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18th March 2011

Productivity Commissioners
GPO Box 1428
Canberra ACT 2601

Dear Commissioners

Re: Draft Report – Caring for Older Australians

Thank you for the opportunity to comment on the draft report that the Productivity Commission has prepared on 'Caring for Older Australians'. Many of the recommendations contained in the report are supported by the Village as the cornerstone of good public policy for the future of aged care in Australia, and, whilst we appreciate that many of the details have not been worked through, we would trust that the direction of the report receives good support from within the industry and from consumers.

In our view, there are a couple of issues that may require further consideration or elaboration to ensure that all stakeholders comprehend some of the proposals. In no particular order, we would comment on the following in our response:

- Equity Release Scheme
- Accommodation Bonds and Charges
- Benchmarked Cost of Care
- Gatekeepers
- Assets and Income Testing
- Insecure Housing
- Bed Licences

Equity Release Scheme

Our initial response was quite favourable to this recommendation, however we would like to raise some questions using two scenarios:

- A couple living in the suburbs owning their own home
- A couple living in a retirement village in an independent unit.

Both of these families are living in their home. The couple living in the retirement unit sold their house, paid for the right to live in their village of choice and may (or may not) have surplus cash from the sale of their home.

Both couples have a joint interest in their 'home'.

- Couple in the suburbs

One of the couple needs to receive Government subsidised care and, due to the frailty of the person, a high care facility is proposed.

They are assessed as having to pay a fee towards the cost of care and an accommodation bond / charge and they consider participating in the proposed equity release scheme to facilitate the remaining person to continue to live in their current 'home'.

Without having a great understanding as to the workings of such a scheme, the following issues are of concern:

As both are shown as the homeowner on the title, presumably each person has a 50% stake of the home.

Does the equity release scheme only draw down cash from the 50% stake of the person relocating (say effectively taking a 60% stake of their 50% ownership) or will the scheme require both couples to sign over a percentage of their total house (say 30% of the 100% house value).

- If the scheme applies to only the 50% stake of the relocating person, what happens if the person remaining in the house suddenly dies and their share of the equity is then vested in the person who has relocated. Does the equity release scheme suddenly have a windfall gain by now taking their 60% stake of the increased home price of 100%?
- What happens if the person who was remaining in the house passes away and their 50% share of the property is vested in their children who decide that they do not want to sell the home? This could potentially tie up valuable building sites for decades and exacerbate the land shortages for urban renewal.
- What happens if house prices fall and the stake held by the equity release scheme is unable to be met from the sale of the house?
- Further, if the equity release scheme takes a stake over 100% of the property, what happens to the remaining person in the house if house prices drop and they subsequently need to relocate in Government funded care – this person may have become impoverished through the operation of the scheme which would have adverse media reaction to Government policy.
- A process should also enable a family to buy the equity back from the lender to enable the family home to be retained if their circumstances should change.

➢ Retirement Village Couple

In regards to the couple living in the retirement village, they do not have title to their property so we are uncertain what security the equity release scheme has over their retirement unit. As the 'refund' value of occupants payouts in retirement units is variable according to the financial scheme contained in the lease documentation, it is difficult to comprehend how this scheme would apply.

Additionally, as there is a contractual relationship between the occupants and the Village operator, the subsequent 'sale' of the Village unit would result in the proceeds of the sale being returned to the occupants (or their estate). Any claim by the equity release scheme would be a subsequent transaction with the occupants or estate which would seem to create potential difficulties.

If the equity is able to be released for the person moving into Government subsidised care, the remaining occupant in the unit would have to bear the full cost of any 'deferred management fee' that applies in the retirement village from their 'share' of the equity in the unit.

We cannot see how the equity release scheme will operate in a retirement village setting.

Should the Commissioners wish to discuss this aspect in more detail with the Village Baxter, then please contact me with a time to suit your requirements.

<u>Accommodation Bonds and Charges</u>

The report recommends the separation of care from accommodation which has been a view promoted by the Village over the last 25 years so this is a very welcome recommendation.

However, having recognised that accommodation is a cost to be borne by the consumer, the report then seeks to have some restrictions on the cost that a provider can charge the consumer for accommodation to avoid the potential charging of exorbitant bonds.

We do not consider that any restriction should apply to accommodation costs as the ‘market’ will find the appropriate level of cost in each community. The cost of accommodation is not restricted for any other segment of Australian society and we do not believe it to be appropriate to have some form of regulated control for this small market segment. Additionally, it does not represent good public policy as any restrictions on accommodation costs limits the ability of the provider to adequately plan for the future costs of building or maintaining housing stock to increasing building standards (as has been demonstrated over recent years).

The report proposes that the accommodation bond should represent the underlying cost of the supply of the accommodation. This will be an interesting concept as the underlying cost presumably includes:

- Cost of land
- Building cost
- Interest / financing costs
- Operating costs
- Repairs and maintenance and depreciation costs
- Profit margin / risk / return costs
- Increased cost of rebuilding or upgrading

The report also seems to advocate that the cost of the bond must be equivalent to the accommodation charge so that consumers can make a choice as to how they would pay for their accommodation. This will equally be an interesting calculation as it involves an assessment as to how much of the investment in the property will be offset though the use of accommodation bonds to reduce debt levels and interest charges. As the report seems to move away from accommodation bonds as a source of capital injection, any building project for a residential aged care facility would seem to rely on debt financing as its major capital source which will result in higher underlying costs of the project leading to higher accommodation charges over the life of the project.

