

VICTORIA

Auditor General

Victoria

Condition of public sector residential aged care facilities

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AUDITOR GENERAL
VICTORIA

The Hon. Monica Gould MP
President
Legislative Council
Parliament House
Melbourne

The Hon. Judy Maddigan MP
Speaker
Legislative Assembly
Parliament House
Melbourne

Dear Presiding Officers

Under the provisions of section 16AB of the *Audit Act 1994*, I transmit my performance audit report on *Condition of public sector residential aged care facilities*.

Yours faithfully

JW CAMERON
Auditor-General

24 August 2006

Foreword

The ageing of Australia's population poses challenges for governments throughout the nation as they move to anticipate, and meet, the emerging needs and expectations of the community. This is no more apparent than in Victoria, where the state government has the largest involvement in the provision of public sector residential aged care of any Australian state or territory government across the nation.

It is well recognised that the condition of the facilities in which the elderly live impacts on the quality of their lives, their experiences while in care, their acceptance of their living circumstances and, ultimately, their general health, wellbeing and demeanour. The community in this state expects that every Victorian who lives, and is cared for, in a public sector residential aged care facility will live a quality life in a safe and home-like environment. There is also an expectation that those who work in those facilities will be safe.

This audit was conducted as part of my Office's continuing focus on the challenges and risks to public sector capability, assets and resources. The audit recognises that it is incumbent upon government agencies to implement effective asset planning, management and maintenance, particularly when the level of investment in facilities is tempered due to competing priorities for capital investment across the health sector.

The audit shows that the Department of Human Services needs to strengthen its stewardship and coordination efforts to encourage agencies that manage and operate public sector residential aged care facilities to provide infrastructure that contributes to the delivery of high quality care to residents. It is my expectation that this report will reinforce the importance of this objective.



JW CAMERON
Auditor-General

24 August 2006

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1. Executive summary



1.1 Victorian public sector residential aged care

At June 2005, the Victorian Government provided approximately 6 800 Commonwealth Government-subsidised residential aged care places¹ in 195 facilities throughout the state. Of these places, 4 200 (62 per cent) were high care, 2 300 (33 per cent) were low care and 300 (5 per cent) were to enable “ageing in place”. Almost 79 per cent of places were located in rural and regional areas.

Eighty-five agencies across Victoria provide the state’s public sector residential aged care places in 195 public sector residential aged care facilities². The agencies are responsible for maintaining those facilities³.

The Department of Human Services (DHS) is the primary government entity responsible for public sector residential aged care in Victoria. It oversees the implementation of the Victorian government’s public sector residential aged care policy throughout the state, providing a coordinating and stewardship role for the sector.

In November 2004, DHS estimated that the replacement value of Victoria’s public sector residential aged care facilities was around \$1 billion.

1.1.1 Funding for capital works and maintenance of Victorian public sector residential aged care facilities

The Commonwealth Government recurrently funds residential aged care services and, from time-to-time, provides funds for specific capital purposes. However, capital works funding for Victorian public sector residential aged care facilities is predominantly provided by the state, through DHS.

Between 1999 and March 2006, DHS allocated \$336 million to public sector residential aged care facilities for capital works. Expenditure over the period was \$255 million. The 2006-07 state budget provided an additional \$130 million over 3 years.

¹ Of the 6 800 subsidised places approved by the Commonwealth Government, around 6 400 were operational, 300 were non-operational and 100 were new places yet to be established.

² At the time of the audit there were 195 public sector residential aged care facilities in Victoria. DHS advised that subsequently, one facility has been closed.

³ Some public sector residential aged care agencies operate more than one facility.

DHS also contributes recurrent funding for the maintenance of Victoria's public sector residential aged care facilities. This is equivalent to one per cent of the 1996 aged care program budget, plus funds allocated through a bid-based process.

Additional funds needed to maintain the facilities are provided by the agencies that manage the facilities from their Commonwealth Government recurrent funding, from contributions by local communities, or from residents' accommodation fees. Accommodation charges or accommodation bonds are paid to approved providers by residents to meet the costs of their accommodation in certified facilities. Only a portion of the accommodation bonds can be used to fund capital works, or to fund continuous improvement within agencies.

1.1.2 Standards for residential aged care facilities and quality of care

The standard of residential aged care facilities is regulated by the Commonwealth Government through a framework comprising:

- *certification*: primarily aimed at improving the quality of the facilities in which residential aged care services are provided. Certification assessments focus on 7 areas:
 - safety (focused on assessing compliance with standards based on the Building Code of Australia)
 - hazards
 - privacy
 - access, mobility, and occupational health and safety
 - heating and cooling
 - lighting and ventilation
 - security
- *accreditation*: focused on assessing policies and practices within services, accreditation is designed to ensure that residential aged care services meet, and continue to meet, standards relating to:
 - management systems, staffing and organisational development
 - health and personal care
 - resident lifestyle
 - physical environment and safe systems.

Certification is generally a one-off process, i.e. once a facility meets the Commonwealth's certification requirements, it retains its certification status unless revoked by the Commonwealth. The Commonwealth reviews accreditation of an agency every 3 years.

Since the introduction of the certification program in 1997, all 195 Victorian public sector residential aged care facilities have been assessed, either by the Commonwealth's assessors or by independent building surveyors, as having met the Commonwealth Government's 1999 certification requirements. Compliance with new fire safety standards was required by December 2005.

1.1.3 Managing the condition of Victorian public sector residential aged care facilities

In Victoria, responsibility for managing and maintaining the facilities in which public sector residential aged care is provided rests with the agencies that deliver that care. DHS has a stewardship and coordination role for the sector; represents the ownership interests in the facilities; and as outlined above, is a substantial provider of capital funding and provides some maintenance funds.

In 2001, DHS conducted a survey (fabric survey) of the 207⁴ public sector residential aged care facilities in Victoria, as part of its approach to managing the assets within its portfolio. Such surveys are part of DHS' ongoing approach to managing assets in its portfolio.

The fabric survey assessed the condition of the facilities, and their operational efficiency and functionality. The survey identified that:

- some public sector residential aged care facilities were at risk of failing to meet the Commonwealth Government's 2008 certification requirements for privacy and space
- there were significant risks to resident safety, fire safety, and/or occupational health and safety related to failing, inadequate or obsolete infrastructure, including building fabric and engineering services.

Based on the results of the 2001 fabric survey, DHS classified public sector residential aged care facilities into 4 categories:

- category 1: facilities that would not meet the Commonwealth Government's 2008 certification requirements for privacy and space (11 facilities)
- category 2: facilities where there was a significant risk associated with failing, inadequate or obsolete infrastructure, resident safety, fire safety and/or occupational health and safety (33 facilities)
- category 3: facilities with limited economic life, deteriorating with age, and requiring replacement in around 5 to 10 years (65 facilities)

⁴ In 2001 there were 207 public sector residential aged care facilities in Victoria. Due to amalgamations, closures and reconfiguration of agencies and/or facilities over time, DHS advised that at 2005 there were 195 public sector residential aged care facilities in the state.

- category 4: facilities that met certification requirements and not requiring redevelopment over the next 10 years (98 facilities).

The categories reflected the capital investment needs of the facilities, and DHS proposed that all 44 category 1 and 2 facilities be redeveloped by 2006-07.

In 1997, DHS introduced a fire risk management strategy (FRMS) to ensure an appropriate level of fire safety in residential aged care facilities for which it has responsibility. The FRMS includes:

- fire safety audits and risk assessments to assess fire safety systems, and the nature of the resident group, to determine performance-based requirements for each facility.
- works to upgrade fire safety in all bed-based 24-hour facilities, including residential aged care facilities, to meet the performance-based requirements.

Agencies are required to ensure that the facilities continue to meet the fire safety standards, through audits conducted every 3 years.

The FRMS was a DHS initiative, and is not related to the Commonwealth's accreditation or certification framework or the DHS fabric survey.

However, results of certification and FRMS audits were considered in determining the categorisation of facilities following the fabric survey.

1.2 This audit

The objective of the audit was to determine the condition of Victorian public sector residential aged care facilities, and the effectiveness of DHS' management to ensure that the facilities meet relevant standards.

To determine this, we asked the following questions:

- Does DHS adequately plan for managing the condition of public sector residential aged care facilities?
- Was action taken by DHS to address the condition of the facilities well managed?
- What is the current condition of Victorian public sector residential aged care facilities?

Our audit was primarily an audit of asset management and maintenance relating to public sector residential aged care facilities. Our approach involved assessing the condition of the facilities and, as indicated above, assessing how well DHS, in its coordination, stewardship and ownership role, contributed to the management of those assets.

The audit was conducted within the following context:

- the Commonwealth Government is responsible for planning, regulating and funding residential aged care throughout Australia, under the *Aged Care Act 1997*. It approves providers of residential aged care, determines the number of Commonwealth Government-subsidised places allocated to each approved provider, and assesses the eligibility of people to access those places
- the Victorian Government contributes substantial funding to sustain public sector residential aged care facilities through capital works and funding for initiatives to improve standards in, and to maintain, the facilities
- agencies that operate public sector residential aged care facilities in Victoria are independently managed
- DHS as the entity responsible for coordination and stewardship of the sector and, as the representative of the ownership interests for the assets, has a responsibility to effectively monitor that the investment in the facilities is well managed
- DHS, as the agency responsible for public sector aged care in Victoria, has the lead role in advising government on the state's investment in aged care facilities, across the sector
- DHS has a duty of care to be assured that risks to residents and staff in terms of fire safety, and occupational health and safety associated with, and directly relating to/arising from, the condition and maintenance of assets are addressed by the agencies responsible for operating the facilities
- agencies are responsible for the condition of the facilities, thus protecting the state's investment; and for ensuring that any risks to residents and staff are mitigated.

A major area of our focus was on assessing the condition of Victorian public sector residential aged care facilities and whether their condition met current and future standards and needs. As our criteria, we used the standards set by the Commonwealth Government for certification of residential aged care facilities, as well as a relative condition scale developed in consultation with an expert building surveyor engaged specifically for this task.

We conducted on-site assessments of the condition of 49 public sector residential aged care facilities. We also conducted examinations within DHS in respect of its management of matters related to the investment in, management and maintenance of the assets.

The audit did not examine:

- the condition of equipment installed, or used, in public sector residential aged care facilities
- the condition of residential aged care facilities owned and/or operated by local government, the not-for-profit sector or the private sector
- the quality of services provided by the state's public sector residential aged care agencies.

1.3 The condition of Victorian public sector residential aged care facilities, and the effectiveness of DHS' management to ensure that the facilities meet relevant standards

1.3.1 Does DHS adequately plan for managing the condition of public sector residential aged care facilities?

DHS' planning for public sector residential aged care facilities is focused at the individual agency level. The approach used by DHS means that decisions to rebuild, renovate or replace existing residential aged care facilities are made on a case-by-case basis. Government policy supports local level service planning to deliver its key directions, but does not preclude adoption of planning for infrastructure at a statewide level. An approach that includes infrastructure planning for public sector residential aged care facilities at a statewide level, in concert with periodic surveys of the condition of facilities, and local level service planning would better inform investment decisions and coordination of effort.

A fabric survey is conducted by DHS every 5 years to assess the condition of each facility within the health portfolio, and to identify the potential risks to residents and staff from the condition of those facilities. This is a commendable approach which helps DHS to prioritise capital works spending, and informs further decision-making.

DHS, in its coordination and stewardship role, does not have a risk management strategy in place to assure itself that risks to residents and staff living and working in public sector residential aged care facilities are mitigated by the agencies responsible for managing the facilities, in the event that its capital works priorities are not funded. This does not mean that the risks are not being adequately managed at the agency level, but rather, that DHS does not monitor that they are.

Based on the analysis of DHS' approach to planning and risk management, we concluded that it does not adequately plan for managing the condition of public sector residential aged care facilities.

1.3.2 Was action taken by DHS to address the condition of the facilities well managed?

Over the past 6 years, the Victorian Government has made a substantial investment in public sector residential aged care facilities. Between 1999 to March 2006, DHS allocated \$336 million for capital works in 45 public sector residential aged care facilities. Over the same period, actual capital works expenditure by DHS on those facilities amounted to \$255 million.

DHS developed its 2002 Capital Works Strategy to address the priorities arising from its 2001 fabric survey, i.e. the rebuild of 44 category 1 and 2 facilities. The survey identified that these facilities were at risk of failing to meet the Commonwealth Government's 2008 certification requirements for privacy and space (i.e. category 1: 11 facilities); or presented risks to residents and staff from failing, obsolete or inadequate infrastructure⁵ (i.e. category 2: 33 facilities).

From July 2002 to March 2006, DHS spent \$189 million on capital works in 41 public sector residential aged care facilities to improve the condition of the facilities and to mitigate any associated risks. Because of other priorities across the health portfolio, while all of the public sector residential aged care facilities in category 1 have been addressed, 21 of the 33 facilities in category 2 have yet to be rebuilt.

DHS established 2 programs aimed at addressing the standards in public sector residential aged care facilities:

- the statewide certification project (SCP), aimed at ensuring the achievement of the Commonwealth Government's certification requirements
- the fire risk management strategy (FRMS), aimed at addressing fire safety standards in facilities.

Both programs were in place prior to the 2001 fabric survey. Following the 2001 survey, DHS continued to use these programs to address risks to achieving certification, and to address fire safety in facilities.

⁵ Documentation provided by DHS relating to the fabric survey, defined facilities in these categories as: category 1 – “facilities which will not achieve 2008 certification”; category 2 – facilities where “there is a significant risk associated with failing, inadequate or obsolete infrastructure, patient [resident] safety, fire safety and/or occupational health and safety”.

As a result of the SCP, all of the state's public sector residential aged care facilities are certified, having been assessed against the Commonwealth's 1999 Aged Care Certification standards, including the 2005 stricter requirements for fire safety. In addition, all facilities are on track to meet the 2008 certification requirements for privacy and space. However, we consider that there were issues surrounding the design of the SCP that had the potential to compromise its results.

The DHS FRMS is a comprehensive program aimed at addressing fire safety in all 24-hour bed-based facilities across DHS' health portfolio. DHS advised that all Victorian public sector residential aged care facilities have met the fire safety performance requirements of the Building Code of Australia 1996 (BCA 96)⁶, and are safe. However, because of a failure to achieve the process required to address the technical requirements established for the industry under the *Building Act 1993* and the Building Code of Australia (BCA), it is unclear to us whether the works conducted under the FRMS have, in all cases, resulted in the affected public sector residential aged facilities meeting the relevant BCA performance requirements.

DHS advised that the issue is one of poor documentation rather than non-compliance with required processes. We acknowledge that a lack of documentation does not mean that safety systems and equipment in a facility do not adequately address fire safety; nor does it indicate that the necessary actions to address fire safety have not been taken. However, it does mean that there is insufficient evidence to provide such assurances.

DHS has funded capital works and other initiatives, and contributed funding for the maintenance of public sector residential aged care facilities. However, it has not put in place appropriate accountability arrangements to ensure that the agencies it funds spend those funds for the purposes for which they were provided, that the funds have delivered the desired outcomes, or that agencies complied with asset management requirements established by the government.

⁶ The BCA is a uniform set of technical provisions for the design and construction of buildings and other structures throughout Australia while allowing for variations in climate and geological or geographic conditions. The BCA is produced and maintained by the Australian Building Codes Board on behalf of the Commonwealth Government and each state and territory government. The BCA is updated each year. The BCA 96 was the building code of Australia current in 1996.

The funded agencies are clearly responsible for managing the condition of the facilities in which they operate. However, DHS in its stewardship role, and as a significant funder and representative of the owners, has a responsibility to effectively monitor whether the state's investment in public residential aged care facilities is well managed, and that the government's policy directions are delivered by those agencies. For this reason, it needs to improve the accountability arrangements applicable to funded agencies.

