideration



The cost of construction is critical to new supply. Where costs are too high, there is no financial justification to build new beds. Accordingly, policy levers to lower the investment needed will be important. The release and discounted sale of land is one way to help bridge the gap to an appropriate development cost.

Source: ABS Building Activity Australia Table 51, 56; ABS Producer Price Index Construction Outputs, stakeholder interviews, EY analysis

Key investment themes (1/2)

Investability factor	Commentary
 <p>Sustainable operational funding</p>	<ul style="list-style-type: none"> ▶ In 2022, the AN-ACC replaced ACFI, providing more equitable funding to RAC providers ▶ Key changes includes: case mix classification system, funding based on a variable fixed and one-off payment, daily fee supplement, care minutes, independent assessments ▶ By 2035, RADs for aged care accommodation is to be phased out to be replaced with a resident rental model ▶ The 2% retention of RADs will support capital base and is likely to come in from [1 July 2025], allowing a material injection to providers' profit margins ▶ IHACPA to provide advice on the appropriate Hotelling Supplement to ensure providers can supply high quality hotelling services ▶ The sector is viewing the funding reforms as a broadly positive step to ensure the sector is viable in the long-term ▶ We have heard that concessional resident funding may not be as attractive as RAD/DAP paying residents, particularly for facilities that have debt owing to financiers from the construction (as RADs are the key cash flow source to repay debt)
 <p>Viable construction costs</p>	<ul style="list-style-type: none"> ▶ Consultations noted planning and availability of land as a barrier, where lead times for the planning process are extensive and time-consuming ▶ Consultations with industry providers has seen the cost at \$500k per RAC bed, however this will vary based on construction design (single/multi story) and location ▶ WA's construction market experiencing labour workforce shortages resulting in a reduction of available and appropriate builders to complete new builds and refurbishment works ▶ The costs to refurbish facilities is typically higher than a knock-down and rebuild due to design changes
 <p>Access to Credit</p>	<ul style="list-style-type: none"> ▶ Banks seek financial stability in providers and proven builders to ensure project success before granting loans ▶ Credit approval depends on the builder's track record for delivering quality construction on schedule ▶ Smaller aged care providers often struggle with credit access due to higher perceived risks and limited financial leverage ▶ Financiers have commented that some providers have been focused on balance sheet repair due to financial challenges pre-AN-ACC

Key investment themes (2/2)

Investability factor	Commentary
 <p>Sufficient workforce supply</p>	<ul style="list-style-type: none"> ▶ The aged care workforce is experiencing significant shortages, especially in regional areas ▶ Some leading metro providers noted that they have access to sufficient workforce, which is broadly against the national experience ▶ In the WA market, aged care workforce shortages persist more commonly in regional areas ▶ Workforce shortages in regional areas are largely due to challenges in attracting and retaining staff as well as finding sufficient accommodation ▶ Providers have been applying for capital grants from the Commonwealth Government to assist with construction of staffing accommodation, but the grant program has limited funds to spread across Australia ▶ Regional accommodation for aged care workers has been impacted by the FIFO workforce demand ▶ The Commonwealth has led efforts to boost the aged care workforce supply through migration channels, including the Pacific Australia Labour Mobility scheme and aged care Industry Labour Agreement
 <p>Supportive regulatory settings</p>	<ul style="list-style-type: none"> ▶ Since the removal of ACAR, the value of bed licenses for providers have been progressively written off ▶ This is expected to create a more competitive market, older homes are likely to be less competitive due to the ability of a provider to enter a new region or area ▶ Older or more run-down homes will be put under pressure to compete with new or expanding providers providing more contemporary homes ▶ Licenses in the hands of the consumer is likely to continue to apply demands on quality of facilities/rooms

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Appendices

- Abbreviations
- Data sources and methodology

Abbreviations

Abbreviation	Description
\$	Australian dollars
%	Percent
~	Circa (approximately)
ABS	Australian Bureau of Statistics
ACAR	Aged Care Approvals Round
ACFI	Aged Care Funding Instrument
AIHW	Australian Institute of Health and Welfare
AN-ACC	Australian National Aged Care Classification
b	Billion
BCT	Base care tariff
CAGR	Compound annual growth rate
CFP	Centre for Population Projections
DAP	Daily accommodation payment
DoHAC	Department of Health and Aged Care
EBITDA	Earnings before interest, taxation, depreciation and amortisation
EY	Ernst & Young
FRAACS	Financial report on Australian Aged Care sector
FYXX	Financial year 20XX
GST	Goods and Services Tax
HC	Home Care
HCP	Home Care Package
IHACPA	Independent Health and Aged Care Pricing Authority
k	Thousands
MPIR	Maximum permissible interest rate
NPV	Net present value
p.a.	Per annum
RAC	Residential Aged Care

Abbreviation	Description
RAD	Refundable Accommodation Deposit
SA3	Statistical Area Level 3
SIRS	Serious Incident Reporting Scheme
TCP	Transition Care Program
WA	Western Australia
WA DoH, The Department, you, Client	WA Department of Health

Appendices

Section 1: Data sources and methodology

Data sources used for analysis

Data	Source
Aged care site listing	GEN Aged Care
Home care packages	
Aged care usage	GEN Aged Care - People using aged care and people using residential aged care
Australian historical population (Aus population stock)	ABS - Population - Australia (population at 30 June 1971 onwards)
Australia population (Forecast)	ABS - Population projections, by age and Sex Australia - medium series
WA historical population (WA population stock)	ABS - Population - WA (population at 30 June 1971 onwards)
WA population (Forecast)	ABS - Population projections, by age and Sex WA - medium series
SA3 level population forecast	Bespoke analysis underpinned by various State Government forecasts and Centre for Population Projections ("CFP") (Appendix section 1 - SA3 population forecast methodology)

