

ANALYSIS OF FAIR WORK COMMISSION AWARD INCREASES (JULY 2023)

Abstract

The Government announced additional funding for residential aged care Providers totalling \$11.1 billion in the 2023-2024 budget. This includes \$10.1 billion Australian National Aged Care Classification (AN-ACC) funding over 4 years, increasing the AN-ACC price care components from \$206.80 per bed day (pbd) to \$243.10 pbd. The increase consists of two parts:

- o \$7.6 billion to align with the 15% award wage increase (at the average of 200 direct care minutes)
- o \$2.5 billion in indexation to cover other cost increases

The Independent Health and Aged Care Pricing Authority (IHACPA) published a technical report in May 2023 showing that \$22.76 per bed day (pbd) out of the \$36.30 pbd increase in AN-ACC price is allocated to the Fair Work Commission (FWC) interim wage increase of 15% for direct care staff including recreation and lifestyle workers, with the remaining \$13.54 being allocated to superannuation guarantee increase, inflation and other wage adjustments.

Based on our initial modelling, the AN-ACC funding package announced should be sufficient to cover the Fair Work Commission ruling to increase the wages of direct care staff including recreation and lifestyle workers by the amount of the award increase from 30 June 2023 at the average aggregate level. As is the case with all subsidies, there may be some Providers who have a greater benefit and some who have a lesser benefit.

FWC 15% Award Increase

In the technical report provided by IHACPA, the starting point is the previous AN-ACC price of \$206.80 per resident per day with the implicit assumption that it includes sufficient funding for the average 200 direct care minutes target across the residential aged care sector. IHACPA calculated each component included in the starting price adjusted by historical inflation and wage increases, and applied the respective pay rise percentage to each component, as stated in below table:

Staff component	Proportion	Adjusted AN-ACC price (\$ per bed day)	FWC Adjustment	Price after Adjustment (\$ per bed day)	Increase (\$ per bed day)
Nursing (RN and EN)	30.1%	64.17	11.5%	71.54	7.37
Personal care workers and recreational activity officers	48.2%	102.63	15.0%	118.03	15.40
Other labour	9.1%	19.37	0.0%	19.37	0.00
Other direct care costs	12.6%	27.13	0.0%	27.13	0.00
Total	100%	\$213.30	10.7%	\$236.06	\$22.76

The FWC adjustment for nursing (registered and enrolled) excludes those direct care staff who are already being paid 15% or above award rate, which is estimated by IHACPA to be 23.43% of the total nursing staff based on a fair work survey.

The Government, through the Department, advised residential aged care Providers to pass the FWC award increase amount to all eligible staff, including those paid above the award rate, and the below analysis evaluates the impact of this on Providers.

Analysis

The following analysis of the FWC 15% pay increase is based on the data from the StewartBrown Survey for the nine months to Mar-23. The award rates used in the analysis are based on the *Aged Care Worker Wages Guidance* issued by the Department, and for which the Providers need to pass on the equivalent \$ amount relating to the 15% award increase.

The below table, which is sourced from the StewartBrown Survey, shows that the average hourly costs including on-costs (excluding workers compensation premium and payroll tax which amount to an average of only 3% of the costs) is for Registered Nurses \$72/hr, Enrolled Nurses \$52.55/hr, Personal Care Staff \$44.48/hr and Recreational/Lifestyle \$37.36/hr.

Based on the median award rate for Registered Nurses at \$36.09/hr, plus 28% on costs, \$6.97/hr increase in the hourly rates needs to be passed on to this staff category (on average), which is 10% of the average rate Providers are currently paying for RN staff. *With the assumption that the 200 direct care minutes target had been fully funded under the \$206.80 AN-ACC starting price*, the increase of the AN-ACC price is sufficient to fund the FWC 15% pay rise of existing nursing staff. Providers are potentially over-compensated by the FWC adjustment rate at 15% for personal care workers in the AN-ACC increase price calculated by IHACPA, as compared to the estimated rate of 10% based on StewartBrown survey data. This is also the case for nursing staff.

Labour Category	Worked hourly cost (A)	Median award rate (B)	Rate after 15% pay rise (Bx15% = C)	Base rate to pass on (C – B = D)	28% on costs + Super increase (Dx28.65% = E)	Hourly rate increase to pass on (D+E = F)	Pass on rate as % of current Cost (F / A)
Registered Nurses	\$72.00	\$36.09	\$41.50	\$5.41	\$1.55	\$6.97	9.7%
Enrolled Nurses	\$52.55	\$25.89	\$29.77	\$3.88	\$1.11	\$5.00	9.5%
Personal Care staff	\$44.48	\$23.80	\$27.37	\$3.57	\$1.02	\$4.59	10.3%
Recreational/Lifestyle	\$37.36	\$23.80	\$27.37	\$3.57	\$1.02	\$4.59	12.3%

Direct Care Result

StewartBrown Survey YTD Mar-23 showed an average operating loss at **\$(15.74)** pbd for mature facilities, with **\$5.40 pbd** surplus from direct care services. Currently, Survey participants have average direct care minutes of 188.41 per resident per day including 31.37 RN minutes. With the average 200 direct care minutes including 40 RN minutes becoming mandatory from October 2023, direct care labour costs will be further increased. The below analysis evaluates the impact of the new AN-ACC price together with the additional labour costs attached to mandatory direct care minutes to residential aged care Providers' operating results.