For the above reasons, we concluded that action taken by DHS to address the condition of the facilities was not well managed.

1.3.3 What is the current condition of Victorian public sector residential aged care facilities?

We recognise that:

- all Victorian public sector residential aged care facilities have been progressively assessed against the Commonwealth Government's certification requirements since certification was introduced in 1997. All 195 facilities have achieved certification, having met the requirements of the Commonwealth's 1999 Aged Care Certification Assessment Instrument (including the stricter requirements for fire safety), at the time they were assessed
- 9 of the 11 category 1 facilities identified following the 2001 fabric survey are being, or have been rebuilt, with funding for another announced in the 2006-07 state budget, with the aim of completion by 2008
- 10 of the original 33 category 2 facilities have been, or are being rebuilt, one further facility is to be redeveloped following approval of funds in the 2006-07 state budget, and one other facility has been closed
- a number of other residential aged care facilities have undergone major works since the 2001 fabric survey
- over \$6 million has been spent on facilities to improve fire safety and other issues, as part of the SCP
- all facilities have been subjected to fire audits, and selected remedial works have been undertaken, under the FRMS.

We found that all public sector residential aged care facilities are on track to meet the Commonwealth's 2008 certification requirements for privacy and space.

While recognising that the condition of a number of facilities has improved since 2001 as a result of rebuilding or renewal works, we consider that based on our physical inspections of a statistically-based sample of facilities that the condition of the majority of the facilities has not improved since 2001. This is evidenced by an increase in the number of facilities with a significant risk associated with failing, inadequate or obsolete infrastructure (i.e. category 2). The number of facilities in this category increased from 33 in 2001 to around 104 at the time of assessment by us. This resulted in a reduction in:

- the number of facilities requiring replacement within 5-10 years from 65 in 2001 to 35 at the time of assessment by us (category 3)
- the number of facilities that meet the certification standards, and will not require redevelopment over the next decade, from 98 in 2001 to 56 at the time of assessment by us (category 4).

We also found that 25 (or 51 per cent) of the 49 facilities we inspected now did not meet aspects of the criteria established under the Commonwealth Government's certification program relating to current fire safety standards. Recognising that facilities can deteriorate over time if not adequately maintained, we consider that the state would be well served to adopt a system of periodic reassessment against the Commonwealth's certification standards to ensure that facilities continue to meet those standards.

Based on these results, we believe that the short-term capital investment needs of public sector residential aged care facilities have grown. In the event that this need is not fulfilled, both DHS and agencies need to develop strategies to improve the condition of facilities and to address the risks inherent in failing, inadequate and obsolete infrastructure.

The implication of not addressing these matters is their potential impact on the quality of the environment for residents of public sector residential aged care facilities. In this regard, DHS needs to strengthen its efforts at ensuring that agencies that operate public sector residential aged care facilities provide infrastructure that contributes to the delivery of high quality care to residents.

Recommendations

- 1. That DHS conduct statewide infrastructure planning for public sector residential aged care, linked to the government's policy directions, to inform development of future capital works strategies.**

2. That DHS develop a risk management strategy for public sector residential aged care aimed at ensuring that risks from failing, obsolete or inadequate infrastructure are managed by agencies, to mitigate potential risks to residents.
3. That DHS review and update its existing capital works strategy for public sector residential aged care facilities to ensure that it adequately considers the longer-term service delivery requirements of the sector and government policy outcomes.
4. That DHS act to improve the level of assurance provided by the FRMS by:
 - ensuring that building surveyors evaluate alternative solutions proposed by fire engineers in accordance with the requirements of the BCA, and that associated decisions, including supporting rationale, are documented and appropriately approved
 - requiring building permits/approvals to be obtained for all essential services upgrade works and that the building surveyor signs-off on completed works to provide assurance that the works have resulted in achieving compliance with BCA requirements
 - ensuring that the scope of fire safety audits is sufficient to support the “holistic” statement of compliance made by fire engineers and building surveyors, and that fire safety systems are routinely tested
 - ensuring that appropriate documentation of dispensations granted, approved alternative solutions and verification of the compliance status of implemented works is completed and maintained, so that safety assurances can be evidenced, audits are properly based, and an audit trail is maintained.
5. That DHS review the level of state funds provided to public sector residential aged care agencies for maintenance.
6. That DHS introduce appropriate accountability requirements to enable effective oversight of expenditure by agencies and of the operations of the sector.
7. That DHS introduce a policy to recognise local contributions of funds for facilities’ management and maintenance, and to ensure equitable distribution of funding to agencies.
8. That DHS work with the Commonwealth Department of Health and Ageing to clarify the standards required under certification for residential aged care facilities.

9. **That DHS encourage agencies that control public sector residential aged care facilities to develop and implement strategies and/or works to ensure that:**
 - **risks associated with failing, inadequate or obsolete infrastructure are mitigated**
 - **they can demonstrate that residential aged care facilities satisfy the BCA standards**
 - **facilities continue to meet the Commonwealth Government's certification requirements.**
10. **That DHS introduce a regime of periodic review of compliance of public sector residential aged care facilities with the Commonwealth's certification requirements, to ensure that standards applicable to those facilities are met.**

RESPONSE provided by the Secretary, Department of Human Services

This audit report has involved a lengthy process (more than 12 months), and has involved extensive effort by the Department of Human Services (DHS) in providing information and constructive comment to audit.

Despite this effort, DHS does not agree with a number of audit's findings and conclusions, particularly in relation to the assessment of fire risk management, and the resultant effect this has had on its rating of the condition of facilities.

We disagree with the audit conclusions because we believe the methodology was flawed, and inconsistent with the full application of the Commonwealth's certification instrument upon which audit has relied. However, we see little value in further arguing these issues because all Victorian public sector residential aged care services (PSRACs) are in fact certified, and have demonstrated to the Commonwealth that they meet the requirements for higher standards in relation to fire safety.

DHS relies on the fire risk management strategy (FRMS) for its residential and bed-based services across all human service programs, and is confident that FRMS offers a high standard of fire risk and safety management.

Every PSRAC facility has regular fire safety audits undertaken by independent qualified fire engineers. These audits are undertaken every 3 years. Any priority works identified in the audits are carried out within agreed time frames and, where required, are authorised by independent building surveyors.

All PSRAC facilities meet the stringent criteria of FRMS, including provision of annual certificates of fire safety compliance.

RESPONSE provided by the Secretary, Department of Human Services - continued

There has been significant investment made to improve the condition of PSRAC facilities through the replacement and upgrade of facilities. Audit finds, through its own assessment that 92 per cent of facilities are “at or above the required condition”, and acknowledges all facilities meet Commonwealth certification requirements.

Between 2000 and 2006, the Government has allocated over \$370 million to upgrade, fully replace and/or expand residential aged care facilities. This has seen over 40 projects funded.

This is the most significant investment in the sector in many decades and at the completion of all current projects, 1 832 residential aged care beds will have been rebuilt to contemporary, statutory and community standards. This represents 25 per cent of public sector beds.

Despite this investment, and despite fire safety upgrades and certification works in facilities, audit asserts that the overall condition of PSRAC facilities has not improved since 2001. This is simply not consistent with tangible fact.

Comments on key areas addressed in the recommendations are as follows:

- ***Service and capital planning***

PSRAC facilities are developed using the DHS Capital Development Guidelines and with direct reference to the government’s policy document “Public sector residential aged care policy: The Victorian Government’s role in residential aged care services”.

Despite audit’s view on what should be key considerations in the DHS capital works strategy, the residential aged care policy does not, other than in very specific circumstances, envisage the closure or relocation of facilities purely to improve viability. One of the policy’s fundamental objectives is, however, the confirmation of the state’s unique position in providing access to residential care to the large number of small rural communities across Victoria, which have increasingly older populations and concomitant high levels of community expectation and ownership of residential aged care provision at a local level.

DHS takes into account, on a statewide, regional and local level, a number of key elements when planning services and determining capital investment priorities. These include:

- *specific government policies and objectives in relation to health and aged care*

RESPONSE provided by the Secretary, Department of Human Services - continued

- *service needs, including types of care and numbers of places, within the context of areas and places approved by the Commonwealth*
- *new models of care*
- *statutory requirements (FRMS, occupational, health and safety, certification etc.)*
- *the existing condition and functionality of facilities.*

DHS will continue to consider these elements in the future.

DHS will also continue to review and update its capital works requirements on an annual basis, consistent with the requirements of government's integrated management cycle.

- ***Asset management and risk management***

The management of any risks associated with ageing facilities is supported by such strategies as:

- *the statewide fabric survey*
- *the ongoing FRMS*
- *local risk management processes at each agency; including regular inspections of facilities and maintenance programs.*

As advised during the audit, DHS is working with the Department of Treasury and Finance on the roll-out of the Asset Management Framework as one of 3 "Early Adopter Departments".

As part of this initiative, DHS is implementing annual reporting by agencies on key asset-related indicators. This will strengthen asset management and improve accountability and monitoring. This initiative will also enhance DHS' and agencies' ability to manage any risks associated with ageing infrastructure.

- ***Fire risk management strategy (FRMS)***

The FRMS has been in place since 1997 and is a well-developed and robust strategy. The strategy ensures that facilities are regularly audited and any works required to improve fire safety are undertaken.

RESPONSE provided by the Secretary, Department of Human Services - continued

All facilities have been audited by a qualified fire engineer, and individually inspected and assessed against such criteria as the actual floor plan of the building, the dependency of residents, the level of staffing, and the proximity to emergency services. Major fire safety works have been undertaken, improving the fire safety of the facilities and contributing to their condition. All facilities have had smoke detectors and fire sprinklers installed.

The FRMS includes detailed guidelines to assist agencies in managing fire safety. These guidelines are updated regularly, and are currently in the process of being further updated.

DHS acknowledges that there can be improvements made to ensure that all relevant documentation relating to fire safety compliance is in place at each facility, and will work with agencies to ensure that this occurs. It should be noted that such documentation is voluminous, and we will work to develop a summary in a form acceptable to relevant parties.

- ***Commonwealth certification standards***

All facilities are certified and have demonstrated to the Commonwealth that they meet the requirements for higher standards in relation to fire safety as tested against the Commonwealth's 1999 certification instrument, and are on track to meet 2008 privacy and space standards.

DHS will continue to work with the Commonwealth Department of Health and Ageing on matters relating to certification standards and more broadly residential aged care services.

DHS is fully cognisant of the important role it plays in supporting agencies in providing high quality residential aged care, and the clear link that exists between the condition of facilities, care outcomes, and resident safety and wellbeing. To that end, DHS has implemented a number of initiatives and measures to improve the quality of facilities and the way in which they are managed, many acknowledged in this report, and the quality of care provided to residents. These initiatives are clearly outlined in the government's residential aged care policy and are designed to support agencies in their statutory responsibilities, to achieve compliance with Commonwealth standards and requirements, and to meet their broader obligations to their residents and communities.

FURTHER COMMENT by the Auditor-General

We disagree with DHS' opinion that the methodology used in this audit is flawed, and the implication that the audit conclusions are wrong.

At the outset of this audit we determined that the audit would focus primarily on physical inspections of a statistically-valid sample of the state's public sector residential aged care facilities, rather than purely on examination of DHS' processes, procedures and documentation. Accordingly, our audit included on-site inspections of the condition of 49 facilities across the state, using appropriately qualified building professionals, applying criteria relating to residential aged care facilities, established by the Commonwealth Government, as the standard for assessment.

Consistent with our usual practice, we applied an extensive quality assurance process to the results obtained from the site inspections. This was a critical component of the methodology given the potential sensitivity of the results.

We understand that DHS' criticism stems from 2 aspects: the first, that our process did not mirror the Commonwealth Government's certification process, something we had neither the power, nor the need to do; and second, that we did not provide each agency with the results of our field inspections. Such a step would have been part of our standard procedures, and was planned for the audit. However, DHS requested that this step not be taken and that any issues be taken up directly with DHS. To now be criticised about this process matter is disappointing. As agreed with DHS, the department was given the opportunity to provide evidence which might challenge our findings, but could not.

We are confident that the findings from our inspections of facilities are accurate, and that consequently, the conclusions reached are valid. Accordingly, we do not accept DHS' comment that our conclusion that the overall condition of the majority of public sector residential aged care facilities has not improved since 2001 "is simply not consistent with tangible fact". The results of our inspections suggest otherwise.



2. Residential aged care facilities



2.1 Residential aged care facilities

Residential aged care is a critical element of the Australian health and aged care system, providing support to the elderly who are unable, for a variety of reasons, to continue to live at home. The condition of the facilities in which residents live impacts on the quality of those residents' lives, their experiences while in care, their acceptance of their living circumstances and ultimately, their general health, wellbeing and demeanour. Holes in walls and floors, chipped basins and benches, tired and faded paintwork, broken paths and poor maintenance of the building surrounds can diminish the pride residents feel in their accommodation, present risks to safety and detract from attempts to provide a home-like environment.

Over time, changing work practices, care needs and community expectations of service delivery, and increasing operating costs can mean that the layout or physical dimensions of a facility are no longer optimal for efficient and effective service delivery. The reduced functionality of the facilities adds pressure to the economic viability of residential aged care services.

In Australia, the standard of residential aged care facilities and the standard of residential aged care is regulated by the Commonwealth Government through a framework comprising:

- *certification*: a one-off process primarily aimed at improving the quality of the facilities in which residential aged care services are provided. Certification assessments focus on 7 areas:
 - safety (focused on assessing compliance with standards based on the Building Code of Australia)
 - hazards
 - privacy
 - access, mobility, and occupational health and safety
 - heating and cooling
 - lighting and ventilation
 - security
- *accreditation*: a 3-yearly process focused on assessing policies and practices within services, accreditation is designed to ensure that residential aged care services meet, and continue to meet, standards relating to:
 - management systems, staffing and organisational development
 - health and personal care

- resident lifestyle
- physical environment and safe systems.

In 1999, the Commonwealth Government reviewed and raised the requirements for certification of residential aged care facilities. All facilities were consequently required to meet new fire safety standards by 2003 (later changed to 2005), and existing facilities were required to comply with new privacy and space requirements by 2008.

The Commonwealth Government's quality framework for aged care addresses policies and practices, and aspects of compliance relating to the physical environment, i.e. the buildings and their surrounds and the infrastructure that supports the buildings such as heating and cooling equipment, and security devices. However, accreditation and certification do not provide an assessment of building condition, i.e. whether a building's walls and floors, paintwork, fittings etc. are in good condition or in need of maintenance. An understanding of the condition and functionality of the aged care facilities is critical to inform decision-making about maintenance, refurbishment, renewal or replacement of facilities.

Responsibility for ensuring that residential aged care facilities are adequately maintained; for managing the facilities throughout their lifecycle; and for ensuring that functionality issues are addressed to mitigate risks to service viability, and the quality of services provided in the facilities, rests with the approved provider or the owner of the facility. Ensuring that ageing public sector residential aged care facilities are "fit for purpose" and capable of meeting community needs both now, and in the future, presents a key challenge to approved providers.

2.2 Victorian Government's involvement in residential aged care

The Victorian Government has the largest involvement in residential aged care of any Australian state or territory government. At June 2005, it was responsible for providing approximately 6 800 Commonwealth Government-subsidised places¹ in 195 facilities throughout the state². Of these places, 4 200 (62 per cent) were high care, 2 300 (33 per cent) were low care and 300 (5 per cent) were to enable "ageing in place". Almost 79 per cent of places were located in rural and regional areas.

¹ Of the 6 800 subsidised places approved by the Commonwealth Government, around 6 400 were operational, 300 were non-operational and 100 were new places yet to be established.

² At the time of the audit, there were 195 public sector residential aged care facilities in Victoria. DHS advised that subsequently, one facility has been closed.