In our view, it is important that a provider of residential aged care accommodation has the choice as to whether they wish to stipulate the payment of a bond for their accommodation or whether they are prepared to accept an accommodation charge. Without this ability, the capital funds available to the industry will be further eroded.

Additionally, we consider that a provider should be able to have retentions from a bond balance as a part of their contract with the consumer. We do not believe that this will lead to unfair contracts as consumers are empowered to move to alternative suppliers for their needs. The benefit of having a retention scheme for a bond is that it will enable providers to adopt creative approaches to the setting of bonds and should result in a lower bond being charged. Providing adequate disclosure is available up front so the consumer (or advocate) is well informed about the bond and any charges are both fully disclosed and transparent, we consider this approach to be in the best interests of all parties.

The security of the bond balances could be achieved by the same processes as provided under the Retirement Villages Acts in the various States, with a mandatory Notice of Charge on the title giving residents priority ranking in any liquidation of the business

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Benchmarked cost of care

As the industry has progressively been rebuilding over the last decade to meet the Government’s view of best practice with mandated space and privacy requirements, this has generally resulted in operators of residential care developing single room accommodation with en-suite for all clients.

The report proposes that, for the purposes of establishing an accommodation supplement for people of limited financial means, a benchmark cost of care based upon a two bed room with shared bathroom should be used as the baseline.

We would argue against this baseline as we would consider that the benchmark should be based around the cost of a single room with en-suite. Our argument for this revised baseline is that we would not stigmatise people of limited financial means by accommodating them in any lesser standard of room than any other resident and believe that all people, regardless of their financial circumstances should be treated equitably.

Gatekeepers

The report seems to provide a single 'gatekeeper' to access the subsidised care system as currently exists through Aged Care Assessment Services / Teams.

Experience in the industry suggests that the ability of a sole gatekeeper to meet the demands of consumers can be problematic from region to region across the country. This would seem to warrant an alternative approach for additional methods of accessing the subsidised service in those instances where the gatekeeper cannot meet specified timelines for assessment and reporting.

There is little point discharging a person from an acute setting back into the community based upon the presumption of community based services being provided if it is going to take months to receive the assessment and subsequent service delivery.

Assets and Income Testing

The report proposes an expansion to the existing asset and income testing process currently used by Centrelink to determine a person's capacity to contribute to the costs of care and accommodation. The expansion includes the value of a person's home as part of the available assets that can be used.

The use of the home through the development of the proposed equity release scheme has been discussed above.

The issue that we would care to raise in the broader context is the use of Centrelink as the designated organisation to undertake this task of asset and income testing.

Based upon our experience, many people have never had any cause to use the Centrelink services throughout their life and, now that they have reached their senior years without calling on Government support, they are required to provide financial details to Centrelink which is quite a daunting and humiliating experience.

We would ask whether a statutory declaration approach could be adopted and be subjected to random audit under a risk based approach to provide an acceptable alternative solution to the use of Centrelink
.

Insecure Housing

For those people currently with insecure housing or homeless, we consider that the solution to this issue is in two areas.

In relation to financial support for the construction costs for people in insecure housing, there is possibly sufficient capital funding available under the many existing State and Commonwealth schemes. These funds should be consolidated into a central Government organisation and distributed according to priority allocations for overall housing support programs developed through a policy framework of Government initiatives. These funds could be used to subsidise the capital cost of housing developments or to pay for rental subsidies to a private developer of housing under some contractual arrangement to provide housing to people with limited resources.

Secondly, if recurrent income support is necessary for an older person to access secure housing under the aged care program, this is simply facilitated through the Department establishing a suitable level of accommodation supplement. If the Department sets the subsidy too low, then housing will not be provided. If the subsidy level is high, more providers will enter this market segment.

Bed Licences

The report proposes the gradual removal of specific licenses as a freeing up of the supply side of the aged care service. We support this approach however wonder whether this may be too bold a step for Government at this time.

In light of this doubt, we would again ask you to consider the alternative raised by the Village in our earlier submission. We proposed that, if some form of licensing is to be retained by the Government, then Government control the secondary market enabling organisations to buy and sell licences to the Government to expand or contract their businesses to meet consumer needs in particular areas. Such licence 'sales' would not be the subject of any artificial allocation rounds but simply meet consumer need.

Conclusion

From the time when the Commission visited the Village and discussed the seamless manner in which our clients moved through the variety of services available from the Village, the Commission would be aware that we would support the thrust of the report as being in the overall best interests of older persons. To be able to move seamlessly through the continuum of care should be a paramount goal of the reform process and empower both the consumer and the provider to deliver a world class range of alternative care options for people as they age and in their accommodation of choice.

If further details or discussion would assist the Commissioners in their deliberations then please contact us at your convenience.

Yours truly

Stuart Shaw
General Manager