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## Aged Care

WILL WE MEET THE NEEDS?

DAVIS LANGDON





# Aged Care

## Industry Overview

The aging population will be a dominant demographic feature during the upcoming decades. Each year an increasing number of elderly Australians will require their needs serviced, creating a fundamental shift in priorities for both government and private sector industries.

Demand for aged care services is forecast to increase proportionately with the aging population.

Supply of aged care beds is already under pressure, and occupancy remains high with an average of 95.8 per cent of all residential places being utilised in 2003–04.

The number of Government subsidised aged care places is increasing, with forecasts over the upcoming decades set to blow out current figures by up to 700%.

As at 30 June 2004, 185,835 operational aged care beds existed across 2,933 approved aged care homes, reflecting the provisional ratio of 100 places per 1,000 residents aged 70 and over.

The coming decade will see a need for 250,600 places (by 2015), increasing to a staggering 701,000 places by 2050; when almost one quarter of the Australian population will be aged 70+.

The sector is serviced by both private and government sectors along with religious, charitable and community organizations. A gradual shift toward the private sector has occurred as a result of declining state and local government ownership over the past decade.

### Residential care places by ownership sector (% of all operational places)

Table 19: Residential care places by ownership sector (percentage of all operational places)

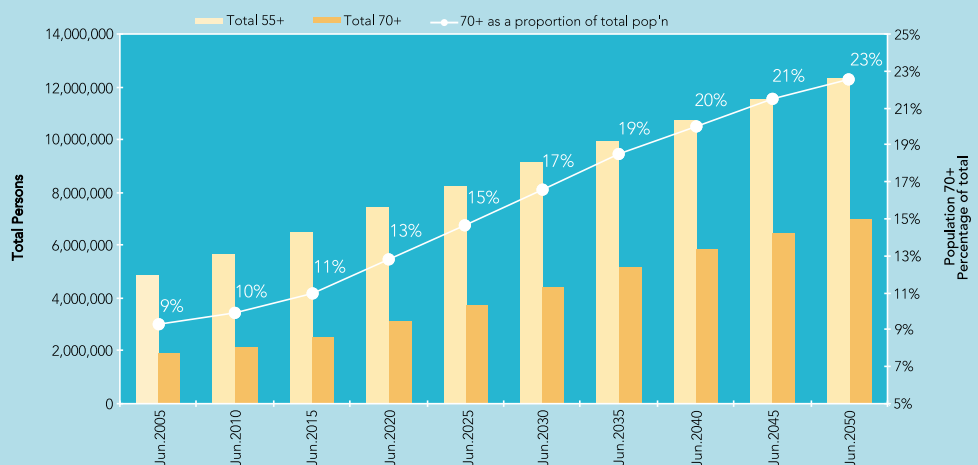
| Year    | Religious, Charitable or Community | State or Local Government (*) | Private | Total  |
|---------|------------------------------------|-------------------------------|---------|--------|
| 1996–97 | 62.5%                              | 11.6%                         | 25.9%   | 100.0% |
| 2003–04 | 62.5%                              | 8.2%                          | 29.4%   | 100.0% |

(\*) There are no places operated by a Territory Government  
Source: Report on the Operation of the Aged Care Act 1997

## Industry Drivers

Approximately 92% of residents in aged care facilities (high care) are aged 70+. This age group accounts for 9% of today's population rising to 23% by 2050 – or more than 7 million people.

## Aged Care Population



Source: ABS/ Davis Langdon Research



## Aged Care Assessments

Assessments form an essential prerequisite to aged care entry, determining a potential resident's needs as either low or high care, and are conducted by Aged Care Assessment Services (ACASs).

Under the Aged Care Assessment Program, the Australian Government provides grants to State Governments for the operation of Aged Care Assessment Teams (ACATs), who comprehensively assess the medical, physical, psychological, social and restorative care needs of frail and elderly people.

High care facilities provide older people with accommodation and high level care services. High care generally includes the provision of nursing services, personal care services and assistance with other daily living tasks. Nursing services are carried out by registered nurses, or other relevant professionals (medical practitioners, specialists, physiotherapists or other qualified practitioners).