Statewide forecast methodology

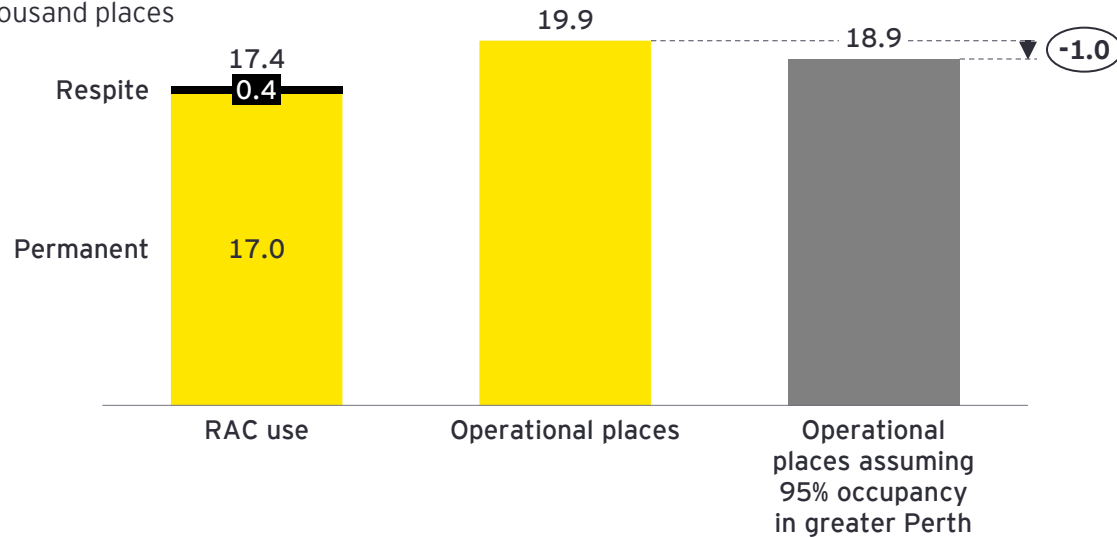
Through consultation with both providers and market commentators, a consistent message that is WA reported beds are higher than actual operating beds.

Issues with reported beds:

- ▶ 2023 service places data from the GEN Aged Care data based reported 16,879 metro beds and 3,008 non-metro beds in WA.
- ▶ Metro occupancy in 2023 was 89% and non-metro occupancy was 81%.
- ▶ Operators accounting for ~60% of WA RAC market have nearly all reported over 95% occupancy and a waitlist of over 2,462 over 104 facilities.

RAC use vs operational places in WA, 2022-23

Thousand places



Accounting for offline beds:

- ▶ Consultations with major providers have resulted in a view that metro Perth is operating at close to full capacity (~95%), and that current number of RAC residents reported in metro Perth accounts for 95% of current operating beds (i.e. current occupied beds in addition to the 5% unoccupied beds are the full metro Perth stock of beds).
- ▶ Approximately 85% of WA RAC beds are within the metro region along with many offline beds in non-metro areas being driven by staffing, no estimate of non-metro offline beds have been made.

WA population forecast:

- ▶ WA level population was forecasted by age cohorts (55-74, 75-84 and 85+) using ABS 2023 figures as initial stock and growing the stock by the medium projection series

Conversion rates:

- ▶ There is unmet demand in the WA RAC market, the magnitude of which is unknown. Directly calculating the conversion rate into RAC for age cohorts in WA understates the actual demand for RAC services. Assuming WA's population is similar to that of the rest of Australia, WA's actual conversion rate is expected to broadly align with national conversion rates
- ▶ As such, the national conversion rate was used when testing scenarios for future RAC bed demand
- ▶ Conversion rates were calculated by the same age cohorts as the population forecasts

Scenarios:

- ▶ Scenario 1 (S1) – The share of population using residential aged care continues to decline in line with the last decade as higher needs Home Care package uptake increases as introduction of additional support at home packages are introduced (i.e. continuing the decline in penetration rate for age cohorts 55-74, 75-84 and 85+ over the last decade over the following 6 years (2024-2029))
- ▶ Scenario 2 (S2) – Similar to S1, however this scenario assumes the decline in RAC conversion rates will only persists for 3 years (from 2024 to 2026) and plateauing into steady state (i.e. RAC demand after 2026 increases by population growth as the penetration rate for each age cohort remains constant)
- ▶ Scenario 3 (S3) – S3 assumes the new support at home arrangements do not have any effect on RAC penetration rates (i.e. a top bound scenario where RAC demand increases by population growth rate) and current penetration rate stays the same

SA3 population forecast methodology

- ▶ Government forecasts at predominantly SA2 levels. These forecasts are obtained through public sources which has figures for 2024 to 2029
 - ▶ The Compound annual growth rate (“CAGR”) is calculated from historical SA2 data for 2016 to 2021
 - ▶ CAGR based on government forecasts at a SA2 level for years 2021 to 2026 and 2026 to 2031 was also calculated
 - ▶ 2019 population is calculated using the 2016 to 2021 CAGR
 - ▶ 2024 population is calculated using the 2021 to 2026 CAGR
 - ▶ 2029 population is calculated using the 2026 to 2031 CAGR
- ▶ Dampening factors are applied in accordance to the CFP to adjust the forecasts to the national population amount for 2019, 2024 and 2029
- ▶ SA2 growth rates are then applied at an SA1 level and then adjusted to ensure they match with the national population amounts at a SA1 level (i.e. all SA1 areas within an SA2 region sum up to the total SA2 population)
- ▶ SA3 level population is calculated as the sum of the population in all SA1 regions within a SA3 region.