The key policy directions of the state government for aged care are to:

- confirm a commitment to public sector residential aged care
- ensure access to rural Victorians to residential aged care
- improve care and access for client groups with specialised care needs
- enhance operation of the health and aged care system components through supporting service pathways involving public sector residential aged care
- respond to changing community characteristics and care preferences with the appropriate service configuration
- develop the sector through initiatives that drive quality of care and good management and financial outcomes³.

2.2.1 Sustaining Victoria's residential aged care facilities

The Department of Human Services (DHS) is the primary government entity responsible for public sector residential aged care in Victoria. It oversees the implementation of the state government's public sector aged care policy throughout the state, and plays a coordinating and stewardship role for the sector.

Public sector residential aged care is provided by 85 agencies across Victoria⁴. These agencies are responsible for managing the quality of care delivered in 195 public sector residential aged care facilities⁵ and for sustaining the facilities.

In most cases, the agencies that provide public sector residential aged care are health services. These agencies are subject to the same Commonwealth certification and accreditation requirements that apply to other providers of residential aged care.

In a small number of cases, public sector residential aged care is delivered by multipurpose services (MPS)⁶. MPS are integrated health and aged care services that operate in small rural communities. There are 7 such agencies in Victoria. These agencies are not subject to the Commonwealth certification and accreditation requirements applicable to other approved providers.

³ Department of Human Services October 2004, *Public sector residential aged care policy: The Victorian Government's role in residential aged care services*, Rural and Regional Health and Aged Care Division, Melbourne, p. 8.

⁴ Eighty of these agencies are constituted under the *Health Services Act 1988*. The other 5 are independently incorporated under the *Associations Incorporations Act 1981* with references to the Victorian Government and DHS within their rules.

⁵ Some public sector residential aged care agencies operate more than one facility.

⁶ MPS operate under a different funding model to that of other state residential aged care agencies. Under the MPS program, Commonwealth funding for flexible aged care is "cashed out" and pooled with state funding. The pool of funding is used flexibly across the range of health and aged care needs of the community, to enable MPS to meet the sporadic demand in small rural communities.

All agencies⁷ including MPS are also required to meet any additional requirements set by DHS, and to manage the condition of the facilities in accordance with the principles of the state's asset management framework. Responsibility for maintaining the public sector residential aged care facilities rests with the agencies that operate the facilities.

While government recurrent funding for aged care is primarily provided by the Commonwealth Government, in 2005-06, DHS expected to allocate around \$106 million in recurrent funding for aged care (\$98 million in 2004-05), including public sector residential aged care.

While from time-to-time the Commonwealth Government provides funds for specific capital purposes, funding for capital works in Victorian public sector residential aged care facilities is primarily provided through DHS. From 1999 to March 2006, DHS allocated \$336 million for capital works in 45 public sector residential aged care facilities. Expenditure over the same period was \$255 million. The 2006-07 state budget provided an additional \$130 million over 3 years. In November 2004, DHS estimated that the replacement value of Victoria's public sector residential aged care facilities was around \$1 billion.

DHS also contributes funding towards the maintenance of Victoria's public sector residential aged care facilities to the extent of one per cent of the 1996 state aged care program budget, plus additional funds allocated through a bid-based process. Any additional funds needed to maintain the facilities must be provided by the agencies, from recurrent funding provided by the Commonwealth, from contributions by local communities, or from residents' accommodation fees, i.e. accommodation charges or accommodation bonds, paid to approved providers by residents to meet the costs of their accommodation in certified facilities. Only a portion of the accommodation bonds can be used to fund capital works, or to fund continuous improvement within agencies.

⁷ For consistency, throughout this report, the health services and MPS responsible for delivering public sector residential aged care are referred to as "public sector residential aged care agencies" or "agencies".

2.2.2 Fabric survey

In 2001, DHS conducted a survey of the condition of the 207⁸ public sector residential aged care facilities in Victoria, as part of its approach to managing the assets within its portfolio. The survey identified that:

- some public sector residential aged care facilities were at risk of failing to meet the Commonwealth Government's 2008 building certification requirements for privacy and space
- there were significant risks to resident safety, fire safety, and/or occupational health and safety related to failing, inadequate or obsolete infrastructure, including building fabric and engineering services.

2.3 About the audit

The objective of the audit was to determine the condition of Victorian public sector residential aged care facilities, and the effectiveness of DHS' management to ensure that the facilities meet relevant standards.

To determine this, we asked the following questions:

- Does DHS adequately plan for managing the condition of public sector residential aged care facilities?
- Was action taken by DHS to address the condition of the facilities well managed?
- What is the current condition of Victorian public sector residential aged care facilities?
 - Do Victorian public sector residential aged care facilities meet the Commonwealth Government standards applicable to those facilities?
 - What is the current physical condition of public sector residential aged care facilities in Victoria?
 - Has the condition of Victorian public sector residential aged care facilities improved since 2001?

⁸ In 2001, there were 207 public sector residential aged care facilities in Victoria. Due to amalgamations, closures and reconfiguration of agencies and/or facilities over time, DHS advised that in 2005 there were 195 public sector residential aged care facilities in the state.

The audit examined the physical condition of a sample of public sector residential aged care facilities, and the quality of DHS' associated service planning, project management and monitoring practices in relation to the maintenance of those facilities and associated capital works. The audit did not examine:

- the condition of equipment installed, or used, in public sector residential aged care facilities
- the condition of residential aged care facilities owned and/or operated by local government, the not-for-profit sector or the private sector
- the quality of services provided by the state's public sector residential aged care agencies.

The audit was performed in accordance with the Australian auditing standards applicable to performance audits, and included tests and procedures necessary to conduct the audit. We provide further details about the audit, including the audit sample and the cost of the audit, in Appendix A of this report.



3. Addressing the condition of residential aged care facilities



3.1 Introduction

In early 2001, the Department of Human Services (DHS) commissioned a survey to assess the condition of the facilities in which public sector health services were provided. Such surveys are part of the DHS approach to managing the assets within its portfolio and are usually conducted every 5 years.

The 2001 health and residential aged care facilities survey (fabric survey¹) assessed the condition and functionality of 275 state-funded health facilities² across Victoria. Its purpose was to inform the development of a future capital works program for the facilities. Of the 275 health facilities examined, 207 were public sector residential aged care facilities.

The survey identified that:

- some public sector residential aged care facilities were at risk of failing to meet the Commonwealth Government's 2008 building certification requirements for privacy and space
- there were significant risks to resident safety, fire safety, and/or occupational health and safety related to failing, inadequate or obsolete infrastructure, including building fabric and engineering services.

Because of their potential impact on the health and safety of elderly people living in residential aged care facilities, it is important that these risks are mitigated.

In this part of the report we examine the action taken by DHS to address the risks identified through the survey. We asked the questions:

- Does DHS adequately plan for managing the condition of public sector residential aged care facilities?
- Was action taken by DHS to address the condition of the facilities well managed?

¹ The term "fabric" refers to the physical material of a place and includes such things as the roof and facade, the internal wall, ceiling and floor finishes. The fabric survey included assessment of the condition of the building envelope and internal fabric, the functional adaptability and suitability and the operational efficiency of each facility. These aspects are further explained later in this report.

² The 275 health facilities included acute hospitals, sub-acute facilities and residential aged care facilities.

3.2 Does DHS adequately plan for managing the condition of public sector residential aged care facilities?

Based on the results of the 2001 fabric survey and certification information known at the time, DHS classified the public sector residential aged care facilities into the following 4 categories:

- *category 1*: facilities that would not meet the Commonwealth Government's 2008 certification requirements (11 facilities)
- *category 2*: facilities where there was a significant risk associated with failing, inadequate or obsolete infrastructure, resident safety, fire safety and/or occupational health and safety (33 facilities)
- *category 3*: facilities with limited economic life, deteriorating with age, and requiring replacement in around 5 to 10 years (65 facilities)
- *category 4*: facilities that met certification requirements and would not require redevelopment over the next 10 years (98 facilities).

DHS then developed a capital works strategy as a funding response to the identified risks. The strategy included 3 funding options. The option preferred by DHS proposed a complete rebuild of category 1 and 2 facilities, as well as funding for works in another 5 facilities where planning was already underway, or where additional funds were needed so that works could be completed. The option called for an urgent capital investment of \$230 million from 2002-03 to 2006-07, and a total of \$305 million over 10 years. This was the lowest cost option of the 3 proposed.

3.2.1 Capital works strategy

We examined how the capital works strategy was developed, and how DHS plans for managing the condition of public sector residential aged care facilities. We found that infrastructure planning is conducted by DHS through local level service planning on a facility-by-facility basis with agencies. We also found that development of DHS' capital works strategy was primarily driven by consideration of fabric condition, compliance with certification requirements, and the cost of remedial works for existing facilities. We saw no evidence that:

- the strategy was driven by a consideration of higher order issues within each geographic area such as whether facilities should be rebuilt, closed or relocated to ensure the viability of agencies, and their ability to meet community needs now and in the future

- the capital works strategy was developed in the context of coordinated asset planning for public sector residential aged care facilities statewide.

The Commonwealth Government determines how many residential aged care places are to be provided in each geographic area of the state, and we acknowledge that this places some limitations on the decisions DHS can make about the provision of residential aged care. However, within this context, DHS and approved providers have a choice of whether to provide residential aged care services in any given area and, if so, the mix of services for which it will seek Commonwealth approval, and in which facilities to locate approved places in order to achieve efficient service models and to meet current and future demand. It is also possible for DHS to determine:

- where public sector residential aged care facilities should be located within the areas defined by the Commonwealth Government
- the types of care, and the number of places it will provide within the context of the number of places approved by the Commonwealth Government
- how agencies will be structured to ensure that they are viable, e.g. the number of places in each agency, whether agencies should be consolidated, or the design of facilities
- expectations of service delivery
- the functionality of existing facilities and consideration of their useful life and condition and whether they should be rebuilt or refurbished
- priorities for the sector within the context of the capital needs of the health sector's broader asset portfolio
- the mix between state and local sources of capital works funding
- the opportunities to be followed for divestment of places
- the gap, if any, between the current condition and functionality of facilities, and immediate and longer-term needs.

DHS advised that the Victorian Government's public sector residential aged care policy states that the policy objectives are to be implemented over time, through service planning by individual health services within their local communities. We agree. We also agree that service level planning is an essential element, however, in our view the government's policy does not constrain DHS from taking a coordination and stewardship role in infrastructure planning.

We consider that an approach that includes infrastructure planning for public sector residential aged care facilities at a statewide level, in concert with periodic fabric surveys, and local level service planning would better inform investment decisions. That is, whether facilities should be rebuilt, closed or relocated to ensure the viability of agencies and their ability to meet community needs now and in the future; and how to more effectively utilise and manage the state's residential aged care assets.

In the absence of infrastructure planning for public sector residential aged care facilities at the state level, we consider that issues influencing future service delivery needs for public sector residential aged care across the state were not considered sufficiently in developing the 2002 capital works strategy.

3.2.2 Risk management strategy

As stated earlier, the 2002 capital works strategy proposed the progressive redevelopment of facilities over a 5-year period, meaning that some residents would continue to live in facilities that DHS classified as presenting risks to residents and staff from failing, obsolete or inadequate infrastructure³ for some time. Given this situation, we examined whether DHS had satisfied itself that these risks were mitigated by the agencies responsible for managing the facilities.

We examined whether DHS had developed a risk management strategy to satisfy itself that appropriate action was being taken by agencies to:

- effectively manage the risks to the health and safety of residents and staff in category 1 and 2 facilities during the period between the fabric survey and rebuilding of the facilities
- effectively manage the risks to the health and safety of residents and staff in facilities other than those identified for funding, e.g. category 3 facilities
- contribute to the improvement of the facilities under their control, e.g. by contributing to the funding of capital works and service improvement from their own reserves or locally-raised funds.

³ Documentation provided by DHS relating to the fabric survey, defined facilities in these categories as: category 1 – “facilities which will not achieve 2008 certification”; category 2 – facilities where “there is a significant risk associated with failing, inadequate or obsolete infrastructure, patient [resident] safety, fire safety and/or occupational health and safety”.

Action to address fire safety and risks to achieving stricter certification requirements was taken under 2 existing programs, i.e. the fire risk management strategy and the statewide certification project (discussed later in this report). However, we saw no evidence of the development by DHS of a broader risk management strategy designed to satisfy itself that appropriate action was being taken by agencies to address all of the issues identified through the fabric survey, or to mitigate risks until such time as remedial works were/are conducted. This does not mean that the risks are not being adequately managed at the agency level, but rather, that DHS does not monitor that they are.

3.2.3 Conclusion - Planning for managing facility condition

The absence of planning for public sector residential aged care facilities at a statewide level, linked through the capital works strategy, to the government's policy outcomes, means that DHS' approach to planning for managing facility condition is based on the availability of funds, results from periodic fabric surveys, and service planning at the individual agency level. DHS should review its approach to planning to ensure that it adequately considers the longer-term service delivery needs of the entire state in a coordinated way.

DHS, as the entity responsible for the coordination and stewardship of public sector residential aged care in Victoria, has a responsibility to ensure that agencies that operate the facilities protect the state's investment in those facilities. Accordingly, it should satisfy itself that appropriate action is being taken by agencies to manage the condition of the facilities, and to mitigate the risks to residents and staff from failing, inadequate or obsolete infrastructure.

3.3 Was action taken by DHS to address the condition of the facilities well managed?

We examined whether actions taken or overseen by DHS to address the condition of the facilities following the 2001 fabric survey were well managed. To determine this, we examined how DHS:

- managed its capital works program
- managed the risks to safety, and to achieving compliance with known 2008 certification requirements
- monitored the management and maintenance of facilities
- funded maintenance of facilities.

We also looked to see whether DHS had encouraged the use of locally-raised funds for capital works and asset maintenance.

3.3.1 Managing the capital works program

Between 1999 to March 2006, DHS allocated \$336 million for capital works in 45 public sector residential aged care facilities⁴. Over the same period, actual capital works expenditure by DHS on those facilities amounted to \$255 million.

Funds allocated for capital works since July 2002

Between July 2002 and March 2006, i.e. since development of the 2002 capital works strategy, DHS allocated \$182 million for capital works in 24 public sector residential aged care facilities.

Capital works conducted

Following the 2001 fabric survey, DHS developed a funding response to address the risks identified. In developing its 2002 capital works strategy, future service delivery needs were considered on a case-by-case basis for individual capital works proposals. Future service delivery needs for the sector as a whole were not considered.

In the absence of a capital works strategy based on the future needs of the entire sector, we examined whether capital works undertaken by DHS since July 2002, under its annual capital works program, addressed the facilities identified by the DHS 2001 fabric survey as having failing, inadequate or obsolete infrastructure, or at risk of failing to meet the Commonwealth's 2008 building certification requirements for privacy and space.

From July 2002 to March 2006, DHS spent \$189 million on capital works in 41 public sector residential aged care facilities⁵. Of this amount, \$118 million was for works in 21 of 49 facilities identified in the 2002 capital works strategy.

During the same period, agencies conducted self-funded works on 4 facilities included in the 2002 capital works strategy. The value of these works is not known by DHS.

⁴ The 2006-07 state budget provided an additional \$130 million over 3 years for the redevelopment of 5 residential aged care facilities, 2 of which had previously been allocated funds between 1999 and March 2006.

⁵ Includes works in 21 facilities identified in the capital works strategy and 22 facilities subject to other works, i.e. works not included in the strategy. In total, 41 facilities were affected because in 2 facilities, there were works under both the capital works strategy and "other" works.

Figure 3A provides a summary of capital works conducted in public sector residential aged care facilities from July 2002 to March 2006.