All Commonwealth-funded high and low level residential aged care facilities in Australia are regulated and funded under the Aged Care Act 1997 (Commonwealth).

## Expenditure on Aged Care

Government expenditure for aging and aged care increased by 16%, to reach \$6.5 billion in 2003-04, (up from \$5.6 billion in 2002-03). The residential care component of funding has risen from \$2.5 billion in 1995-96 to \$5.1 billion in 2003-04.

Davis Langdon research forecasts annual aged care expenditure on high care services will reach \$9.8 billion by 2010, ballooning to over \$12.5 billion in the decade to 2015.

During the projected period, average annual aged care payments will exceed \$90,000 to \$100,000 per resident – indexed to inflation.

Average Australian Government payments for each residential aged care recipient 1995-96 and 2003-04

| Resident  | 1995-96  | 2002-03  | 2003-04  | Increase 1995-96 to 2003-04 | Increase 2002-03 to 2003-04 |
|-----------|----------|----------|----------|-----------------------------|-----------------------------|
| High care | \$26,793 | \$40,822 | \$41,518 | 55.0%                       | 1.7%                        |
| Low care  | \$6,817  | \$13,715 | \$14,217 | 109.6%                      | 3.7%                        |

Source: Report on the Operation of the Aged Care Act 1997

## Characteristics & Trends

### Regional Areas

As a proportion of total population, regional areas will encounter the most significant aging population, flowing on from the long term exodus of younger people from those areas.

Similarly, regional areas will also experience a significantly aging population at an earlier stage than capital cities.

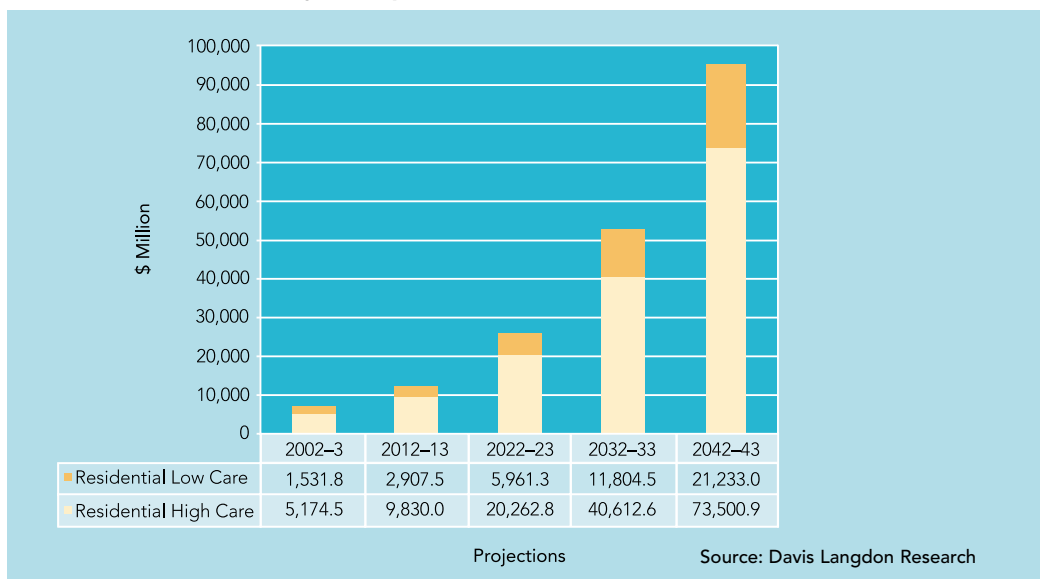
### By State

Any change in demographic trends for retirees will ultimately flow through to the aged care industry. If retirees from the south eastern states continue to drift north and west for retirement in Queensland or Western Australia, the demand for aged care may deliver a significantly greater burden on those states. Queensland, for example, will see its aged population increase to seven times its current size by 2051, while New South Wales and Victoria will increase to five times their current size.

### Projections

The later onset of frailty, advanced medical treatments & longer life expectancy will partially offset demand.

Summary of Expenditure Projections 2002-2043



However, increasing lone person households (resulting from divorce, never partnering or other lifestyle decisions), will see further pressure on the aged care system, as more people begin to age alone.

