PRODUCTIVITY COMMISSION DRAFT REPORT – IMPLICATIONS FOR CONSIDERATION

Many voices in the residential aged care sector have strongly welcomed the recommendations of the Productivity Commission (PC) Draft Report.

The proposal to calculate what it really costs to provide residential care is particularly welcome – it is very hard to fund an activity correctly when the cost is not assessed first!

The apparent proposed deregulation of bonds – to be able to be sought for High Care as well as Low Care persons – has given the sector hope that 'capital' income sources can now match capital expenditure in a market-driven "bond or equivalent daily charge" arrangement.

However, in some cases, the words written in the body of the report can appear at variance with this advised flexibility and deregulation. In other areas, we see some significant challenges to implementation.

The following recommendations are reviewed:

1. **Deregulated Bonds/Charges for New Residents**
2. **"Super" Bonds**
3. **Take up of Periodic Payments**
4. **Supported Residents – A "Basic Standard of Accommodation"?**
5. **No More Aged Care Approvals Rounds (ACARs) – Lifting the Restrictions**

1 Deregulated Bonds/Charges for New Residents

The PC recommendation appears to be that accommodation payments (i.e. bonds **or** charges) be allowed at an amount reflecting "variations in building costs for residential care facilities in particular regions and reflect[ing] different quality/features without requiring valuations of each and every facility" (p.172 of the Draft Report). However, building costs alone are not necessarily an accurate criterion for assessing quality of accommodation or bonds needed. One Australian provider has recently built a large new facility with high standards of features and fittings for just $120,000/place with the second stage of the building completed at just $70,000/place. Other new services in the same region have cost $250,000/place to build. It would be difficult for these building costs to be used with a "regional" bond level.

We have spoken with PC representatives and they have advised that it is **not** intended for bonds to be limited in any regional way or generally. This is very positive and we will hope to see a final report that makes clear recommendation for providers to have access to bonds (or equivalent charges) that:

(i) reflect the real cost of provision of accommodation of different types, sizes, locations and amenity, and
(ii) encourage investment in new residential care buildings

2 "Super" Bonds

The PC recommendations appear to show a strong concern to prevent large or "super" bonds being taken.

The reality we see is that very few providers charge these exceptionally high "super bonds". We note that providers requesting "unlimited" (very high) bonds are often those most affected by poor occupancy. Potential customers look elsewhere or defer entry and increase their use of home care or go to Service Integrated Housing (SIH) instead. Services seeking "unlimited" bonds may have even less occupancy in the future if place numbers are deregulated.

3 Take up of Periodic Payments

The PC considers that making the "price" of accommodation transparent with a published "limited" bond based on the standard of the facility will be an incentive to providers to be impartial as to whether a consumer pays a bond or a periodic payment (pp). Giving consumers the option to pay their accommodation costs via a choice of lump sum bond, pp or a combination of the two has been in place for 14 years as it is a requirement of the *User Rights Principles.* Most persons nonetheless appear to wish to sell their vacated homes in due course and "get their affairs in order" (and pay a lump sum). Little change would be expected to this desire, even if a government-sponsored reverse mortgage arrangement was available.

4 Supported Residents – A "Basic Standard of Accommodation"?

A great positive of the Australian residential aged care system is the availability of access to good quality care and accommodation regardless of financial capacity. Whilst the PC's recommendation to continue regional supported resident ratios is positive, the recommendation that the cost (and, thus, the funding) of providing supported resident accommodation be based on a two-bed room with shared bathroom, is considered far from positive. Equity of access to **single room**, ensuited accommodation should not be limited to those with the capacity to pay for such. In addition, single, privately-ensuited rooms are not only what most consumers want, but, importantly, are what providers have been predominantly building for many years. It would be very difficult to go backwards and limit access to single rooms for new supported persons because government assistance was based on the less costly shared rooms.

5 No More Aged Care Approvals Rounds (ACARs) – Lifting the Restrictions

A key recommendation in the Draft Report is the abolition of the ACAR process, but how will the number of residential aged care places and community packages be determined and allocated? How will the effects on supply and demand be monitored if the numbers of places and packages to be given out are unlimited? Could there be very negative outcomes – at least in the short-term – by changing to a "market-driven' allocation process?

There is a perception that there are too few residential aged care places being built and that this means there is a great shortage of places in Australia. This is not the case. The reality is that the number of places being built **exceeds** demand. As a result, national occupancy rates have been in decline for many years, as below:

Australian Residential Aged Care

Year	Occupancy Rate
2002/03	96.0%
2003/04	95.9%
2004/05	95.3%
2005/06	95.1%
2006/07	94.3%
2007/08	93.5%
2008/09	92.9%
2009/10	92.4%

Source: DoHA Reports on Operation of the Aged Care Act

The average number of new residential care places being brought "on-line" since 2004 is around 4,700 places pa (as per annual DoHA Service Lists at 30 June). Building just 4,700 places each year appears to have been quite enough, as evidenced by these declining occupancy levels. Despite this, the numbers of places being offered and/or successfully applied for in ACAR are far above 4,700 pa., as below:

ACAR Places Approved	
2006	6,811
2007	6,525
2008/09	7,096 (includes ZRIL places)
2009/10	5,727 (includes ZRIL and "deferred" allocations)
2010/11	9,076 projected (per 2009/10 Essential Guide)

Source: DoHA

There is believed to be a record high number of provisionally-allocated places that have not yet been built. This is unsurprising with so many being allocated, particularly in non-metropolitan areas. Having a reasonable level of places vacant facilitates exercise of choice on the part of consumers. Having too high a level of vacancies in an inadequately-planned process may give rise to viability concerns and other unexpected negative consequences for the sector.

With over 7,000 additional community care places now coming "on-line" following the December 2010 announcement of the results of the 2009/10 ACAR, it is most likely that residential aged care occupancy rates will decline even further. Of the 7,023 home care places allocated, a huge 4,555 places were Extended Aged Care at Home (EACH) or EACH (Dementia) places – this means potentially 4,555 **more** elderly persons will delay, defer or bypass residential High Care in 2011. By comparison, in the 12 months to 30 June 2010, we saw just 2,740 new residential High Care places open in Australia and only some 1,656 new EACH and EACHD packages commence (per DoHA Service Lists).

The 4,555 newly-allocated EACH and EACHDs for 2009/10 could likely meet an entire normal year's demand for additional residential care places – High **and** Low Care. These EACH and EACHD packages could be expected to all commence within six months, i.e. by June 2011. The likely negative impact on residential care occupancy rates could be very strong, particularly in the ACT, Qld and WA, where, proportionally, the highest numbers were approved. Accordingly, with the **existing** regulation on the numbers of new places/packages allocated each year, there could be major negative consequences for the residential sector when large numbers of home care places are approved. How would this be monitored if the current allocation process was abolished?

Conclusion

This draft PC report is very well researched and holds great promise for effective change. However, the arrangements for flexibility in bonds/charges are not clearly defined; the "base-line" for supported accommodation is recommended at a shared room level that could "lock in" funding at an inadequate rate; and deregulation of the approval process may need more consideration to prevent viability challenges.

There has been a clamour for change in the sector on the basis of there being a "Crisis in Aged Care". There is no crisis of availability of residential care places. National occupancy rates have been declining for seven years and we have never seen them lower. At 92.4% occupancy, there are apparently **14,000** residential care places vacant on any night in Australia! The challenge is in getting the capital and recurrent funding sources right so we can continue to improve on our current high standards and be able to build more services in a timely manner of the type that aged Australians want and need now and into the future

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