FIGURE 3A: CAPITAL WORKS CONDUCTED⁶ IN PUBLIC SECTOR RESIDENTIAL AGED CARE FACILITIES FROM JULY 2002 TO MARCH 2006

Category (a)	Facilities in each category (b)	DHS 2002 capital works strategy				Other works conducted
		Facilities requiring works	Works conducted		Works not conducted	
			Funded by DHS	Funded by agencies (c)		
	(no.)	(no.)	(no.)	(no.)	(no.)	(no.)
Category 1	11	11	8	1	2	-
Category 2	33	33	10	2	(d) 21	-
Category 3	65	1	-	-	1	(e) 3
Category 4	98	2	2	-	-	(f) 19
Uncategorised	-	2	1	(g) 1	-	-
Total	207	49	21	4	24	22

(a) The categories comprise:

- *category 1*: facilities that would not meet the Commonwealth's 2008 certification requirements
- *category 2*: facilities where there was a significant risk associated with failing, inadequate or obsolete infrastructure, resident safety, fire safety, and/or occupational health and safety
- *category 3*: facilities with limited economic life, deteriorating with age, and requiring replacement in around 5 to 10 years
- *category 4*: facilities that met certification requirements and not requiring redevelopment over the next 10 years.

(b) Classification of facilities following 2001 fabric survey.

(c) Funded by the agencies responsible for operating the facilities.

(d) Includes one facility where planning commenced prior to 2002-03, but where works have not progressed.

(e) In 2 of these facilities, the works were a continuation of works commenced prior to development of the capital works strategy. Works in the other facility were in response to a specific government commitment.

(f) In 16 facilities, the works were a continuation of works commenced prior to development of the capital works strategy. In 2 facilities, works were a continuation of works commenced prior to development of the capital works strategy, and these facilities were also included in the capital works strategy. Works in the other facility were in response to a specific government commitment.

(g) This facility was not a public sector service at the time of the 2001 fabric survey and, therefore, was not assessed in the survey.

Source: Victorian Auditor-General's Office.

Figure 3A shows that works other than those proposed under the 2002 capital works strategy have been conducted in 22 facilities since July 2002. Our further examinations showed that:

- in 2 of these cases, additional works were proposed under the 2002 capital works strategy, and were also conducted

⁶ Does not include works funded in the 2006-07 state budget, as these have yet to be conducted.

- 18 facilities had works-in-progress at the time the strategy was developed
- in the other 2 facilities, the works were as a result of specific government commitments.

We consider that it was reasonable for works in these 22 facilities to be conducted during the period.

Figure 3A also shows that:

- capital works have been conducted in 25 (51 per cent) of the 49 facilities identified as needing capital works under the 2002 capital works strategy
- works have been conducted in 9 of the 11 category 1 facilities
- 12 (36 per cent) of the 33 category 2 facilities identified in the 2002 capital works strategy have been, or are being, rebuilt.

DHS advised that action had been undertaken to address the 2 category 1 facilities not subjected to capital works, i.e. that:

- planning is underway to relocate places at Kingston Centre Nursing Home to a new facility at Doveton. The 2006-07 state budget allocated \$34.5 million over 3 years for this purpose
- one of Mt Alexander Hostel's buildings had been closed, in effect reducing the overall number of residential places, following a reconfiguration of its bed-based and community-based services⁷. This enabled the facility to meet the Commonwealth's stricter 2008 certification requirements for privacy and space.

Twenty-one (64 per cent) of the 33 category 2 facilities have yet to be rebuilt, nearly 5 years after the 2001 fabric survey identified "significant risk associated with failing, inadequate or obsolete infrastructure, patient [resident] safety, fire safety, and/or occupational health and safety risks"⁸. DHS advised that these facilities have had investment through the fire risk management strategy (all 21 facilities) and statewide certification project (6 facilities) targeted at improving fire safety and/or facility condition.

⁷ Depending on need and eligibility, residential aged care facilities may substitute some low care bed-based places for community-based places known as Community Aged Care Packages (CACPs). CACPs are individually planned, and coordinated, packages of care tailored to help older people to remain living in their own homes.

⁸ Documentation provided by DHS relating to the fabric survey, defined facilities in category 2 as facilities where "there is a significant risk associated with failing, inadequate or obsolete infrastructure, patient [resident] safety, fire safety, and/or occupational health and safety".

We recognise that residential aged care capital works projects compete for funding against capital works projects from other areas of the health portfolio. However, in these circumstances, as stated earlier, we saw no evidence that a risk management strategy has been developed by DHS to satisfy itself that all risks identified through the fabric survey are being mitigated by agencies responsible for managing the facilities.

3.3.2 Managing the risks associated with failing, inadequate and obsolete infrastructure, and compliance with known 2008 certification requirements

Prior to the 2001 fabric survey, DHS had 2 programs in place to address safety standards and achievement of certification requirements in facilities. The programs were the fire risk management strategy (FRMS) and the statewide certification program (SCP). After the fabric survey, these programs continued.

During the period since the fabric survey, the Commonwealth Government provided a one-off grant of \$3 500 per resident to approved providers throughout Australia. The grant was aimed at improving compliance with the 1999 Aged Care Certification Assessment Instrument and residential aged care building standards by 2008.

Because of their potential to address the risks identified through the survey, we reviewed DHS' involvement in the implementation and/or oversight of each of these programs to determine whether it had been effective.

Fire risk management strategy

In 1997, the FRMS was introduced across the health portfolio, because DHS recognised:

- the importance of fire safety to all public sector facilities under its portfolio (including residential aged care facilities)
- its duty of care to its clients, including the residents of residential aged care facilities
- that facilities that had complied with building regulations relating to fire safety, at the time of their construction, may not still satisfy them due to changed requirements.

The FRMS is a continuing program. Its objective is to ensure an appropriate level of fire safety in residential facilities for which DHS has a responsibility, i.e. all DHS-owned and operated bed-based 24 hour care facilities (including residential aged care facilities).

The FRMS includes:

- fire safety audits and risk assessments by fire engineers to assess fire safety systems, and the nature of the resident group, to determine performance-based requirements for each facility
- works to upgrade fire safety in all bed-based 24-hour care facilities, including residential aged care facilities, to meet the performance-based requirements of the Building Code of Australia 1996 (BCA 96)⁹.

It also involves establishing operational readiness, including that staff are prepared to manage emergencies, and maintaining building fabric and essential services.

DHS advised that the FRMS had allowed public sector residential aged care facilities to be progressively upgraded to meet fire safety requirements. We were also advised that:

- initial audits and interim fire safety upgrade works were completed at all bed-based 24-hour care facilities, but one, by 2002
- the majority of priority 1 fire safety upgrade works, i.e. works required within 2 years, were completed by 2002
- the balance of the interim and priority 1 works were completed over subsequent years
- all residential aged care facilities have been fitted with sprinkler systems, which is over and above the standard required by the BCA.

Documentation provided by DHS indicates that around \$164 million has been spent on the FRMS across DHS' portfolio since 1997. It estimates that around \$43 million was allocated to residential aged care facilities under the FRMS between July 1997 and June 2003, including \$10.6 million between 2001-02 and 2002-03, following the March 2001 fabric survey¹⁰.

We examined documentation relating to 25 public sector residential aged care facilities subjected to the FRMS to determine the soundness of the program and whether it established an appropriate level of assurance about whether the facilities complied with the requirements of the BCA, relating to fire safety.

⁹ The BCA is a uniform set of technical provisions for the design and construction of buildings and other structures throughout Australia while allowing for variations in climate and geological or geographic conditions. The BCA is produced and maintained by the Australian Building Codes Board on behalf of the Commonwealth Government and each state and territory government. The BCA is updated each year. The BCA 96 was the building code of Australia current in 1996. The DHS guidelines for the FRMS state that the standard to be applied to facilities is the BCA 96.

¹⁰ DHS could not provide precise details of the spending on FRMS works in residential aged care facilities. In most cases, residential aged care facilities are co-located with hospitals and both the scope of works and associated funding for the FRMS were determined at a whole-of-facility level. The portion of FRMS funding reported as applied to residential aged care facilities has historically been estimated by DHS by calculating the proportion of the facility occupied by the residential aged care service.

Results of our assessment of the fire risk management strategy

Our review of the FRMS showed that DHS, agencies and fire engineers have put significant effort into ensuring that public sector residential aged care facilities are safe and that they comply with the performance requirements of the BCA 96¹¹. We also found that considerable works have been undertaken in an effort to achieve this objective. However, a number of issues identified during our examinations point to gaps in the design and implementation of the FRMS. Our main findings are presented below.

Works on essential services in residential aged care facilities (including works on fire safety systems and equipment) must be conducted under a building permit signed by a building surveyor, and on completion of the works, only a building surveyor can sign-off that the works have been completed in accordance with the permit, and issue a Certificate of Final Inspection. In many, but not all of the 25 cases we examined, we saw that these steps had been completed.

DHS and agencies have aimed to implement alternative solutions designed to meet the performance requirements of the BCA and to ensure that facilities are safe. Under the FRMS, DHS requires a building surveyor to sign a “statement of compliance” before works are conducted to upgrade fire safety in a facility. That statement says that if the issues identified in the FRMS fire audit are resolved (by implementing recommended works or obtaining approvals for alternative solutions), the facility will comply with the relevant fire safety requirements of the BCA 96. This statement is made on the basis of proposed action, rather than on the basis of approved alternative solutions that have been put in place, or works conducted, to achieve the performance-based requirements of the BCA. The statement of compliance is a construct of DHS. It has no equivalent under the Building Act. By itself, it does not provide assurance that a facility fully complies with the BCA 96.

¹¹ Under the BCA, alternative solutions can be used to meet the prescriptive fire safety requirements (also known as the “deemed-to-satisfy” provisions) of the BCA, provided that the solutions proposed satisfy the performance requirements, or are equivalent to the deemed-to-satisfy solutions. Fire safety engineering can be used to establish compliance of the alternative solutions with the performance requirements.

The process established under the Building Act provides for a fire engineer to identify alternative solutions to the deemed-to-satisfy requirements of the BCA, through fire engineering and modelling. The building surveyor is required to assess each proposed alternative solution individually, and to assess its impact on all other affected BCA requirements for the facility, before approving the alternative solution. If it is considered that the solution meets the performance-based requirements of the BCA, the building surveyor issues a building permit. The permit should either document or refer to other documents that:

- identify the works encompassed by the approved alternative solution
- clearly document the outcome of the building surveyor's independent evaluation for each individual proposed solution and its impact on other affected BCA requirements in the facility
- confirm that the works proposed will satisfy the relevant BCA fire-related performance requirements.

This process takes place before the works are conducted. If the building permit contains the above information, when the works are completed, the sign-off by the relevant building surveyor is evidence that the works have been completed in accordance with the building permit, and that they meet the BCA requirements.

Our examination of FRMS documentation relating to 25 facilities indicated that the building permits did not provide the details outlined above. Nor did we see evidence that building surveyors had conducted independent evaluations for each individual proposed solution and its impact on other affected BCA requirements in the facility. Because of these matters, the certificates signed-off by the building surveyors after the works were conducted did not provide the necessary assurance.

DHS considers that performance-based audits by qualified fire engineers are sufficient to address this matter. This is concerning given that our examination of the documentation relating to the audits showed that:

- the scope of fire safety audits conducted on the facilities is limited, e.g. they do not conduct physical testing of a facility's safety systems to ensure that they are operational
- the audit reports contain substantial exclusion clauses that limit the reliance that can be placed on them
- in some cases, fire audits of facilities have been conducted against incorrect building classifications, i.e. the wrong criteria have been used for the assessment.

This is a technical area and while the DHS processes for its internally developed FRMS are adequate for its purpose, they do not achieve the requirements established for the industry under the Building Act and the BCA. Because the processes necessary under the Building Act and the BCA have not been achieved, it is unclear to us whether the works conducted under the FRMS have, in all cases, resulted in facilities meeting the relevant BCA performance requirements.

DHS believes that the problem is one of poor documentation rather than non-compliance with required processes. We acknowledge that a lack of documentation does not mean that safety systems and equipment in a facility do not adequately address fire safety; nor does it indicate that the necessary actions to address fire safety have not been taken. However, it does mean that there is insufficient evidence to provide such assurances.

DHS advised us that all Victorian public sector residential aged care facilities meet the fire safety performance requirements of the BCA 96, and are safe. It also advised that recent discussions with building surveyors, as a result of our audit, have confirmed this. It maintains that the issues raised by us relate to failure to obtain necessary documentation or to close-out processes. Nevertheless, we urge DHS to obtain the appropriate evidence to support its position.

Managing the statewide certification project

Achieving and retaining Commonwealth Government certification is extremely important to residential aged care agencies. It allows agencies to charge fees (accommodation charges and accommodation bonds) to residents. The fees provide access to an income stream that can be used to fund capital works, or to fund continuous improvement.

DHS introduced the SCP in 2000, to ensure that facilities met the Commonwealth Government's 1997 certification standards (stages 1 and 2 of the project). Since that time, stages 3 to 5 of the SCP have been used to ensure compliance with the stricter 1999 certification requirements for:

- fire safety (initially required by 2003, but later changed to 2005)
- privacy and space (by 2008).

Documentation shows that over time DHS has allocated \$6.7 million to the SCP. Figure 3B shows the funding and expenditure for the SCP to December 2005.

FIGURE 3B: STATEWIDE CERTIFICATION PROJECT: FUNDING AND EXPENDITURE TO DECEMBER 2005

Stage	Facilities funded (no.)	Funding allocated (\$'000)	Expenditure (a) (\$'000)
Stages 1 and 2	19	2 454.4	2 454.4
2001 fabric survey	-	500.8	500.8
Stages 3 to 5	16	3 791.9	2 583.3
Total	35	6 747.1	5 538.5

(a) These figures include \$307 300 for stages 1 and 2, and \$1.005 million for stages 3 to 5, for project development and management, including for services provided by architects, building surveyors and project managers.

Source: Department of Human Services.

Statewide certification project process

Stages 3 to 5 of the SCP involved¹²:

- a desktop assessment of individual facilities using available documentation, including previous certification assessments, to identify whether the facility was at risk of failing to meet the certification requirements
- the on-site assessment of a facility, if the desktop assessment showed the facility was at risk of failing certification, or if it had not previously been assessed against the Commonwealth Government's 1999 certification requirements, to identify specific works required to meet certification
- development of an action plan to address the works required, and tendering of the works
- a certification assessment of each upgraded facility, once all works were completed
- sending proof of compliance with certification requirements to the Commonwealth Government.

Results of our assessment of the statewide certification project

We found that:

- the desktop assessment relied upon previous assessments conducted, in order to determine if facilities are at risk of failing certification. We believe that the reliance upon previous assessments provides an opportunity for errors in previous assessments to be carried through to the new assessment

¹² The process for stages 1 and 2 of the SCP was similar to stages 3 to 5 except that it did not include assessment of facilities against the 1999 standards.

- only facilities assessed as likely to fail certification, or those not previously assessed against the Commonwealth Government's 1999 certification requirements, were subjected to a site visit to determine the specific works required. We saw no evidence that there was sampling of facilities assessed as passing certification, to test the soundness of the desktop assessments. We consider that quality control over the process lacked rigour
- there was no quality assurance conducted by DHS of the results. DHS advised that during development of the SCP a number of its staff, the SCP project managers and facility management accompanied Commonwealth assessors as they conducted a small number of on-site certification assessments. This was done to familiarise the staff and contractors with the certification process and implementation of the certification instrument, and to enable clarification of issues to be obtained from the Commonwealth assessors. This was a valuable process for learning how to manage the process and to inform the contractors and DHS staff about certification and the documentation requirements. While we understand that this was a valuable process, we do not consider it was a substitute for a quality assurance process over the SCP results.

We believe that the above items had the potential to compromise the results of the SCP.

Nevertheless, all 195 Victorian public sector residential aged care facilities have been assessed as having met the 2005 fire safety requirements and all facilities are on track to meet the 2008 privacy and space requirements¹³.