\$ per bed day	YTD Mar-23	Adjusted to meet 200 Minutes	Indexed for New AN-ACC Starting Price and 15% Pay Increase + inflation	Indexed for New AN-ACC Starting Price + both 15% and 5.75% pay increases + inflation
Direct care subsidy & supplements	209.76	209.76	246.58	246.58
Other direct care income	1.52	1.52	1.58	1.58
Direct care revenue	211.28	211.28	248.16	248.16
Registered nurses	37.65	48.00	52.93	54.72
Enrolled and licensed nurses	10.93	10.93	12.03	12.43
Other unlicensed nurses/personal care staff	107.16	109.36	121.31	125.66
Total direct care labour costs	155.73	168.29	186.27	192.82
Care management	9.40	9.40	9.78	9.78
Allied health	7.19	7.19	7.48	7.48
Lifestyle/ Recreation/ Activities Officer/ Diversional Therapy	4.65	4.65	5.25	5.47
Workers' compensation - care services	4.14	4.43	4.88	5.04
Payroll tax - care services	0.36	0.38	0.42	0.44
Total direct care labour costs	181.47	194.34	214.09	221.03
Other direct care costs	6.99	9.71	10.39	10.39
Expenditure - direct care services	188.46	204.05	224.48	231.42
Administration - direct care overhead allocation	17.41	17.41	18.51	18.51
Direct care expenditure	205.87	221.46	242.99	249.93
Direct care result	\$ 5.40	\$ (10.19)	\$ 5.17	\$ (1.77)

Methodologies and Assumptions

Direct care labour costs are extrapolated to meet 200 average direct care minutes, COVID-19 grants currently cover some of the labour costs, and this has been eliminated in the adjusted 200 minutes result. It is estimated that additional \$15.59 pbd costs will be required to meet the direct care target without taking any indexation into consideration.

It is assumed that the FWC 15% increase to be passed on to eligible staff is \$17.56 pbd. The additional 5.75% minimum award increase to pass on to direct care staff and lifestyle worker is calculated to be \$6.73 pbd using the same methodology stated previously. As most staff are currently paid higher than award rate, 5.75% increase of minimum award rate is assumed to be an average of 3.5% increase for other (non-direct care) labour categories. All labour will be eligible for the superannuation guarantee increase and all other direct care costs will be increased by 7% as per current inflation rate. Direct care funding will be increased by 17.6% as per the AN-ACC price increase rate.

After applying above stated indexation rate, the direct care result is calculated to be an average loss of **\$(1.77)** pbd after the 15% and 5.75% pay rise compared to the current surplus at \$5.40 pbd (Mar-23 YTD), and this is a \$7.17 pbd decrease, and will deteriorate the current operating deficit. *This loss will be greater for Providers where their average direct care minutes are lower than the sector average of 188.41 minutes per resident per day and they will be required to make up the differential.*

Summary

The Government's commitment to fully fund the FWC ruling to increase direct care workers, recreational officers and head chefs/cooks by 15% has been met with the budget announcement. Providers who currently meet their direct care minutes target will benefit from the surplus in funding after passing on the 15% pay rise of award to staff.

Based on the UTS Ageing Research Collaborative's latest analysis as of December 2022, only 9.8% of homes have sufficient staffing to meet all direct care minimum minutes target, and the majority of Providers have not met their direct care minutes yet. Survey participants on average will need an additional \$15.59 pbd in direct care costs to hit the target.

The additional 5.75% award increase from 1 July 2023 places increased financial burden on the Providers, and subsequently may result in an average projected deficit in the direct care result, which is not a financially sustainable position.

Financial Sustainability

The next critical step for the sector is to consider funding options to ensure the financial sustainability improves to deliver future investment, innovation, and a more diversified care service delivery.

The recent results of the Survey (refer graph below) continue to demonstrate the taxpayer government funding for direct care (AN-ACC) provides coverage for the supply of direct care services. This result is prior to the effect of the FWC interim award ruling effective from 30 June 2023 and the FWC minimum award ruling effective from 1 July 2023, and the subsequent AN-ACC price increase from 1 July 2023 which is the basis of the previous analysis in this paper.

The margin for direct care has continued to decrease since 2017 and this should be under continual review by IHACPA to ensure that there is no financial reason for direct care service delivery to decline.

It is in the areas of providing indirect care (everyday living) and accommodation services that represent the greatest financial concerns. The taxpayer correctly provides financial assistance through additional subsidies to support those that do not have the financial resources, and this safety net must remain and continue to be enshrined. Where the resident has the ability to pay for the daily services, there needs to be further consultation to move toward increased resident contributions to meet the costs of supplying these services.

