Productivity Commission Response

By Japara Holdings

Introduction

We are pleased to provide our submission to the Productivity Commission in response to the Draft Report recently released on caring for Older Australians. This submission also provides an initial overview of the key actions we believe are required to be undertaken by the Federal Government to ensure the long term sustainability of the aged care sector. We see these key issues being as follows:

We have previously commissioned a independent report by LEK which estimated that there is a requirement for an additional 40,000 residential aged care places to be provided by 2015 to meet the demand of the elderly residents of Australia. LEK also estimated that there would be a requirement for an additional 74,000 residential aged care places to be provided by 2019, and an estimated 100,000 additional residential places will be required over the 10 year period from 2019 to 2029 as the baby boomers begin to move into a cohorts relevant to aged care.

We have estimated that to provide the 40,000 additional places that are required to meet demand by 2016, **an investment of $10 billion is required.**

Critical to the concept of a sustainable aged care industry is that the debt and equity markets are attracted to this sector as they have to supply some $10 billion in capital over the next 5 years. Substantially more than this, we estimate approximately $40 billion, will be required in the period up to 2029. Paramount to attracting both debt and equity into this market is that these capital sources receive an appropriate return on investment. This has not occurred across the aged care sector in the past 5 years and most recently we have seen the equity markets move away from the aged care sector and the debt markets reduce their exposure to this sector. It is critical that the aged care sector is provided with appropriate funding that provides sustainable and consistent revenue flow which then enables the capital markets, who invest in this sector, to get an appropriate return on investment commensurate with the risk that is involved.

In addition, we have as previously to outlined to the Federal Government, it is not viable to construct aged care facilities under the current funding structure. This is particularly so in respect of high care facilities where the cost of producing the product is significantly higher than the upon completion value, based on current funding. This has resulted in a substantial short fall in new building programs, including replacement of existing facilities that are both functionally and physically obsolete, and therefore Approved Providers have not been able to provide new aged care facilities to accommodate the needs to the elderly population of Australia.

To remove this problem, we strongly support accommodation bonds on high care beds and that there is no restriction to these accommodation bonds. This is an essential source of capital, not revenue, to the industry to enable it to meet the substantial build programs required in the next 5-10 year periods. It is imperative that the Productivity Commission consider how the debt markets fund the industry and recognise the importance of accommodation bonds as a source of capital in the provision of debt. The banks require as part of their lending criteria that such debt been amortised over the term of the finance. Without this the banking industry will not provide the level of debt required in the next 5 years, which we estimate at around $4-5 billion, to meet the future needs of our elderly population.

It is for this reason we do not believe the shift from provider based accommodation bonds to accommodation charges will provide the necessary solutions. In actual fact, we believe this may result in a reduced cash flow and not provide the capital, as against revenue, that is necessary to facilitate the $10 billion investment required this industry over the next 5 years.

Additionally, we believe that further work and industry consultation is required to come up with an appropriate solution to the viability issue of building new aged care facilities. This solution must allow providers to be able to develop new or re-develop existing facilities to provide the high quality of accommodation sort by our residents and to provide a sustainable aged care sector.

We also support the need for additional funding to attract the necessary workforce to the aged care industry as well as to facilitate the appropriate training and development of health care professionals who currently work in the aged sector. We have a partnership with the La Trobe University around research and development, training and education. La Trobe University have advised that of the approximately 350 nurses who graduated last year, only circa 10 of those nurses entered employment in the aged care sector. This is principally because of the lack of remuneration, a graduate nursing programme throughout Australia and ultimately post graduate training. If the aged care industry is going to have a large enough work force and that workforce been retained in the industry, the funding model provided by the Federal Government must have a substantial increase in revenue to accommodate this. In addition, it should be recognised that pay differences exist between the aged care and the public health care sectors and this needs to be addressed as part of the process.

In additional we make the following specific comments as they relate to the Productivity Commission's Draft Report on Caring for Older Australians.

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Draft Recommendation 6.1

The Australian Government should adopt separate policy settings (including for subsidies and co-contributions), for the major cost components of aged care, namely care (personal and health), everyday living expenses and accommodation.

Draft Recommendation 6.2

The Australian Government should adopt the following principles to guide the funding of aged care:

- Accommodation and everyday living expenses should be the responsibility of individuals, with a safety net for those of limited means health services should attract a universal subsidy, consistent with Australia's public health care funding policies
- Individuals should contribute to the cost of their personal care according to their capacity to pay, but should not be exposed to catastrophic costs of care.