The Commonwealth Department of Health and Ageing's website indicates that each of the Victorian public sector facilities has met the 1999 certification requirements¹⁴ and has demonstrated (by submission of a certificate signed by an appropriately qualified building professional) that it has met the 2005 target for fire safety.

Monitoring the use of the Commonwealth Government specific purpose grant

In May 2004, the Commonwealth Government announced a one-off grant of \$3 500 per place, to all approved providers of residential aged care, other than multipurpose services (MPS), throughout Australia¹⁵.

¹³ At the time of the audit, there were 195 public sector residential aged care facilities in Victoria. DHS advised that subsequently, one facility has been closed.

¹⁴ Some facilities were assessed against the 1997 aged care certification requirements.

¹⁵ The grant was not paid in respect of flexibly-funded places, and so MPS were not eligible.

The grant was provided to support the Commonwealth Government's 10-year forward plan for improving residential aged care building standards by 31 December 2005 and 2008. It could be used to:

- update or improve fire safety standards, including upgrading existing fire safety equipment to meet state, territory and local government regulatory requirements, and the stricter Commonwealth fire safety requirements
- demonstrate compliance with the 1999 Aged Care Certification Assessment Instrument
- invest in building upgrades to meet the benchmarks of the Commonwealth Government's 10-year forward plan for certification
- ensure that high care residents, including residents ageing in place, are accommodated in buildings of the appropriate building classification.

In facilities where fire safety requirements were deemed to have been met, the grant could be used to improve the quality and range of residential aged care services, or to retire debt relating to subsidised residential care.

The grants were paid directly to the approved providers, i.e. in the case of Victorian public sector residential aged care, the agencies responsible for managing the public sector residential aged care facilities. Agencies were required to provide an acquittal for expenditure of the funds, to the Commonwealth Government.

In June 2004, DHS directed all Victorian public sector residential aged care agencies to set aside their grant moneys into a special purpose fund, until expenditure guidelines were provided by DHS.

The DHS guidelines were established with an understanding that, in the event that fire safety or 2008 compliance works were not required, the grant could be spent on improving the quality and range of residential aged care services or to retire debt. The guidelines:

- required that agreement be reached with DHS regarding the use of the funds prior to an agency spending the grant
- established the process by which agencies were required to seek approval from DHS
- established DHS' own criteria to guide agencies in making submissions, and its approval of expenditure.

We examined how the grants had been used by agencies. Given that DHS imposed on agencies a requirement that it pre-approve use of the grant moneys, we expected that it could provide us with the value of the grants received; the level of expenditure of the grants; and the extent of the unexpended balances held by agencies. However, this was not the case.

Because the grants were paid directly by the Commonwealth Government to agencies, DHS was not aware of the amounts received. However, based on total place numbers throughout the sector, DHS estimated that public sector residential aged care agencies may have received total grants of around \$20 million during 2004.

Our examinations revealed that at the time of the audit:

- DHS had approved 45 submissions from 37 agencies to the value of \$6.9 million, including \$3.2 million for fire safety works and/or audits, \$3.5 million for contributions towards existing capital redevelopment projects; and \$200 000 for minor works and repairs
- DHS was not aware whether all agencies had sought its approval before spending the grant
- DHS could not gauge the extent of compliance with its requirements, or the total value of unexpended grants held by agencies, as it does not require agencies to provide it with details of the balance of unexpended grants
- DHS knew the unexpended grant balances held by only 11 agencies. In those cases, the balances amounted to around \$1.2 million.

Based on advice from DHS, we estimate that around \$13 million (65 per cent) of the total grants paid to Victorian public sector residential aged care agencies may be unspent.

DHS advised us that it intends to seek the acquittals for these funds from agencies. It is evident that in respect of this Commonwealth initiative, DHS was initially actively involved in managing its statewide impact. This is consistent with our view that DHS has a basic coordination and stewardship role for public sector residential aged care statewide.

3.3.3 Monitoring asset management and maintenance by agencies

In 1995, the Department of Treasury and Finance published the *Asset Management Series*¹⁶ setting out specific requirements applicable to public sector agencies with asset management responsibilities. The Victorian Government's policy *Sustaining our Assets*¹⁷ also outlines a number of principles that need to be followed for the effective management of public assets.

¹⁶ Department of Treasury and Finance, 1995, *Asset Management Series*, Melbourne.

¹⁷ Department of Treasury and Finance, 2000, *Sustaining our Assets: Government Asset Management Policy Statement*, Melbourne.

Critical among the principles is the need to establish clear ownership, control, accountability and reporting arrangements to ensure that assets are managed effectively. This is because the entity that controls an asset is responsible for managing it and for implementing maintenance works designed to maximise its estimated useful life. In this context, owners have a vested interest in ensuring that the agencies controlling assets are aware of their responsibilities, and effectively discharge those responsibilities.

We examined arrangements between DHS and public sector residential aged care agencies to determine whether key asset management principles relating to ownership, control, accountability and reporting had been established and complied with.

In the case of public sector residential aged care in Victoria, responsibility for managing and maintaining facilities rests with the agencies. DHS, representing the owner and/or the provider of capital and maintenance funds, needs to assure itself that the agencies are fully aware of their responsibilities, and that it has appropriate monitoring and accountability measures in place.

We found the funding and service agreements (FASA) which govern the operations/relationships between DHS and the agencies that provide public sector residential aged care clearly state that responsibility for asset management and maintenance rests with the individual agencies.

However, we also found that the FASA do not specify:

- the requirement for agencies to develop asset management strategies
- minimum performance standards expected from agencies in relation to managing and maintaining assets
- the monitoring arrangements and associated accountability mechanisms for demonstrating compliance with asset management requirements and to demonstrate that assets are being effectively managed.

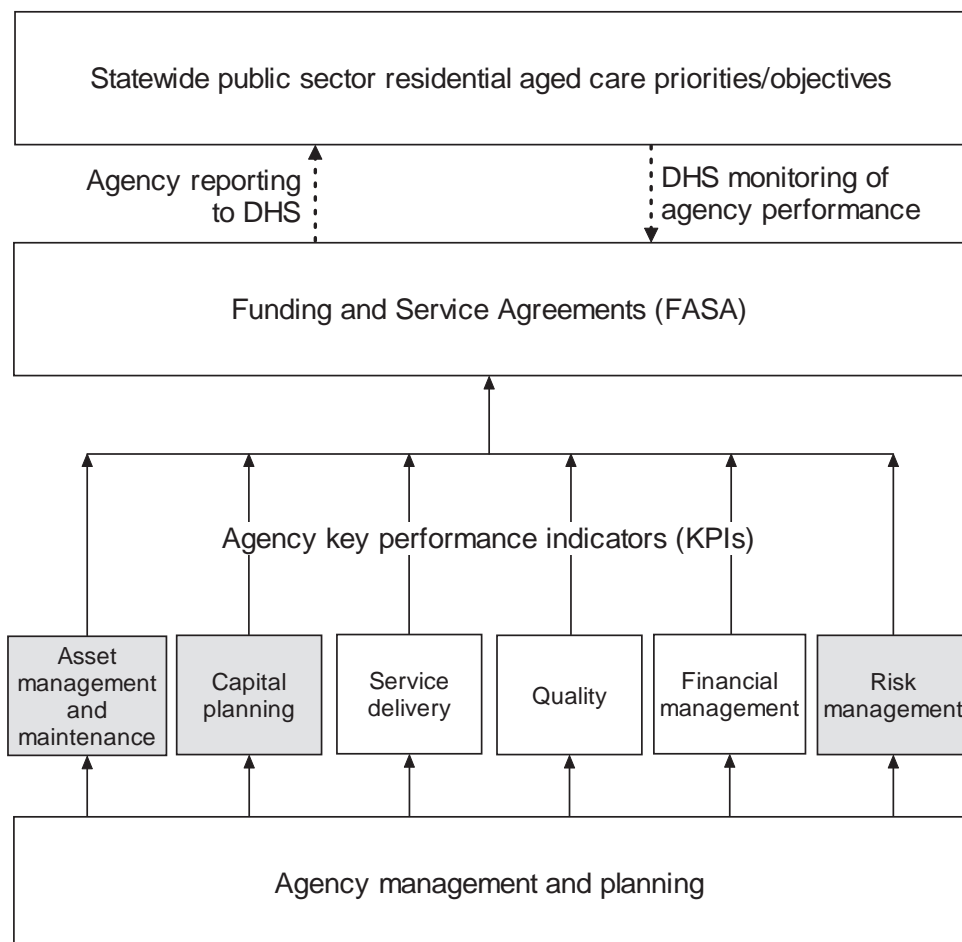
We note that DHS has many mechanisms in place to monitor service delivery performance of funded agencies. However, DHS does not systematically monitor whether agencies in control of facilities are effectively discharging their responsibilities for managing and maintaining the facilities in which services are delivered. DHS advised us that it does not monitor these specific activities because existing governance arrangements mean that agencies are largely autonomous entities, individually accountable to their own boards and the minister.

We consider that in the interests of protecting the state's investment in the assets, DHS, as an owner and in its stewardship role, should ensure that the condition of the facilities, and the risks to residents and staff from failing, inadequate, or obsolete infrastructure, are managed effectively.

We also consider that active monitoring by DHS of asset management and maintenance activities of agencies, supported by clear accountability requirements and targets, are reasonable practices that should be established as conditions of state funding of agencies, and would contribute to effective stewardship of the sector.

In this regard, improvements should be made to the existing accountability framework for public sector residential aged care services, by incorporating clearer links between agency performance in areas such as asset management and maintenance and capital investment planning, with the government’s priorities and objectives for Victorian public sector residential aged care. This could be addressed by enhancing the FASA between DHS and agencies. Figure 3C illustrates our suggested framework.

FIGURE 3C: SUGGESTED PUBLIC SECTOR RESIDENTIAL AGED CARE ACCOUNTABILITY FRAMEWORK



Note: The shaded areas refer to components of the framework that are not yet fully in place.

Source: Victorian Auditor-General’s Office.

Given the level of funding provided by DHS to public sector residential aged care agencies, particularly over the past 5 years, and considering the important role that effective asset management and maintenance plays in maximising the useful life of assets, and minimising the need for future capital investment, we are concerned by the current lack of accountability in this area.

3.3.4 Funding maintenance of facilities

The Commonwealth Government recurrently funds approved providers of residential aged care to provide places for residents who meet the Commonwealth eligibility criteria for those subsidised places. Historically, a portion of the Commonwealth recurrent funding was provided for maintaining facilities.

Residents of aged care facilities pay a basic daily fee and an income-tested daily fee to the approved provider (the agency) as a contribution towards the cost of their care.

Agencies decide how to use the funding they receive to run their businesses and to maintain facilities.

Studies commissioned by the state government and DHS in recent years, have identified that Victorian public sector residential aged care facilities operate in an environment where recurrent funding, and the fees collected from residents, are substantially used to fund day-to-day operations. In such an environment, agencies can find it difficult to invest sufficiently in preventative and responsive maintenance of facilities.

To assist agencies, DHS contributes funds, in addition to recurrent and capital works funding, towards the maintenance of the state's public sector residential aged care facilities. It does this in 2 main ways, i.e. through:

- a bid-based process: The major purpose of this funding is to give agencies access to funds for purposes which extend beyond what can be normally regarded as routine day-to-day and/or emergency maintenance and repair, e.g. termite treatment, refits to bathrooms and reception areas, painting, removal of asbestos, replacement of airconditioning units, roofing and floor coverings
- as part of an agency's recurrent funding: this funding is for routine maintenance works.

There is also a small contingency fund for emergency works that arise during the year, which is managed centrally by DHS.

Bid-based funding

In December 2003, DHS reviewed the process for allocating its maintenance funding. There were concerns that there was a lack of clarity surrounding the purpose of the funding, and that funds were being used for purposes other than asset maintenance. A new approach to allocating funds was introduced in 2004-05. The most significant changes related to processes for allocating “bid-based” funds, including introducing:

- a fixed, quarantined budget for bid-based allocations, set early in the financial year
- a single bid-based process across the Aged and Home Care (excluding Home and Community Care), Dental Health, Drugs Services, Primary Health and Public Health output groups of the Rural and Regional Health and Aged Care (RRHAC) Division of DHS. Prior to that, the output groups had allocated their bid-based funds through a variety of processes: some funding streams were isolated and confined to specific output groups only, while other output groups pooled funds and operated joint allocation processes
- decision-making about the allocation of bid-based funds at the DHS regional level
- a central process for allocating contingency funds to emergency maintenance during the financial year.

Around \$2.5 million in bid-based funds were allocated by DHS across RRHAC output groups (excluding Public Health), in 2005-06. Of this, around \$320 000 (13 per cent) was allocated to Aged Care (\$482 000 in 2004-05; \$488 000 in 2003-04; and \$432 000 in 2002-03).

Information supplied to us by DHS did not enable us to identify which facilities received bid-based funding in 2005-06, as in most cases, only the agency managing the facility was identified (in many cases an agency manages multiple facilities).

As bid-based funding is incorporated into the FASA of agencies, DHS does not ask agencies to acquit the use of funds allocated, and does not monitor whether they are used for the purpose for which they are provided.

Recurrent funding

In 1996, DHS introduced an ongoing one per cent of an agency’s annual recurrent funding allocation, to be used for maintaining facilities. These funds are normally directed to DHS regions to be allocated to agencies under relevant RRHAC output groups.

DHS advised that the recurrent allocation for maintenance is still equivalent to one per cent of the 1996 aged care program budget. That is, the level of funding has not been adjusted over time to account for changes in program or agency budgets, or to reflect movements in the consumer price index.

In 2000, DHS advised that the benchmark it uses for determining the amount that should be spent to maintain the condition of hospital buildings is 3 per cent of the book value of the buildings¹⁸. DHS documentation indicates that 79 per cent of public sector residential aged care services are co-located with hospitals. Acknowledging this, it is unclear why the amount provided to aged care for maintenance of residential aged care facilities remains at one per cent of the 1996 aged care program budget, rather than reflecting the DHS benchmark for hospitals.

During the current audit, DHS advised that its current benchmark for maintenance budgeting is 1 to 1.5 per cent of the book value. However, we saw no evidence that DHS had formally adopted this policy, or to show that this rate had been established as appropriate through a rigorous assessment across an equivalent sector.

DHS estimates that the recurrent funding for maintenance, across all RRHAC output groups, is currently around \$1.9 million a year. DHS was unable to provide an equivalent figure for individual output groups. The actual value of recurrent funding provided to agencies by DHS for maintaining public sector residential care facilities is, therefore, unknown.

However, as a broad calculation, if it is assumed that:

- the total \$1.9 million RRHAC recurrent funding for maintenance (including the contingency funding)
- plus the \$320 000 bid-based funds allocated to residential aged care facilities in 2005-06

are allocated entirely to public sector residential aged care facilities annually, this would mean that the average DHS contribution for maintenance each year would be in the vicinity of \$11 400 for each facility. We believe this is the “best-case” scenario.

¹⁸ Victorian Auditor-General's Office, 2000, *Report on Ministerial Portfolios*, Victorian Government Printer Melbourne, p. 85.

Is the state funding sufficient?

It is clear that the agencies that operate Victoria's public sector residential aged care services are responsible for the maintenance of the facilities in which those services are delivered. However, as previously discussed, pressures on the viability of those agencies, mean that state supplementation of funding for maintenance of the facilities is a reality.

To gauge whether the contributions by the state are sufficient to maintain the facilities, we compared our estimate of the level of annual maintenance investment by DHS and agencies, with DHS' benchmark of the amount required to maintain hospital buildings to existing standards.

During our visits to a small selection of residential aged care facilities, we found that the average annual expenditure on maintenance was approximately \$41 500 in each facility, i.e. around \$30 100 more than the maximum facilities are likely to receive from DHS under the best-case scenario.

