30 May 2025

Bupa Aged Care

Bupa Submission: Review of the remoteness classification system for aged care

Bupa is pleased to make a submission to the Department of Health and Aged Care's *Review of the remoteness classification system for aged care*.

As an aged care provider of 57 homes across four states, 23 of which are outside capital cities, Bupa is one of the largest aged care providers in regional Australia. Our homes are spread across Modified Monash Model (MMM) categories MM1 to MM5, providing us with a unique perspective on the use of the MMM system in aged care.

Bupa believes that the funding model in aged care should reflect the true cost of care provision. However, with an ageing population and a growing disparity between metropolitan and regional services, the policy settings which drive investment in residential aged care must be re-evaluated. While the Australian Government is making important changes to stabilise provider viability after years of significant losses, the job is not finished.

The use of the MMM system to inform AN-ACC funding has been an overall positive to account for the higher costs of care delivery in regional Australia, despite its limitations to capture localised cost drivers. IHACPA's progress in developing and improving its costing methodologies each year is also encouraging, but its limited mandate means that many costs incurred in care provision are ignored. Local factors such as workforce shortages, housing accessibility and affordability, and elevated building costs are major cost drivers outside capital cities.

This creates a significant disparity in financial viability between metropolitan and regional services, which means the vast majority of new investment in the sector is directed toward capital cities rather than where it is needed most – in regional Australia. These financial drivers must be addressed, including through changes in the use and application of the MMM system in aged care, to ensure older Australians in regional Australia will be able find suitable aged care services in the years to come.

Limitations of the MMM classification system

Local labour market dynamics – impact on LGAs outside capital cities

As we have noted in our prior submissions to IHACPA, there can be significant cost variation within the same MMM classification, particularly for MMM1 areas outside capital cities. For example, AN-ACC funding for our Pottsville home is well below the cost of care provision in far-north NSW within the Tweed Shire Council area. Local labour market dynamics mean that the direct cost for staff wages and additional costs to support workers coming to these areas are much higher than average.

Hourly rates for staff in this area are well in excess of hourly rates paid in capital cities like Sydney. In Pottsville, hourly rates for Registered Nurses are almost 20% higher for non-agency staff (equivalent to our average rate for MMM3 homes in regional cities or towns). Additionally, high reliance on agency hours for PCWs drives up the average hourly rate by over 20% compared to homes in Sydney, with further costs incurred to support these workers with housing or transport. Similarly, expenditure on "Other" direct care expenses in homes such as Bairnsdale and Traralgon in regional Victoria can be

double that of our Melbourne homes, due to additional expenses on items such as car rental or other transport solutions.

These cost drivers can also be a factor in MMM1 areas close to capital cities, with Bupa's homes in regional cities such as Geelong incurring higher operating costs overall, relative to homes in Melbourne. Bupa considers these locations as "regional" areas for the purposes of recruitment and retention of workers. To attract and retain staff in regional locations, we offer free health insurance for team members who work at least 30 hours per week, at an overall cost of over $3.3 million in 2024.

Housing accessibility and affordability

The local housing market in regions such as Pottsville also creates significant expenses for providers seeking to support workers moving into the area, whether permanently or temporarily. Accessibility to affordable housing is a major factor in whether an aged care worker is willing to live in a region or town. However, areas such as Pottsville are known as sought after retirement and lifestyle destinations – driving up care needs due to local population ageing, while housing shortages and competition from wealthier retirees makes accommodation unaffordable for prospective workers.

High median rents and low rental vacancy rates have been well reported as barriers to the growth of the capacity of aged care providers in regional areas, including by CEDA's report, *Duty of care: Aged-care sector running on empty*[1]. To attract the staff required to operate some homes in regional Australia, Bupa offers accommodation supports to relocating staff at significant cost, including subsidised rent or repurposed accommodation solutions. Many roles in regional areas remained unfilled for over a year due to an inability to attract staff as a result of lack of housing supply or affordability. In some homes we have had to convert resident rooms into accommodation for our team members due to their inability to find housing.

Bupa has also pursued targeted migration solutions to fill these vacancies, at significant cost. In 2024, we sponsored the visas of over 200 Registered Nurses and Carers to work in our care homes, at a cost of approximately $9,000 per visa sponsorship. For many of individuals arriving in Australia, we also provided financial and relocation support such as flights, accommodation and car rental, amounting to more than $500,000 in value.

This is reflected in our financial reporting to the Department, where Pottsville's "other direct care" expenses (which include staff housing costs) are four times as high as our Sydney homes. In many regional locations, these costs are often double or triple the equivalent costs in capital cities.

Bupa recommends that the Department supplement the MMM system with a granular approach to Base Care Tariff adjustments, based on factors unique to certain Local Government Areas (LGAs) where these cost drivers are prominent.

Limited application of the MMM classification system to other funding streams

It is important to note that, while the MMM system is used to adjust "care" funding, there is no regional funding premium for "accommodation" or "everyday living" expense categories despite the higher overall cost of care provision. Income for these categories is usually much lower in regional areas, creating a

[1] CEDA - Duty of care: Aged-care sector running on empty

mismatch that drives investment to capital cities rather to the regional communities where the population's care needs may be much greater.

Policymakers must understand that providers' investment decisions are based on the overall financial performance of a home, not on AN-ACC considerations alone. As such, funding policy should account for building costs, the cost of capital, depreciation, and the return on investment required to encourage growth.

StewartBrown reports that an EBITDA of at least $20,000 per bed per annum (equivalent to a 4% annualised return) is required to cover the cost of replacing an ageing building at the end of its lifecycle. Even after accounting for the impact of the financial reforms in the new Aged Care Act, StewartBrown forecasts[2] that EBITDA in the sector will increase to $15,406pbpa by the 2029 financial year. However, the highest figure is in MMM1 locations ($17,238), whereas MMM2-5 ranges between $7600 and $12,054 – well below the required level to attract required investment.

Economics of new builds outside capital cities

In regional communities, accommodation income is approximately 30 per cent lower than in capital cities, due to lower RADs values and fewer "self-funded" residents who are able to pay for their accommodation at full rates. Financial problems are magnified by higher build costs in regional areas – approximately 30 per cent more expensive due to localised workforce shortages, higher material and transport costs, and uncompetitive construction markets.

Due to these market conditions and funding policies, there is simply no financial incentive to build, expand, or redevelop regional homes despite the increasing demand for services in these areas. A rebalancing of financial investment is required to support the viability and expansion of residential care homes in regional areas.

We believe that broader use of the MMM system (in its current or adapted form) can support this rebalancing to attract the investment required to ensure that all Australians have access to high quality residential aged care, regardless of where they live.

[2] StewartBrown (Dec 2024), Aged Care Financial Performance Survey Report