**Ownership**

The number of age care operators will decline as the industry consolidates and greater concentration of ownership emerges in the sector. Those industry players achieving economies of scale are likely to be successful.

Aged care segments traditionally serviced by not-for-profit organizations are facing challenges in generating adequate return on investment, and furthermore, will face serious difficulties in financing facility upgrades prior to 2008 certification standards.

As such, a significant proportion of not-for-profit organizations are anticipated to sell, further consolidating an otherwise fragmented industry.

**Options**

There will continue to be an increasing emphasis on non-residential care options. Home and Community Care, Community Aged Care Packages, Extended Aged Care at Home Packages, respite funding and support for carers will all receive greater attention as aged care facilities stretch capacity.

**Cost Analysis of Residential Aged Care**

**Facilities**

The costs of aged care facilities can be separated into two categories, the low level care homes (formerly known as hostels) and the high level

care homes, previously known as nursing homes which address the needs of those who are frail and/or in ill health, needing continuous nursing care.

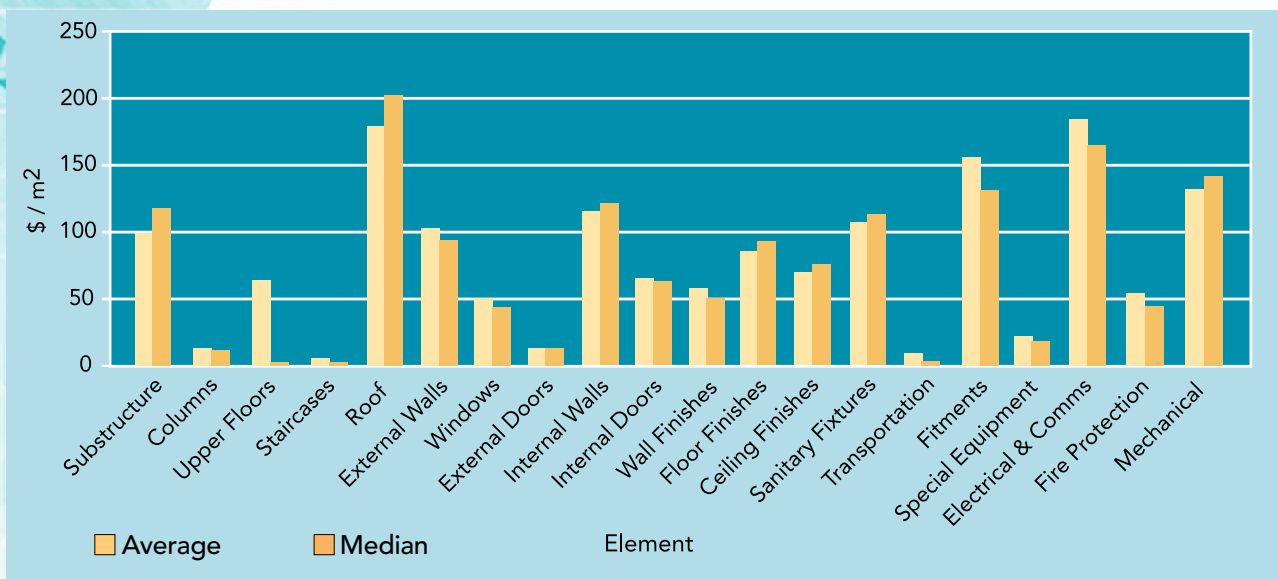
Generally, the construction cost (on average across the states in mid 2005) of low level residential care homes ranges between \$1750 to \$2100 per m<sup>2</sup>. Plus site specific requirements and external works.

The cost of high level care (ie nursing home) aged care facilities range between \$2100 and \$2400 per m<sup>2</sup>. Plus site specific requirements and external works.

A sample of residential aged care facilities was analysed and the key construction elements reflected in the graph below.