We were unable to establish, and DHS was unable to provide, the total amounts spent each year on maintenance of public sector residential aged care facilities, through recurrent funding and bid-based funding since the 2001 fabric survey, so we used the figures we calculated above (our best-case scenario), plus an estimate of the average annual expenditure on maintenance from our visits to a small selection of facilities (i.e. \$41 500) for our analysis. We did not include an estimate of the proportion of Commonwealth recurrent funding or fees from residents used for maintenance, as these amounts are included in the net average expenditure provided by agencies (i.e. average annual expenditure per agency \$41 500, less DHS best-case contribution of \$11 400).

The results of our analysis are presented in Figure 3D.

FIGURE 3D: COMPARISON OF ESTIMATES OF ANNUAL MAINTENANCE FUNDS PROVIDED WITH THE MAINTENANCE FUNDING BENCHMARK

Funding	\$m	\$m	\$m
Funds provided for maintenance -			
By DHS -			
Recurrent funds	1.9		
Bid-based funds	0.3	2.2	
By agencies (a)		5.9	8.1
Funds required for maintenance (b)			(30.0)
Maintenance funding shortfall			(21.9)

(a) Based on a net average \$30 100 per year per facility for 195 facilities, i.e. \$41 500 less \$11 400.

(b) Three per cent of \$1 billion estimated replacement cost of public sector residential aged care facilities (replacement cost estimated by DHS in November 2004). The benchmark should be applied against the book value of the assets. However, in the absence of a book value for the public sector residential aged care facilities, we have used replacement cost.

Source: Victorian Auditor-General's Office.

Using the benchmark for funding necessary to sustain the standard of buildings as an indication of the level of expenditure required to maintain the standard of public sector residential aged care facilities, Figure 3D shows an annual maintenance funding shortfall of around \$22 million.

DHS advised that the current book value of public sector residential aged care facilities is between \$500 million and \$530 million, but was unable to provide evidence of this. If this value is applied to the remaining data in Figure 3D, the maintenance funding shortfall is in the vicinity of \$7 million to \$8 million.

3.3.5 Encouraging the use of locally-raised funds for capital works and maintenance

The Commonwealth Government recurrently funds approved providers of residential aged care to provide places for residents who meet the Commonwealth eligibility criteria for those subsidised places. Residents of aged care facilities pay a basic daily fee and an income-tested daily fee to the agency as a contribution towards the cost of their care.

Over and above these amounts, and the funds provided by DHS for capital works and for maintaining and operating facilities, public sector residential aged care agencies obtain funding from accommodation fees and local community fundraising.

Accommodation fees

All operators of residential aged care facilities that meet the Commonwealth certification requirements can request accommodation fees from residents who have the capacity to pay. There are 2 types of accommodation fees:

- **Accommodation bonds:** a lump sum paid by a person who lives in a residential aged care hostel (low care). The size of the accommodation bond is negotiated between the provider and the resident upon entering the hostel. Providers can draw-down and keep a monthly retention amount from a resident's bond moneys for the first 5 years that the person stays in residential aged care. Providers may also keep interest derived from bond balances. The retention amount is capped by the Commonwealth Government. The bond, less retention amount, is repayable to the person when they leave residential care.
- **Accommodation charges:** a daily charge paid by people who live in nursing homes (high care). The amount that an approved provider can levy is capped by the Commonwealth Government.

The Commonwealth Government pays a concessional resident supplement to approved providers on behalf of residents unable to pay accommodation bonds or charges.

Accommodation charges, interest derived from accommodation bonds and retention amounts may be retained by the approved provider, and used to:

- fund capital works
- improve the quality and range of services provided, where no capital works are required to ensure compliance with certification principles and meeting accreditation requirements.

The accommodation charges and bonds provide a funding stream that may be used by providers to contribute to the cost of capital works and maintenance of facilities. We received advice that as long as a provider can guarantee its ability to repay the bonds¹⁹, the Commonwealth's recently revised prudential requirements do not preclude a provider from accessing bond balances or using them as leverage to improve its capacity to contribute to capital works, e.g. using them as collateral for loans.

DHS advised that the implications of the recent revisions will be considered as part of a business improvement project currently underway within the department.

¹⁹ Approved providers can only use accommodation bonds in accordance with the Commonwealth's prudential requirements, i.e. in most cases bond balances must be refunded within 14 days in the event of a resident's death or departure (or on the day of their departure if the resident gives more than 14 days notice), and providers must guarantee their capacity to repay the bonds.

DHS practice

DHS advised that, as at December 2005, around \$74 million in bonds was held in trust funds within 45 of the 86 public sector residential aged care agencies across the state²⁰.

In 2002, DHS estimated that accommodation bonds and charges, and concessional resident supplements provided an annual income of between \$4 300 and \$4 800 per resident for about 85 per cent of the residents in facilities at any given time. In metropolitan areas, where higher accommodation bonds may be charged due to higher property values, it was felt that this income could be substantially higher. It was suggested that these funds could cover a proportion of capital redevelopment costs, if set aside for that purpose. However, studies conducted by DHS in 2002²¹ and 2003²², showed that public sector residential aged care agencies had limited capacity to contribute towards capital works from their accommodation charges because the amounts raised from accommodation charges were needed to meet the costs of day-to-day operations.

More recently, DHS commissioned a review of public sector residential aged care facilities to identify opportunities to improve their business performance²³. The review found that despite the provision of state subsidies, more than half of the agencies were operating at a loss. Revenue performance was found to be strongly associated with a number of factors, including an agency's ability to maximise resident bonds. A wide variation was noted in the percentage of residents paying bonds at the maximum level, and this was linked to ineffective local policies and practices. These impacted on the ability of agencies to maximise accommodation bonds from prospective residents. In many agencies, negotiation of bonds was handled by relatively inexperienced staff.

The review recommended that DHS take a lead role throughout the sector and reconsider its existing (portfolio-oriented) relationship with agencies. That is, rather than a case-by-case approach to assisting individual agencies, it should consider the benefits of a more system-oriented management approach, where greater advantage is taken of solutions to common problems throughout the sector.

²⁰ As under Commonwealth legislation, accommodation bonds are payable only by residents in hostel accommodation, not all of the public sector residential aged care agencies hold bonds.

²¹ This project examined the financial structure of 41 public sector residential aged care agencies in 2002, using 2001 financial data.

²² This study was conducted by the Treasury Corporation of Victoria.

²³ The project was completed over an 8-month period involving a review of 20 agencies, followed by a detailed survey of management practices and financial data associated with 58 agencies. The project report was issued in 2004.

We observed that DHS' approach to the sector still has a portfolio orientation, where responsibilities are largely devolved to individual agencies. While these arrangements may be desirable to encourage local responsibility for decisions, they are not optimum for harnessing the collective potential of the sector to contribute to its associated capital costs.

We found that DHS does not:

- have a policy or strategy in place concerning the use of bonds collected by public sector residential aged care agencies²⁴
- systematically monitor how bonds are used by agencies, and was unable to provide figures about the extent to which agencies use accommodation payments for capital purposes
- systematically monitor whether revenues derived from bonds are being directed towards meeting the cost of capital expenditure.

We found no evidence that DHS has acted to encourage agencies to maximise accommodation bonds. We do not expect agencies to make decisions on who may access their services based on a person's capacity to pay. However, we do consider that when a new resident is accepted into a service, the agency's management should ensure that the level of bond negotiated is commensurate with the resident's capacity to pay.

We also found no evidence that DHS has acted to encourage agencies to use bonds to facilitate financing of capital redevelopment projects or maintenance. An opportunity exists for more effective and efficient use of accommodation bonds held by agencies across the sector to facilitate future capital works or to sustain facilities through maintenance.

Local community fundraising

Some communities conduct fundraising for capital works in, or maintenance of, their local public sector residential aged care facilities. In these cases, the communities take pride in their achievements and need to be acknowledged for their efforts. However, we found that there is a perception that, from time-to-time, funding decisions made by DHS disadvantage these communities, e.g. by providing funds to agencies in communities where local efforts have not been conducted, while communities where fundraising has been conducted do not receive such funding.

We found that DHS does not have a policy that addresses situations where local communities provide an agency with funds. Development of a policy, and compliance with it, would provide DHS with a mechanism for protecting itself against these perceptions.

²⁴ DHS has a policy for the accounting treatments for accommodation bonds, but not for their use.

3.3.6 Conclusion - Managing the condition of facilities

Following its 2001 fabric survey of public sector residential aged care facilities, DHS developed a capital works strategy to address the risks identified by the survey, i.e. the risks that 11 facilities would not meet the 2008 Commonwealth certification requirements for privacy and space (i.e. category 1 facilities), and the risks in 33 facilities arising from failing, obsolete or inadequate infrastructure (i.e. category 2 facilities).

Between July 2002 to March 2006, DHS spent \$189 million on capital works in 41 public sector residential aged care facilities. Of this amount, \$118 million was for works in 21 of 49 facilities identified in the 2002 capital works strategy.

Because of other priorities across the health sector, 21 (64 per cent) of the 33 category 2 facilities have yet to be rebuilt, nearly 5 years after the 2001 fabric survey. We recognise that residential aged care capital works projects compete for funding against capital works projects from other areas of the health portfolio. However, we saw no evidence that DHS, in its coordination and stewardship role, had satisfied itself that all risks identified through the fabric survey are being mitigated by the agencies responsible for managing the facilities. This does not mean that the risks are not being adequately managed at the agency level, but rather, that DHS does not monitor that they are.

During the late 1990s, DHS introduced 2 programs: the statewide certification project (SCP) and the fire risk management strategy (FRMS), to manage the condition of public sector residential aged care facilities. These initiatives, while largely related to mitigating fire risks, were reasonable responses.

As a result of the SCP, all public sector residential aged care facilities are certified, having been assessed against the Commonwealth's 1999 Aged Care Certification standards, including the 2005 stricter requirements for fire safety. All facilities are on track to meet the known 2008 requirements for privacy and space. However, we consider that there were issues surrounding the design of the SCP that had the potential to compromise its results.

The FRMS is a comprehensive program aimed at addressing fire safety in facilities across DHS' portfolio. Despite DHS' concerted efforts, because the processes necessary under the *Building Act 1993* and the BCA have not been achieved, it is unclear to us whether the works conducted under the FRMS have, in all cases, resulted in public sector residential aged facilities meeting the relevant BCA performance requirements.

DHS contends that the issue is one of poor documentation rather than non-compliance with BCA requirements. We acknowledge that a lack of documentation does not mean that safety systems and equipment in a facility do not adequately address fire safety; nor does it indicate that the necessary actions to address fire safety have not been taken. However, it does mean that there is insufficient evidence to provide such assurances. We urge DHS to obtain the appropriate evidence to support its position that all public sector residential aged care facilities meet the relevant BCA fire safety performance requirements.

DHS has funded initiatives and contributed to maintaining public sector residential aged care facilities. However, it has not put in place adequate accountability arrangements to ensure that moneys are spent by agencies for the purposes for which they were provided, and to deliver the outcomes for which they were provided. We consider that the current monitoring undertaken by DHS of service delivery performance by agencies should include a component related to the condition of the facilities.

Recommendations

1. **That DHS conduct statewide infrastructure planning for public sector residential aged care, linked to the government's policy directions, to inform development of future capital works strategies.**
2. **That DHS develop a risk management strategy for public sector residential aged care aimed at ensuring that risks from failing, obsolete or inadequate infrastructure are managed by agencies, to mitigate potential risks to residents.**
3. **That DHS review and update its existing capital works strategy for public sector residential aged care facilities to ensure that it adequately considers the longer-term service delivery requirements of the sector and government policy outcomes.**
4. **That DHS act to improve the level of assurance provided by the FRMS by:**
 - **ensuring that building surveyors evaluate alternative solutions proposed by fire engineers in accordance with the requirements of the BCA, and that associated decisions, including supporting rationale, are documented and appropriately approved**

- **requiring building permits/approvals to be obtained for all essential services upgrade works and that the building surveyor signs-off on completed works to provide assurance that the works have resulted in achieving compliance with BCA requirements**
 - **ensuring that the scope of fire safety audits is sufficient to support the “holistic” statement of compliance made by fire engineers and building surveyors, and that fire safety systems are routinely tested**
 - **ensuring that appropriate documentation of dispensations granted, approved alternative solutions and verification of the compliance status of implemented works is completed and maintained, so that safety assurances can be evidenced, audits are properly based, and an audit trail is maintained.**
5. **That DHS review the level of state funds provided to public sector residential aged care agencies for maintenance.**
 6. **That DHS introduce appropriate accountability requirements to enable effective oversight of expenditure by agencies and of the operations of the sector.**
 7. **That DHS introduce a policy to recognise local contributions of funds for facilities’ management and maintenance, and to ensure equitable distribution of funding to agencies.**
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4. Condition of Victorian public sector residential aged care facilities



4.1 Introduction

In Part 3 of this report we reviewed how the Department of Human Services (DHS) had acted to address the condition of public sector residential aged care facilities identified through its 2001 fabric survey. In this part of the report, we address the question:

- What is the current condition of Victorian public sector residential aged care facilities?

We physically inspected a random sample of 49 public sector residential aged care facilities across Victoria. In each case, we assessed (through site visits) the condition of the facility. We then compared our results with those from DHS' 2001 condition assessments.

4.2 What is the current condition of Victorian public sector residential aged care facilities?

To determine the current condition of Victorian public sector residential aged care facilities we asked the following questions:

- Do Victorian public sector residential aged care facilities meet the Commonwealth Government standards applicable to those facilities?
- What is the current physical condition of public sector residential aged care facilities in Victoria?
- Has the condition of Victorian public sector residential aged care facilities improved since 2001?

We used as our criteria:

- standards for residential aged care facilities developed by the Commonwealth Government for its certification program (the Commonwealth standards)¹
- a relative condition scale, developed in consultation with an expert building surveyor, based on condition assessment guidelines available from the Victorian Building Commission.

These criteria and our assessment tool were provided to, and agreed with, DHS in September 2005, prior to our assessments being conducted.

¹ In this part of the report we refer to the requirements established under the Commonwealth Government's 1999 Aged Care Certification Assessment Instrument, including the 2005 stricter requirements for fire safety as "the Commonwealth standards" or "the standards".

4.2.1 Do Victorian public sector residential aged care facilities meet the Commonwealth Government standards applicable to those facilities?

The Commonwealth Government has established certification requirements (standards) for residential aged care facilities, aimed at ensuring the provision of quality accommodation for residents, and the continuous improvement of facilities.

To achieve certification, a residential aged care facility must pass an assessment by an independent qualified building professional against the standards. The standards address 7 aspects, i.e.:

- *safety*: the adequacy of building-related safety measures such as fire sprinklers and suppression systems; fire and smoke compartmentation/separation; and alarm, detection and evacuation systems²
- *hazards*: the effectiveness of systems and procedures to identify and deal with maintenance issues and potentially hazardous situations
- *privacy*: whether the facility provides adequate privacy for residents such as the number of residents per room; the number, configuration and distribution of toilet and shower facilities; including adequacy of associated privacy screening
- *access, mobility, and occupational health and safety*: whether the facility enables residents to move freely, including the adequacy of ramps, grab rails, space in corridors and communal areas; the type and suitability of doors, tap handles and light switches
- *heating and cooling*: whether the facility's heating and cooling systems, including the level of control available to individual residents within their own living area, are adequate for its geographic location
- *lighting and ventilation*: the suitability of natural and artificial lighting and ventilation, including the potential for residents to exercise individual control
- *security*: whether the facility provides an adequately secure and safe environment for residents and staff. Issues considered include provisions for the secure storage of personal belongings; security of the building and its perimeter; and the compatibility of security systems with emergency evacuation systems.

² Assessments of safety largely involve assessing compliance of a facility's safety systems with technical requirements established under the current version of the Building Code of Australia (BCA) as a reference document but setting a standard higher than the BCA.