Japara Response

- The unbundling of aged care into 4 components being a) Accommodation services, b) Everyday living expenses, c) Health care, and d) Personal care is an attempt to segregate cost and encourage co-contribution by consumers towards care and the cost of accommodation and living expenses.
- The segregation of Health and Personal Care is where the issue for residential care may exist as this is very difficult to achieve. This difficulty in adjusting to this change if legislated could cause economic instability and negatively impact on viability. This would be brought about by possibly the emergence of new entrants to the market place that are able to provide purely for Health Care or others that set themselves up purely for Personal Care.
- The inability for current providers to adapt to such changes will cause for demise and place a further burden on the government and society to provide services to our aging population, therefore the suggestion would be to have health and personal care as one component and create parity between community and residential care whilst still creating a co-contribution scheme for those which can afford to pay for the above.

Draft Recommendation 6.3

The Australian Government should remove regulatory restrictions on the number of community care packages and residential bed licences over a five-year period.
It should also remove the distinction between residential high care and low care places.

Japara Response

- Removal of restrictions to community care packages and residential bed licenses implies that supply to the market place may exceed demand. The implications currently is a constant challenge to maintain occupancy to a level that creates a small margin of viability for example 95%.
- Can the government introduce a safety net that allows residential care to be subsidized should occupancy levels drop to below sustainable levels due to legislative changes to the market?
- We support the removal of the distinction between residential high and low care.

Draft Recommendation 6.4

Key points of the recommendation:

- The government should require that those entering residential care have the option of paying for their accommodation costs either as:
  - A periodic payment for the duration of their stay
  - A lump sum
  - A combination of both

Japara Response

The recommendations in this section focus on removing various inconsistencies and barriers experienced by the users of the services.

They do not address a key issue for providers, which is where are the funds to be sourced to finance the building or acquisition of the facilities in the first place.

The implications of periodic payment vs. lump sum need to be considered for both new facilities and existing ones, as the funding of each is approached differently by Banks. The proposed model appears particularly to fall short in addressing the issues faced by builder operators who are in the development and post development phases (construction and first year of operation), although the proposals also present some challenges for the funding of "going concern" facilities (12months + from opening date).

Bank Funding for Aged Care Facilities is typically in 2 Phases

- Development funding which is provided during the construction of the facility and typically expires up to 12 months post opening:
  - This is typically 75% to 80% of the cost of the facility.
  - Banks have historically been prepared to lend these amounts as they know that lump sum bonds from the incoming residents to the new facility will be applied to the amount borrowed to bring it down to a more acceptable long term level at approximately 50% to 60% of the value net of bonds.
  - This is largely the reason that stand alone high care facilities are not being built, the banks are not prepared to provide development funding where there are no lump sum payments available to pay down the development portion of the borrowing.
  - The proposed option of lump sum or periodic payment does little to address this, as whilst on one hand it enables bonds to be charged for high care places; on the other hand it removes the certainty of receiving a lump sum. Providers and banks will need to assess the impact on the market and model the likely lump sums available to service development debt.
  - If the banks form the view (or market evidence shows) that lump sum bonds are being replaced by periodic payments, they will change their lending approach to match, effectively removing the development funding from the debt offering, and only offering "going concern" funding from day one. This means that approx. 20% to 30% of the up-front cost of building a facility will have to be provided by other sources, re owners of equity.

- Going concern funding which typically applies for existing facilities, or new facilities after the first year of operation, once initial bonds have been used to repay the development element of the loan and earnings are sufficient to service the debt.
  - This is typically 50% to 60% of the value of the facility. Although large lump sum payments are not required (as is the case with development funding), these facilities normally involve a regular repayment program to extinguish the debt over a 3 to 5 year period.
  - Banks assess cash flows and the ability to maintain the required interest and principal repayments when assessing the level of funding they are willing to commit to.

- Historically cash flows from incoming bonds have been an important part of their assessment, as the cash from the operating income of aged care facilities has been insufficient to service both the interest and the required debt repayments.
- In the case of these loans, it is difficult to gauge whether the proposed bond arrangements will be seen as appropriate by the banks. In theory the proposed model of regular payments replacing a lump sum should produce a similar cash flow over time, however, if there is a large movement to regular payments, there will be a period of stress on available cash as existing lump sum bonds for departing residents are repaid and not replaced with similar lump sums.
- Discussions with some bankers has indicated that, to ensure that they can access a reliable cash flow to meet their servicing and repayment requirements, it is likely that they will only consider lending to portfolios of assets, and therefore debt funding for stand-alone facilities may be difficult to source.

Draft Recommendation 6.4

The Australian Government should remove regulatory restrictions on accommodation payments, including the cap on accommodation charges in high care. It should also abolish the charging of retention amounts on accommodation bonds. The Government should require that those entering residential care have the option of paying for their accommodation costs either as:

- a periodic payment for the duration of their stay
- a lump sum (an accommodation bond held for the duration of their stay).
- or some combination of the above.