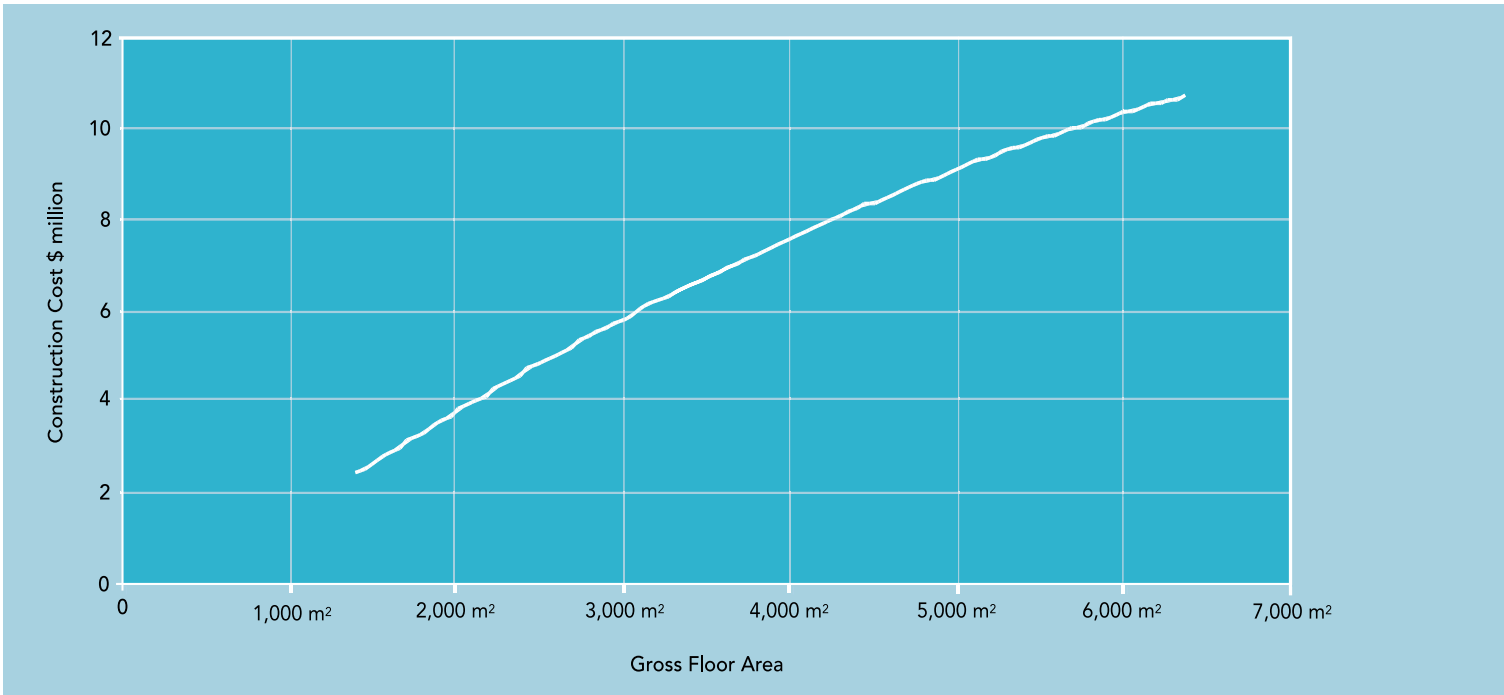
The main areas of cost are the roof, internal and external walls, sanitary plumbing and fixtures, joinery (cupboards and wardrobes, etc) and the engineering services (electrical, mechanical, fire and communications).

**Average and Median Elemental Construction Cost Breakdown**





### Nett Construction Cost vs GFA



Note: There are deviations either side of the line due to site specific requirements but generally a common trend is evident across the sample of facilities.

For comparative purposes the graph shows the average costs across the sample and also the median costs.

The median cost per bed of the low care residential aged care sample is approximately \$117,000 with the average Gross Floor Area of the facilities averaging approx 61 m² per bed.

The sample also reflects a strong correlation across the sample of the Gross Floor Area and the cost, as can be seen from the trend-line in the table above.

### Cost Breakdown

The following cost breakdown details the Building Cost (BC) of a single storey aged care facility with common living and dining areas, reception and administration areas.

The costs exclude any allowance for external services and site works. FF&E, Consultants Fees and GST are also excluded.

The procurement route for the project was Lump Sum, based upon full documentation including Bills of Quantities.

Adjustments should be made to the figures for schemes at other locations with alternative procurement routes, specification standards, size, site constraints and local conditions.