In 1999, the Commonwealth Department of Health and Ageing (DoHA) reviewed and raised the standards for certification. All facilities were subsequently required to meet stricter fire safety standards by 2003 (later changed to 2005), and existing facilities were required to comply with new privacy and space standards by 2008³.

Under the certification system, a residential aged care facility is awarded points against each of the 7 assessment aspects, to produce an overall score. Figure 4A provides a summary of the points available for each of the 7 aspects of the Commonwealth's standards as contained in the 1999 Aged Care Certification Assessment Instrument.

FIGURE 4A: POINTS AVAILABLE PER ASPECT OF THE COMMONWEALTH'S STANDARDS, UNDER THE 1999 AGED CARE CERTIFICATION ASSESSMENT INSTRUMENT

Section	Focus	Points
1	Safety	25
2	Hazards	12
3	Privacy	26
4	Access, mobility, and occupational health and safety	13
5	Heating and cooling	6
6	Lighting and ventilation	6
7	Security	12
Total		100

Source: Department of Health and Ageing, November 2002, *1999 Aged Care Certification Assessment Instrument*, Commonwealth Government, Canberra.

To achieve certification a residential aged care facility must achieve a minimum of 19 points out of 25 for safety, and a total overall score of at least 60 points out of 100⁴.

Changes to the Building Code of Australia (BCA) may mean that facilities that have previously achieved certification may not continue to meet the standards over time.

³ The 2008 privacy and space requirements for existing buildings provide for a maximum of 4 residents per room, no more than 6 residents per toilet and 7 residents per shower, excluding staff facilities. For new buildings, the requirements are a maximum average of 1.5 residents per room with no more than 2 residents in any room, no more than 3 residents per toilet and 4 residents per shower, excluding staff facilities. New buildings were required to comply with the privacy and space requirements from 30 July 1999.

⁴ The Commonwealth Government raised its certification standards in 1999. Until that time, under the 1997 Aged Care Certification Assessment Instrument, facilities were required to achieve a minimum overall score of 57 points with no minimum score required for safety (section 1).

All public sector residential aged care facilities in Victoria (including the 49 subjected to our assessment) are certified, i.e. they have been assessed against the 1999 Aged Care Certification Assessment Instrument and have met the Commonwealth Government's certification requirements.

Our assessment process

To inform our overall assessment of the current condition of Victorian public sector residential aged care facilities, we conducted assessments of a sample of 49 facilities against the Commonwealth's standards, including the stricter 2005 fire safety and the (known) 2008 privacy and space standards.

To ensure that our sample was representative, we made our selection after stratifying the 195 public sector facilities by location (i.e. metropolitan or non-metropolitan), type (i.e. high care, low care or combined care) and size (big or small). Our sample also included a representative cross-section of the facilities assessed during DHS' 2001 fabric survey. During analysis, we also weighted our sample results to ensure that they were representative of the incidence of facilities within the population that had undergone capital redevelopment since 2000. Statistically, this approach enables us to generalise results from our assessments of the sample to the broader population of Victorian public sector residential aged care facilities⁵.

A full list of the facilities assessed can be found in Appendix A of this report.

We appointed qualified building professionals to independently assess the 49 facilities against the 7 aspects of the Commonwealth standards. In each facility, our assessors sought a range of material and documentation to substantiate compliance with the required standards, including:

- details on the facility's building classification
- floor plans
- building approvals, including relevant building surveyor and fire engineering reports
- fire safety dispensations granted or approved alternative solutions
- maintenance records and documented maintenance procedures
- fire service maintenance documentation.

⁵ At the aggregate level, our results have a margin of error of +/- 8.8 per cent at the 90 per cent level of confidence. This means that when our results are generalised across the total population of 195 Victorian public sector residential aged care facilities, there is a 90 per cent chance that the actual result falls within a range of 8.8 per cent either side of the figure quoted.

Within each facility, our assessors undertook a site inspection of the facility following discussions with staff and maintenance personnel nominated by management.

We provided management of facilities with a formal request prior to our visit, outlining the documentation to be provided to the assessors on the day of assessment. At the time of each assessment, we informed management of agencies that they could forward additional material to our assessors following the assessments, to establish whether their facilities met the standards. Our initial round of assessments of the 49 facilities included an exit interview designed to inform agency management of any significant hazards to health and safety.

The results of our initial round of assessments were subjected to a rigorous quality assurance process conducted by our experts. This process involved desktop assessment of a selection of facilities assessed as having met or not met the standards. This was followed by further site visits to 26 (of the 49) facilities comprising a mix of facilities assessed as having met, and not met, the standards. These facilities were reassessed against the standards to ensure the quality of our assessments. At that stage, we did not conduct a formal exit interview as we intended to provide agencies with the results of our assessments following completion of our quality assurance process.

After being advised of our assessment results, DHS sought, and was granted, access to our detailed assessments for each facility that we found did not meet the standards relating to safety (section 1). After reviewing the assessments, DHS undertook to provide documentation that proved that the facilities in question met the requirements. We also invited DHS, on a number of occasions, to discuss its concerns with our assessors, and offered to conduct site visits accompanied by DHS officers to clarify matters. However, our invitations were not taken up.

DHS supplied us with documentation that was claimed would demonstrate that the facilities met the certification standard. After a detailed review of this additional information, our assessors concluded that the documentation did not provide the necessary evidence or alter the results of our assessments.

Results of our assessments of Victorian public sector residential aged care facilities against the Commonwealth standards

We found that only one of the 49 facilities we assessed was at risk of not meeting the Commonwealth's 2008 privacy and space standard. Funding has been subsequently provided through the 2006-07 state budget to build a new facility to replace that facility.

As previously noted, all Victorian public sector residential aged care facilities are certified and have demonstrated that they meet the Commonwealth's certification requirements relating to fire safety.

During our on-site inspection of facilities, we applied the criteria relating to fire and safety, developed by the Commonwealth Government as our standard for assessment. We found that 25 (or 51 per cent) of the 49 facilities we assessed did not meet the standards relating to safety (section 1). This was mainly due to non-compliance with mandatory BCA 2005 standards for fire safety.



Gap between glass smoke doors reduces their ability to stop the spread of smoke.

The most common elements where there was non-compliance included:

- *fire compartmentation/separation*: addressing the integrity of, including adequate provision of, fire doors, fire walls and associated regular maintenance
- *egress*: addressing the adequacy of the number and distribution of exits, signing and illumination etc.
- *smoke compartmentation/separation*: addressing the adequacy of the provision and maintenance of appropriate smoke doors, smoke seals and reservoirs, including proximity of associated smoke detection systems
- *firefighting equipment*: addressing the adequate location and maintenance of fire hydrants, extinguishers and hose reels

- *alarm, detection and evacuation systems*: addressing the provision of appropriate smoke detectors and heat detectors throughout the buildings.



Placement of smoke detector too close to ceiling fan reduces the detector's effectiveness.

Some issues detected through our assessments might be remedied by a dispensation, or approval of an alternative solution that meets the performance requirements of the BCA, from a relevant authority⁶ or building surveyor. Some, such as those presented by poorly maintained smoke seals or alarm systems can be addressed through remedial works. In the cases above, we did not receive evidence of dispensations or approved alternative solutions on the day of, or in the period following, our assessments, to assure us that the standards were met.

⁶ A relevant authority is defined under the planning provisions of the *Planning and Environment Act 1987*. In most cases the relevant authority is the municipal council.



Fire extinguisher located within 2 metres of electrical switchboard.

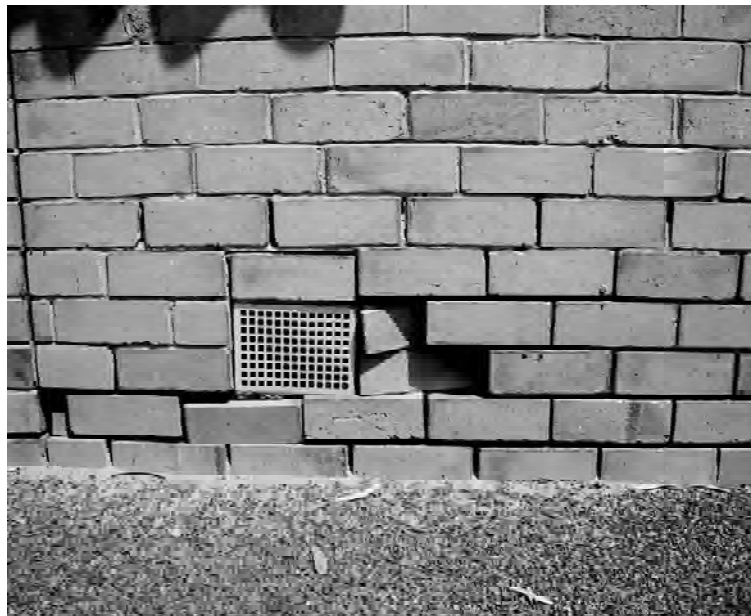
4.2.2 What is the current physical condition of public sector residential aged care facilities in Victoria?

To further inform our overall assessment of the current condition of public sector residential aged care facilities, we examined the physical condition of the building fabric and associated key services of each of the 49 facilities in our sample. Specifically, we assessed the:

- *internal building fabric*: we rated the condition of physical elements, including walls, floors, ceilings, electrical fittings and plumbing fittings within all resident, staff and communal rooms, and toilets and showers
- *external building fabric*: we rated the condition of external building elements, including roofs, gutters, external walls and external windows
- *building services*: we assessed the condition of critical building services, including fire sprinklers, hydraulic services, cooling and heating systems) by direct inspection (wherever possible), through discussions with staff, and through examination of maintenance procedures and documentation
- *site fabric*: we assessed the condition of the visible external elements of each facility's site, including fencing, paths and roads, car parks and landscaping
- *site infrastructure*: we assessed the condition of site infrastructure, including water supply, stormwater and sewer services, gas and electricity services, by examining maintenance documents and discussions with key staff.

Before assessing these aspects of the facilities, we defined the physical condition the building fabric needs to be in to perform at an appropriate level, as the benchmark against which actual condition could be compared. We developed a relative condition level scale, in consultation with an expert building surveyor engaged specifically for this purpose. The scale provided for facilities to be scored as “below the required condition”, “at the required condition” and “above the required condition”.

Condition scores across each of the 5 aspects of a facility were then combined to form an overall assessment of the physical condition of each facility. As the emphasis of our approach was on the physical condition of each facility, we did not assess its functionality or operational efficiency.



External brickwork in poor condition.

Results of our assessments of the physical condition of Victoria’s public sector residential aged care facilities

Figure 4B shows the average condition scores for each of the 5 aspects of building and site fabric in the 49 facilities, by condition rating. Scores have been averaged across the facilities within each of the 3 condition ratings, (i.e. “above the required condition”, “at the required condition” and “below the required condition”). A positive score indicates that the condition of the aspect was, on average, better than what we expected to see across that group of facilities. Conversely, a negative score indicates that the condition was worse than what we expected.

FIGURE 4B: AVERAGE SCORES FOR BUILDING AND SITE ASPECTS, BY CONDITION RATING

Facility condition rating (a)	No. of facilities in category	Average scores for building and site aspects (b)				
		Internal fabric	External fabric	Building services	Site fabric	Site infrastructure
Above required condition	43	0.71	0.48	0.91	0.64	0.93
At required condition	2	0.38	0	-0.5	-0.5	0.5
Below required condition	4	0.35	-1.35	-0.5	-0.75	-0.25

(a) Each individual facility that achieved an overall facility score of:

- 0 was rated as “at required condition”
- between 0 and +2 was rated as “above required condition”
- between 0 and -2 was rated as “below required condition”.

(b) Scores were averaged across all facilities within each condition rating. The scores should be interpreted within the context of our relative condition scale for building and site aspects, i.e.:

- a score of +2 represents “very good” condition
- a score of +1 represents “good” condition
- a score of 0 represents “fair” condition (this is the expected condition)
- a score of -1 represents “poor” condition
- a score of -2 represents “very poor” condition.

Scores greater than zero are indicative of better than expected condition, whereas negative scores indicate worse than expected condition.

Source: Victorian Auditor-General’s Office.

The condition of the internal building fabric was better than expected across all facilities in our sample. However, for other aspects assessed, e.g. external building fabric, building services and site elements, there was greater variation in condition across the sample. This illustrates that these aspects were the major factors that differentiated facilities.



Fascia in poor condition.

With the exception of the internal building fabric, facilities “below the required condition” consistently achieved worse than expected scores across the building and site aspects that we examined. The most distinguishing characteristic among these facilities was the generally poor condition of their external building fabric, which achieved the lowest overall score across our sample.



Eave in poor condition.

Results for facilities rated as “at the required condition” were mixed. For these facilities, the generally poor condition of their building services and site fabric elements was offset by better than expected results for internal fabric and site infrastructure. This demonstrates that while the overall physical condition of facilities in this group is adequate, they still contain worn or deteriorating elements which require attention or maintenance.

4.2.3 Has the condition of Victorian public sector residential aged care facilities improved since 2001?

To determine whether the overall condition of facilities has improved since 2001, we adjusted our physical condition scores by the detailed results for functional adaptability, functional suitability and operational efficiency from DHS’ 2001 fabric survey. This enabled us to take account of these factors for those facilities in our sample where significant rebuilding or redevelopment had not been conducted since 2001.

We classified the results based on the same method used by DHS following the fabric survey. For each facility assessed in its 2001 fabric survey, DHS rated each of the 6 aspects it assessed, separately, using a scale ranging from +2 (excellent) to -2 (very poor). The ratings were then averaged and aggregated to provide a total score for each facility.

Each facility was then classified into one of the 4 categories described in Figure 4C. DHS also considered compliance with the Commonwealth Government's revised certification standards for fire safety and 2008 privacy and space requirements when classifying the facilities.

FIGURE 4C: CATEGORIES USED IN THE DHS 2001 FABRIC SURVEY

Category	Description
1	Facilities which will not achieve 2008 certification (privacy and space)
2	"At risk" – facilities where there is a significant risk associated with failing, inadequate or obsolete infrastructure, resident safety, fire safety, and/or occupational health and safety
3	"At watch" – facilities with limited economic life, deteriorating with age and requiring replacement within approximately 5-10 years
4	Facilities that meet certification requirements and will not require redevelopment over next decade

Source: Department of Human Services.

Consistent with the classification approach used by DHS, and after adjusting our sample results to ensure that they were representative of the incidence of facilities within the population that had undergone capital redevelopment since 2000, we re-classified each of the 49 facilities we assessed into each of the above 4 categories⁷. The means by which we did this is explained in Appendix B of this report.

Figure 4D summarises the results of our classification exercise showing the number of facilities and places assigned to each category by DHS in 2001 and from our assessments.

⁷ We used the results of our assessments against the Commonwealth's certification standard based on BCA 2005 as the compliance standard.

FIGURE 4D: CLASSIFICATION OF PUBLIC SECTOR RESIDENTIAL AGED CARE FACILITIES BASED ON RESULTS FROM THE DHS 2001 FABRIC SURVEY AND OUR 2006 ASSESSMENTS

Category	Description (a)	Number of facilities		
		Our 2006 sample	Our 2006 extrapolated (b)	DHS 2001 fabric survey
1	Facilities which will not achieve 2008 certification (privacy and space)	-	-	11
2	"At risk" – facilities where there is a significant risk associated with failing, inadequate or obsolete infrastructure, resident safety, fire safety, and/or occupational health and safety	24	104	33
3	"At watch" – facilities with limited economic life, deteriorating with age and requiring replacement within approximately 5-10 years	8	35	65
4	Facilities that meet certification requirements and will not require redevelopment over next decade	13	56	98
Total		45	195	207

(a) Description used in DHS 2001 fabric survey.