To ensure that accommodation payments reflect the cost of supply, and are equally attractive to care recipients and providers, the Australian Government should require that providers offer an accommodation bond that is equivalent to, but no more than, the relevant periodic accommodation charge. Accommodation charges and their bond equivalents should be published by the residential aged care facility.

Japara Response

- Removal of retentions from Bonds, is the government prepared to supplement this loss of income and revenue stream?
- If the Government is assuming that the provider can include this in the accommodation charge our position is that with open competition this element could be eroded as part of the competitive nature of the sector / region.
- Capping the bond to the equivalent periodic cost is also another similar risk on the basis that if the accommodation charge is set to be competitive to attract consumers then, this current ability for consumers to pay a bond to a maximum they are comfortable with is also eroded. The government should allow consumers with free choice to pay for a Bond higher than the set maximum to ensure the industry can achieve financial viability and build the necessary aged care facilities to meet demand.

Draft Recommendation 6.5

To ensure sufficient provision of the approved basic standard of residential aged care accommodation for those with limited financial means, providers should continue to be obliged to make available a proportion of their accommodation to supported residents. The Australian Government should set the level of the obligation on a regional basis. This would not apply to existing providers who are currently not obliged to make accommodation available to supported residents.

Over the first five years, the obligation would be tradable between providers in the same region. After five years, the Australian Government should consider the introduction of a competitive tendering arrangement to cover the ongoing provision of accommodation to supported residents.

Draft Recommendation 6.7

The Australian Government's contribution for the approved basic standard of residential care accommodation for supported residents should reflect the average cost of providing such accommodation and should be set:

- On the basis of a two-bed room with shared bathroom.
- On a regional basis where there are significant regional cost variations.

Japara Response

- We are not clear about the tendering process for provision of care to supported residents who are unable to pay for costs of care and accommodation in residential care.
- For newly and refurbished facilities that have been gearing towards the provision of single rooms with ensuites as current trends in occupancy demonstrates a bias towards this style of accommodation, government needs to ensure that subsidies should cover cost for single rooms as well by creating a universal subsidy.
- Failure to do so could imply that where there are no double rooms available and a supply of single rooms that the lower (double room subsidy) subsidy will not be attractive for providers and place external pressure for supported residents to be accommodated from the community.

Draft Recommendation 6.6

The Australian Government should establish an Australian Pensioners Bond scheme to allow age pensioners to purchase a bond from the Government on the sale of their primary residence.

- The bond would be exempt from the age pension assets test and income tests and would be indexed by the consumer price index to maintain its real value.
- All bonds would be free of entry, exit and management fees.
- Age pensioners could flexibly draw upon their bond to fund living expenses and aged care and accommodation costs.

Japara Response

We are supportive of this initiative with one exception. Is the government prepared to trade the bond held with the government as part of the Australian Pensioners Bond Scheme with an equivalent accommodation periodic type payment by a resident. By this we mean that where a resident elects to pay an accommodation periodic charge that the government can substitute the correct value with an accommodation bond to the provider. The Provider then will refund the preserved value etc. to the resident upon departure and free from retentions as being recommended by the government.

Draft Recommendation 6.9

The Australian Government should:

- Prescribe the scale of care recipients' co-contributions for approved care services which would be applied through the proposed Australian Seniors Gateway Agency (draft recommendation 8.1).
- Set a comprehensive means test for care recipients' co-contributions for approved care services. This test should apply the age pension income test and the non-home owner asset test (including any housing assets, such as the primary residence, accommodation bonds and the proposed Australian Pensioners Bond). The comprehensive aged care means test would apply where the approved care services have a combined value of around $100 or more on average per week (the 'comprehensive aged care means test threshold') and all home modification services adopt for approved care services below the comprehensive aged care means test threshold, a test for determining car recipients' co-contributions for such services which relies simply on pensioner status.

To facilitate greater consistency in co-contributions across community and residential care, comprehensive aged care means testing to determine care recipient contributions to care costs in both settings should be undertaken through the proposed Australian Seniors Gateway Agency (draft recommendation 8.1) by Centrelink.

Care recipients' co-contributions should be regularly reviewed by the Australian Government based on transparent recommendations from the proposed Australian Aged Care Regulation Commission (draft recommendation 12.1).

Japara Response

We generally support the recommendation as it relates to Government policy on consumer / user payer systems and calculations which is more a voting issue than an operational sector issue in my opinion.