The costs are based on a scheme in Metropolitan Victoria. Data should therefore be adjusted by the following location factors for schemes in other states:

| Locations  | Factor |
|------------|--------|
| Adelaide   | 0.94   |
| Brisbane   | 1.04   |
| Cairns     | 0.90   |
| Darwin     | 0.96   |
| Hobart     | 0.94   |
| Melbourne  | 1.00   |
| Perth      | 0.99   |
| Sydney     | 1.06   |
| Townsville | 1.00   |

When undertaking the construction of an aged care facility, clients will need to work closely with the design team in determining the best solution for the facility taking into consideration the cost drivers influencing the final cost of the project, including:

- facility type – high care or low care
- number of storeys
- ducted A/C or split systems
- ratio of single rooms to double rooms
- number of ensuites
- facade solution, etc



## Elemental Summary of Cost for a Typical Combined High and Low Care Project

| Element  | \$/m2<br>GFA | %<br>Building<br>Cost |
|--|--------------|-----------------------|
| <b>SB Substructure</b>   | <b>160</b>   | <b>7.4</b>            |
| <i>Reinforced concrete slab on ground, ground beams, pad and strip footings</i>  |              |                       |
| <b>CL Columns</b>  | <b>39</b>    | <b>1.8</b>            |
| <i>Structural steel columns</i>  |              |                       |
| <b>RF Roof</b>   | <b>229</b>   | <b>10.6</b>           |
| <i>Custom Orb metal deck roof, complete with sarkings, safety mesh, and insulation, supported on purlins and steel roof frame, proprietary timber trusses, fascia cladding, gutters, downpipes, and rooflights</i> |              |                       |
| <b>EW External Walls</b>   | <b>134</b>   | <b>6.2</b>            |
| <i>110 Brick veneer external wall, with some CFC sheet linings, timber stud framing, sarking and insulation to external walls</i>  |              |                       |
| <b>WW Windows</b>  | <b>40</b>    | <b>1.9</b>            |
| <i>Aluminium framed glazed windows with some openable sashes; aluminium louvres to plant room and feature glazing to main entry</i>  |              |                       |
| <b>ED External Doors</b>   | <b>24</b>    | <b>1.1</b>            |
| <i>Solid core flush timber doors and hardware; Aluminium framed glazed doors; automatic sliding doors to entry</i>   |              |                       |
| <b>NW Internal Walls</b>   | <b>90</b>    | <b>4.2</b>            |
| <i>Timber stud wall framing, insulation, fire and smoke walls</i>  |              |                       |
| <b>NS Internal Screens and Borrowed Lights</b>   | <b>21</b>    | <b>1.0</b>            |
| <i>Aluminium framed glazed internal screens; shower cubicle partitions</i>   |              |                       |
| <b>ND Internal Doors</b>   | <b>79</b>    | <b>3.7</b>            |
| <i>Semi solid, solid core and fire rated single and double timber doors complete with pressed metal frames and hardware; aluminium glazed doors; roller shutter doors to stores</i>                                |              |                       |
| <b>WF Wall Finishes</b>  | <b>134</b>   | <b>6.2</b>            |
| <i>Plasterboard and fibre cement sheet wall linings with paint finish; vinyl dado wall lining, ceramic wall tiles, timber panelled feature walls</i>   |              |                       |
| <b>FF Floor Finishes</b>   | <b>114</b>   | <b>5.3</b>            |
| <i>Sheet vinyl and carpet floor coverings including timber and vinyl skirtings, mat and matwell frames</i>   |              |                       |
| <b>CF Ceiling Finishes</b>   | <b>80</b>    | <b>3.7</b>            |
| <i>Painted plasterboard ceiling either suspended or fixed to timber rafters; suspended acoustic tile ceiling; bulkheads, access panels; insulation batts; villaboard soffit lining externally to eaves</i>         |              |                       |
| <b>FT Fitments</b>   | <b>210</b>   | <b>9.7</b>            |
| <i>Handrails, cupboard units, vanity units, shelving, lifting rails, curtain tracks, sanitary accessories, wall protection, pinboards and whiteboards, mirrors and signage</i>                                     |              |                       |
| <b>SF Hydraulic Installation including Sanitary Fixtures</b>   | <b>195</b>   | <b>9.0</b>            |
| <i>Toilet suites, basins, stainless steel sinks and troughs, boiling water units, taps and faucets, etc. Internal and external hot and cold water installation</i>   |              |                       |
| <b>LP Electrical Installation</b>  | <b>171</b>   | <b>7.9</b>            |
| <i>Electrical lighting and power including communications</i>  |              |                       |
| <b>AC Air Conditioning</b>   | <b>109</b>   | <b>5.0</b>            |
| <i>Heating generally throughout the facility, with air conditioning provided to common areas, lounges, etc</i>   |              |                       |
| <b>FP Fire Protection</b>  | <b>85</b>    | <b>3.9</b>            |
| <i>Sprinklers, and smoke detection systems; fire hydrants and hose reels</i>   |              |                       |
| <b>PR Preliminaries</b>  | <b>246</b>   | <b>11.4</b>           |
| <b>Total Building Cost</b>   | <b>2,160</b> | <b>100%</b>           |