(b) Represents our sample results extrapolated across the total population of 195 Victorian public sector residential aged care facilities.

Source: Victorian Auditor-General's Office and Department of Human Services.

When the results from the 2001 fabric survey and our assessments are compared, they show that the condition profile of public sector residential aged care facilities in Victoria has changed since 2001. Specifically:

- the risk of failing to meet 2008 certification requirements for privacy and space has been mitigated
- a significant number of facilities that did not require redevelopment in 2001, including those classified as being "at watch", have moved to the "at risk" category (category 2), meaning that the number of facilities where there is a risk associated with failing, inadequate or obsolete infrastructure, resident safety, fire safety, and/or occupational health and safety, has grown significantly during the period.

4.2.4 Conclusion - current condition of public sector residential aged care facilities

We recognise that:

- all Victorian public sector residential aged care facilities are certified
- 9 of the 11 category 1 facilities identified following the 2001 fabric survey are being, or have been rebuilt, with funding for another announced in the 2006-07 state budget, with the aim of completion by 2008
- 10 of the original 33 category 2 facilities have been, or are being rebuilt, one further facility is to be redeveloped following approval of funds in the 2006-07 state budget, and one other facility has been closed
- a number of other residential aged care facilities have undergone major works since the 2001 fabric survey
- over \$6 million has been spent on facilities to improve fire safety and other issues as part of the statewide certification project
- all facilities have been subjected to fire audits, and selected remedial works have been undertaken, under the FRMS.

Our assessments against the Commonwealth standards for residential aged care indicated that all Victorian public sector residential aged care facilities are on track to meet the Commonwealth's 2008 certification requirements for privacy and space.

While recognising that the condition of a number of individual facilities has improved since 2001 as a result of rebuilding or renewal works, we consider that, based on our physical inspections of a statistically-based sample of facilities, the condition of the majority of the facilities has not improved since 2001. This is evidenced by the move of a number of facilities from the "at watch" and "not requiring redevelopment over next decade" categories (i.e. categories 3 and 4, respectively) to the "at risk" category (i.e. category 2) with "a significant risk associated with failing, inadequate or obsolete infrastructure, resident safety, and/or occupational health and safety" (estimated at around 104 facilities statewide at the time of assessment by us, compared with 33 in 2001).

We found that 25 (or 51 per cent) of the 49 facilities we inspected now did not meet aspects of the criteria established under the Commonwealth Government's certification program relating to current fire safety standards.

Based on our examinations, we believe that the short-term capital investment needs of public sector residential aged care facilities have grown, and will require both DHS and agencies to develop strategies to improve the condition of facilities and to address the associated risks.

The implication is the potential impact on the health and safety of residents of public sector residential aged care facilities in Victoria. DHS needs to better exercise its responsibilities for ensuring that the quality of the facilities in which public sector residential aged care is delivered is effectively managed by agencies, to provide an environment that facilitates delivery of high quality care to residents.

Recognising that facilities can deteriorate over time if not adequately maintained, we consider that the state would be well served to adopt a system of periodic reassessment against the Commonwealth's certification standards to ensure that facilities continue to meet those standards.

Recommendations

8. **That DHS work with the Commonwealth Department of Health and Ageing to clarify the standards required under certification for residential aged care facilities.**
 9. **That DHS encourage agencies that control public sector residential aged care facilities to develop and implement strategies and/or works to ensure that:**
 - **risks associated with failing, inadequate or obsolete infrastructure are mitigated**
 - **they can demonstrate that residential aged care facilities satisfy the BCA standards**
 - **facilities continue to meet the Commonwealth Government's certification requirements.**
 10. **That DHS introduce a regime of periodic review of compliance of public sector residential aged care facilities with the Commonwealth's certification requirements, to ensure that standards applicable to those facilities are met.**
-



Appendix A. About the audit



About the audit

Objective

The overall objective of the audit was to determine the condition of Victorian public sector residential aged care facilities, and the effectiveness of the Department of Human Services' (DHS') management to ensure that the facilities meet relevant standards.

Scope and focus

The audit examined the condition of the physical infrastructure of a sample of public sector residential aged care facilities, and the service planning, project management and monitoring practices of DHS associated with residential aged care facilities.

The audit did not examine:

- the condition of equipment installed, or used, in public sector residential aged care facilities
- the condition of residential aged care facilities owned, and/or operated by local government, the not-for-profit sector or the private sector
- the quality of services provided by the state's public sector residential aged care agencies.

Our sample of public sector residential aged care facilities included:

Metropolitan facilities:

- AG Eastwood Hostel
- Boyne Russell House
- Cyril Jewel House
- Gardenview House
- Kingston Centre Nursing Home
- Merv Irvine Nursing Home
- Monda Lodge Hostel
- Peter James Centre – Northside
- Weighbridge Residential Care Facility.

Non-metropolitan facilities:

- Archie Gray Nursing Home Unit
- Beaufort Nursing Home
- Bolga Court Hostel
- Charlton Hostel

- Dimboola District Hospital Nursing Home Unit
- Geoffrey Cutter Centre
- Glanville Village
- Glenarm Nursing Home
- Grange Residential Care Services
- Grutzner House
- Heywood Nursing Home
- Inglewood Hostel
- Iona Digby Harris Home
- Irvin House Nursing Home
- Jack Lonsdale Lodge
- James Thomas Court
- John Robb House
- Kaniva Hostel
- Kiewa Valley House
- Koorooman House Nursing Home
- Kurrajong Lodge
- Lakeview Nursing Home
- Lochiel House
- Morrie Evans Wing Nursing Home
- Mount View Aged Care Facility
- Moyneyana House
- Mt Alexander Hostel
- Nathalia District Hospital Nursing Home
- Otway Health Community Services
- Peshurst Nursing Home
- PS Hobson Nursing Home
- Rainbow Bush Nursing Hospital Hostel
- Red Cliffs Nursing Home
- Riverside Hostel
- Rochester & District Hostel
- Rupanyup District Nursing Home
- Specialist Extended Care Centre
- Swan Hill District Nursing Home
- Trentham Nursing Home
- Trescowthick House Hostel.

The residential aged care facilities were randomly selected on the basis of their location (metropolitan, non-metropolitan), type (high care, low care, combined care), and size (big, small). They were also representative of those facilities assessed by DHS in 2001.

We asked the following questions:

- Does DHS adequately plan for managing the condition of public sector residential aged care facilities?
- Was action taken by DHS to address the condition of the facilities well managed?
- What is the current condition of Victorian public sector residential aged care facilities?
 - Do Victorian public sector residential aged care facilities meet the Commonwealth Government standards applicable to those facilities?
 - What is the current physical condition of public sector residential aged care facilities in Victoria?
 - Has the condition of Victorian public sector residential aged care facilities improved since 2001?

To answer these questions, we:

- interviewed central office and regional DHS staff, including staff at selected public sector residential aged care facilities
- examined relevant documents, including reports, financial data, previous condition and certification assessment results, and DHS files
- collected and analysed data from the central and regional offices of DHS and residential aged care facilities
- assessed the condition of all 49 residential aged care facilities in our sample, including their degree of compliance with certification requirements, through on-site inspections
- researched Victorian and Commonwealth requirements, legislation and regulations relating to residential aged care facilities.

The audit was performed in accordance with the Australian auditing standards applicable to performance audits, and included tests and procedures necessary to conduct the audit.

Acknowledgements

Specialist assistance and advice to the audit team was provided by Mr Peter Chenoweth, Director, C.H. Group Pty Ltd.

Assessments of the condition of public sector residential aged care facilities were conducted by:

- Pitt & Sherry
- Stokes Consulting Pty Ltd.

Quality assurance over the assessments was conducted by C.H. Group Pty Ltd.

We thank staff from DHS and the residential aged care facilities for their assistance with the audit.

Cost of the audit

The cost of this audit was \$820 000. This cost includes staff time, overheads, expert advice and printing.



Appendix B. Sampling methodology and standardising results for comparison



Sampling methodology

We assessed the condition, including degree of compliance with certification requirements, of a random sample of 49 public sector residential aged care facilities across Victoria. To ensure that our sample was representative of the broader population of public sector facilities, a stratified random sampling method was used. Using this approach, we stratified the population of public sector residential aged care facilities by their location (metropolitan, non-metropolitan), type (high care, low care, combined care), size (big, small), and 2001 condition category (categories 1 to 4). We then randomly selected 49 facilities according to the incidence of those characteristics in the population, to ensure that our sample was representative. During analysis, we also weighted our sample results to ensure that they were representative of the incidence of facilities within the population that had undergone capital redevelopment since 2000.

Statistically, this approach permits us to generalise results from our assessments to the broader population of Victorian public sector residential aged care facilities. At the aggregate level, our results have a (worst-case) margin of error of +/- 8.8 per cent at the 90 per cent level of confidence.

Interpreting sampling error

The results of sample surveys are always subject to some degree of error because only part of the population has been measured. This is known as sampling error. Random samples allow us to measure the impact of “sampling error”. This is normally expressed in terms of the degree of error surrounding individual sample estimates (e.g. +/- error).

The measurement of sampling error allows us to understand how accurately estimates derived from samples reflect the true population result. The sampling error level described above means that, at the aggregate level, our sample estimates are accurate to +/- 8.8 per cent of the true population value, and that there is only a 10 per cent chance that the true population value lies outside this range. However, it is important to note that this is a worst-case estimate of the degree of sampling error. The actual margin of error for an individual estimate depends on the value of the estimate itself, its associated sample size, the size of the target population as well as on the chosen level of statistical confidence.

For example, our estimate in Part 4 of this report that 87.8 per cent of public sector residential aged care facilities are above the required condition, has an associated margin of error of +/- 6.7 per cent at the 90 per cent level of confidence. This means that the actual proportion of facilities within the population above the required condition lies somewhere between 81.1 per cent and 94.5 per cent, and that there is a 10 per cent chance that the true population value lies outside this range.

Standardising results for comparison

In order to directly compare the results of our physical condition and certification assessments with the results of the Department of Human Services' (DHS') 2001 fabric survey, we adjusted our results for the additional aspects included in the 2001 survey, i.e. functional adaptability, functional suitability and operational efficiency. This was done only for those facilities which had not undergone a major redevelopment since 2001, and where their functionality and efficiency, therefore, was unchanged.

Based on our certification assessments:

- we classified the one facility that failed to meet the 2008 certification requirements into category 1 (note: this facility also failed to meet the associated minimum safety standards under section 1)
- we classified the other 24 facilities that also failed our certification assessment into category 2, on the basis that they pose significant potential risks to patient and staff safety due to inadequate compliance with fire safety requirements.

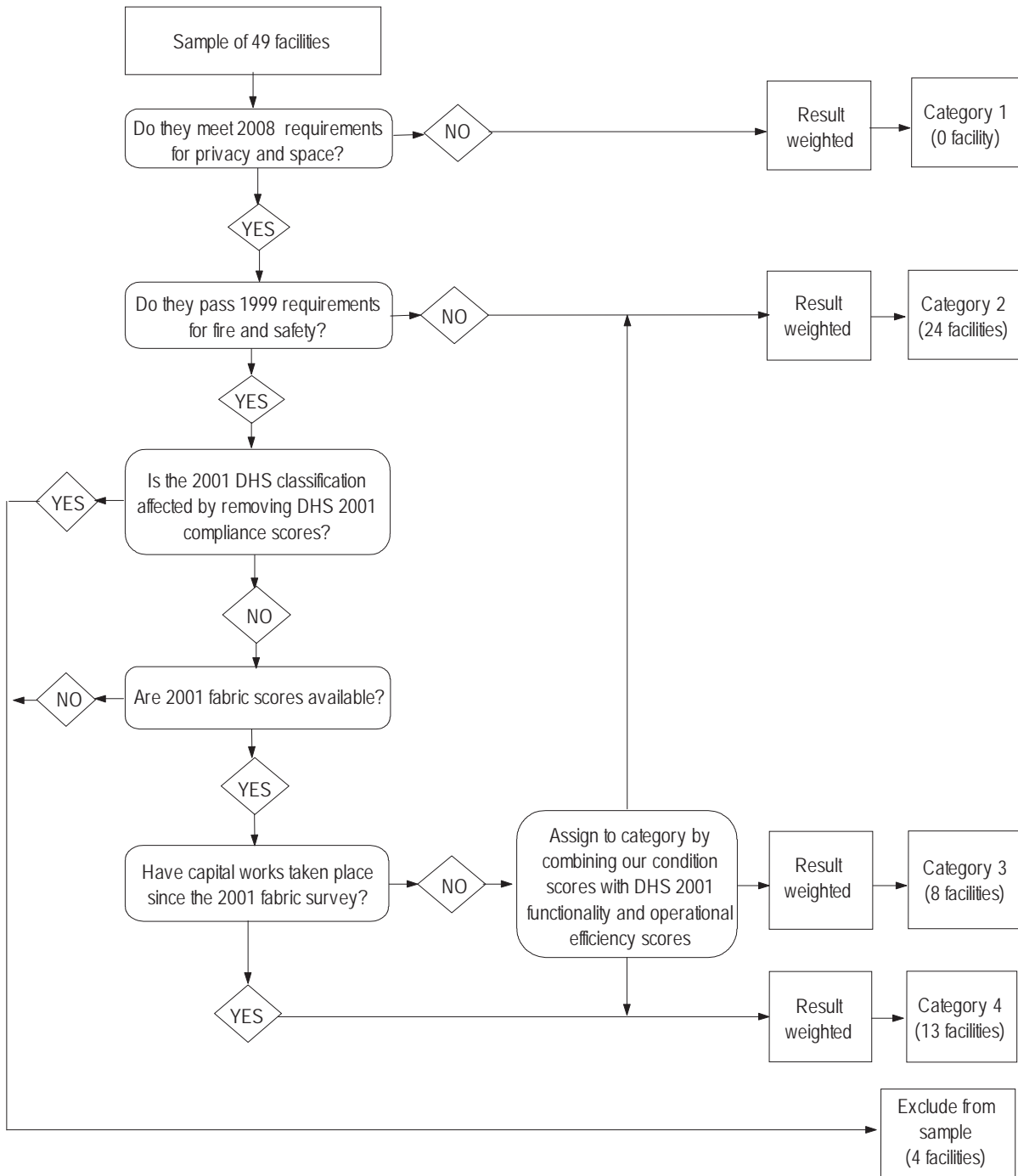
This process left us with 24 facilities which we had assessed as having met the certification requirements, for classification. We excluded DHS' 2001 compliance scores from our analysis on the basis that we were unable to determine what impact the fire risk management strategy (FRMS) and/or statewide certification project (SCP) works had had (if any) on the compliance of individual facilities with the Building Code of Australia since 2001. This affected the original classification of only 3 facilities in our sample, which we subsequently excluded from further analysis. We also excluded another facility on the basis that its original 2001 fabric scores were unavailable.

This process left us with 20 facilities from the 24, for classification. Among these facilities, we noted that 5 had been subject to substantial redevelopment works following the 2001 fabric survey. Because of this, we assigned these facilities to category 4 on the basis that their infrastructure had been substantially renewed since 2001. Results from our own physical condition and certification results supported this approach.

The remaining 15 facilities were assigned to a condition category based on an analysis of their physical condition scores, and consideration of their functional and operational efficiency. We did this by combining our external and internal fabric condition results for each facility with their functionality and operational efficiency scores from the 2001 fabric survey. As a result of this, a further 2 facilities were classified into category 2; 9 into category 3; and 4 into category 4. These results were then weighted to ensure that they were representative of the incidence of public sector residential aged care facilities that had undergone capital redevelopment since 2000.

A representation of the method we employed is presented in Figure B1.

FIGURE B1: METHOD FOR STANDARDISING OUR CONDITION AND CERTIFICATION RESULTS WITH DHS 2001 FABRIC SURVEY RESULTS



Source: Victorian Auditor-General's Office.

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