Draft Recommendation 6.11

The proposed Australian Aged Care Regulation Commission (draft recommendation 12.1) should make transparent recommendations to the Australian Government on the scheduled set of prices for care services and the required level of indexation, the lifetime stop-loss limit, and the price for the approved basic standard of residential care accommodation. The Commission should monitor and report on the cost of care, basic accommodation and the stop-loss limit.

Japara Response

Our concern here is in relation to cost of basic standard of residential care and whether the independent Australian Aged Care Regulation Commission prices care accurately across varied settings that range from rural, remote and metropolitan regions.

Draft Recommendation 11.2

Assessing and recommending scheduled care prices and the recommendation for these to include the need to pay competitive wages to nursing and other care staff delivering aged care may send a mixed message to the public with regard to the perception of care being delivered to older Australians.

For example, if Approved Provider A is offering a higher care price one would presume that Approved Provider A is paying their employees a competitive wage, and therefore attracting highly experienced/qualified staff, compared with Approved Provider B, who is offering a lower care price, one again, would assume the staff working there are less experienced/qualified because lower wages are paid and therefore attracting inferior staff.

Clarification around how the scheduled care prices will reflect on staffing costs (including how agency aged care worker fees will be considered) is needed without creating a divide in workforce skills and quality of care.

We support a funding mechanism that provides the capacity for the aged care industry to remunerate staff at appropriate level and remove in equalities that exist between aged care and the public health care sectors, and attract more nurses to the aged care industry.

Draft Recommendation 11.3

The Productivity Commission's report explores and recommends the need for career skill development and pathways for aged care workers.

Whilst it is supported, consideration needs to be given to the implication this may have to Approved Providers with regard to wages and classification levels. Many classification levels contain defined skills and qualifications assigned to particular pay levels.

Of course this is a financial incentive for Aged Care Workers to consider aged care as a career, however if such career pathways were to be formally introduced consideration must be given to Approved Providers in how they will financially accommodate this. Perhaps draft recommendation 11.2 will seek to address this more closely.

With regard to management courses for health and care workers entering management roles is very positive for the industry. This may broaden the opportunities for aged care workers who had not thought about management role due to there being a lack of aged care specific management courses and alleviate any fears for those wanting to enter into management without having to undertake Post Graduate studies which can be very time demanding and costly.

Draft Recommendation 11.4

With the recommendation of the expansion of 'teaching aged care services' proposed, this too is also very positive. However consideration should also be given to positive promotion of the aged care industry when students undertake undergraduate studies. There are many positive things about working in the aged care industry. These positives need to be highlighted at this stage if not earlier.

Aged Care Agency Workers

The Productivity Commission's report discusses briefly the high usage of agency workers in aged care. There is definitely no hiding of the fact that due to skills shortages and the increasing demand for suitably skilled and qualified nursing personnel due to the increasing care needs of older Australians, Approved Providers are often at the mercy of labour hire firms for their supply of aged care workers.

This is typically symptomatic of many issues relating to the supply of skills, the organisations attraction and retention capabilities, management, workloads and industry appeal, to name but a few. However the Approved Provider is already in a precarious situation with an already ageing workforce and low supply channels of labour.

The Productivity Commission needs to explore the role of Aged Care Worker Agencies in line with the workforce issues relating to the Productivity Commissions Report as it may shed some light on the actual labour force costs pertaining to Aged Care and its effect on resident care.

Draft Recommendation 12.1

The establishment of a statutory body separate and independent to the Department of Health and Ageing would in the main be a step forward for the industry.

The Australian Aged Care Regulation Commission (AACRC) would effectively streamline the regulation and compliance processes across the aged care industry with less opportunity for conflicting or opposing policies and decisions which invariably impact the aged care provider.

The Department of Health and Ageing ceasing its' regulatory activities through the Office of Aged Care Quality and Compliance, the Complaints Investigation Scheme and the abolition of the Office of the Aged Care Commissioner would decrease the duplication and prolonged process that is currently in place.

Draft Recommendation 12.1

The Aged Care Standards and Accreditation Agency being incorporated into the new statutory body with responsibility for quality of services and accreditation will streamline the process with minimal duplication. However, the revised Standards and pursuant outcomes need to be scrutinized closely as the overview of the draft standards recently provided gives very little detail of what will really be expected. The increased focus on education provision across all outcomes puts the onus squarely on the aged care provider and the premise is that this will be mandatory. Further to this, the proposed changes are heavily weighted towards corporate governance and the inclusion of residents/ representatives being involved in boards and the strategic planning of aged care services. There must be open and transparent consultation with the industry and aged care providers to ensure that the changes are workable and appropriate.

Draft Recommendation 12.2

The decision appeals process being managed through a Commissioner and then ultimately, if required, through the AAT with a specific Aged Care Division would be a step in the right direction.