## Compliance with Emerging Standards

The Commonwealth Government's requirements to ensure the compliance with evolving standards in aged care are embodied in the amended 1999 Certification Instrument implemented by the Commonwealth, and used by auditors in assessing against the 2008 Certification criteria for aged care facilities.

This may require many operators to invest in fire upgrade works, as well as addressing hazards, privacy, access, comfort conditions and mobility considerations, plus OH&S and security works within the next two years to ensure compliance with the 2008 instrument.

Where works are required, consideration should be given to the time necessary to receive development approval and Certification as well as the significant impost on budgets and operational management.

Certification is the status given to a residential aged care service based on its ability to provide quality accommodation for residents. Its aim is to encourage improvements in the physical quality of residential aged care buildings and to meet the demands of the growing aged care market in a way that is sustainable in the longer term and satisfies the needs of residents now, and into the future.

All existing buildings used to provide Australian Government-funded residential aged care will be required to meet the privacy and space requirements for existing buildings no later than 31 December 2008.

## Impact of the 2008 Certification Regiments

Existing facilities that do not meet the 2008 privacy, space and amenity requirements will need to assess their options and identify the impact both financially and operationally, as well as the impact on residents during the upgrade and alteration works program. All aged care facilities are required to be assessed under the Certification Instrument and where the assessment identifies short-falls the provider may be required to either upgrade and alter the existing building or construct a new Class 9c facility.

The typical issues providers face with existing buildings are at times significant such as:

- a. The building and site has insufficient space to provide a maximum of four residents per room or six residents per toilet and seven residents per shower.
- b. The existing infrastructure of building services are insufficient to meet the new additional amenities and the cost to upgrade does not meet the long term financial sustainability of the facility with reduced resident numbers.
- c. Fire and smoke compartmentation that are either not compliant in area or the integrity of the walls do not comply; eg they do not extend to the underside of the non-combustible roof or do not have appropriate separation at ceilings, openings are not correctly sealed or protected, smoke doors do not swing in the right direction or are not sealed correctly.

- d. Where alterations and up-grade works are proposed, where those works exceed 50% of the building, the entire building will generally be required to be up-graded to the current BCA requirements. Therefore the existing essential services will be required to be brought up to date and issues arise regarding width of corridors leading to exits, width of doorways including required door closers, adequate exit and emergency lighting and emergency call points throughout the building.

## A Planned Approach

Davis Langdon provides specialist consultancy services for the aged care property industry, including due diligence, existing condition auditing, project management, construction cost management and OH&S assessments; focusing on development, compliance and improvement opportunities to assist the aged care industry to meet its compliance requirements under the Australian Government Department of Health and Aging Certification Instrument November 1999 and for the year 2008.

## Our Specialist Can Help You

**Please contact the following people in a state office nearest you:**

Sydney – Robert Lee  
(National Sector Leader)

Adelaide – Andrew Cialini

Brisbane – Phil Plant

Cairns – Greg McDonald

Darwin – Craig Bell

Hobart – Keith Christie

Melbourne – Lee Williams

Perth – David Cooley

Sunshine Coast – Daniel Davrain

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