

22 April 2013

Committee Secretary
Senate Standing Committees on Community Affairs

By email: community.affairs.sen@aph.gov.au

Dear Sirs,

Inquiry into the Aged Care (Bond Security) Amendment Bill 2013, the Aged Care (Bond Security) Levy Amendment Bill 2013, the Aged Care (Living Longer Living Better) Bill 2013, the Australian Aged Care Quality Agency (Transitional Provisions) Bill 2013 and the Australian Aged Care Quality Agency Bill 2013

Please find **attached** the Submission of Domain Principal Group on the abovementioned Bills.

Yours faithfully

Gary Barnier
Managing Director
DPG Services Pty Limited
(trading as 'Domain Principal Group')

COMMUNITY AFFAIRS SENATE COMMITTEE

INQUIRY INTO:

Aged Care (Living Longer Living Better) Bill 2013; Australian Aged Care Quality Agency Bill 2013;

Australian Aged Care Quality Agency (Transitional Provisions) Bill 2013;

Aged Care (Bond Security) Amendment Bill 2013;

Aged Care (Bond Security) Levy Amendment Bill 2013

SUBMISSION BY

DOMAIN PRINCIPAL GROUP

22 APRIL 2013



Introduction

Domain Principal Group (**DPG**) as one of the leading aged care providers in Australia is committed to a customer focused and financially stable aged care sector. **Attachment A** provides further background about DPG.

DPG supports the Government's proposed reforms. DPG broadly agrees with the changes and sees *Living Longer Living Better (LLLB)* as an important step of a much bigger reform journey. As a Provider in a complex service delivery environment, we are conscious that large structural reform of the sector will occur over a period of years.

While DPG welcomes the Government making aged care a priority through LLLB, in order to ensure quality aged care services are sustainable in the future there are a number of matters that DPG believes still need to be addressed. This Submission highlights these issues for the Committee and DPG would welcome the opportunity to present more detailed information at a Committee Hearing.

Support for Workforce Compact and Supplement

For DPG, it is important that it is noted that we are supportive of the Workforce Compact and any other government initiative that encourages improved employment conditions and thus retention of aged care workers in our sector. We are also supportive of the proposed 'Workforce Supplement'.

Our workers are integral to our business and we know that delivering quality services for our customers relies on a well trained and engaged workforce.

Outstanding Issues

1. Insurance

DPG does not agree with the proposal that requires Providers to insure lump sum accommodation bonds. We maintain that the current government guaranteed regime for refundable deposits should remain unaltered.

A regime where Providers are required to obtain insurance of refundable deposits via a private market would be a costly additional expense for Providers. For example, it is estimated that an annual insurance payment would be about 1% of a Provider's outstanding bond pool which would consequently equate to a reduction in operating surplus of around 5% (Source: DPG accounts). This will have a significant impact on the funding of Providers and additionally result in financial institutions being more reluctant to allow investment in expansion of homes.

With historical defaults on repayments of refundable deposits being very low, DPG believes the current arrangement that provides a government guarantee and a levy on Providers, if required, is the best form of insurance.

2. *Aged Care Funding Instrument (ACFI)*

DPG is concerned that the annual indexation that is applied to ACFI has been inadequate in recent years. We are a strong believer that a more effective indexation mechanism should replace the current Commonwealth Own Purpose Outlays (**COPO**) indexation as the application of COPO reduces sector operating margins every year and fails to keep pace with increased costs of operating residential aged care facilities. Cost increases in wages, which equates to 70% of Providers' costs, have been at least double the indexed increase of the COPO in recent years.

DPG recommends that instead of COPO, ACFI should be indexed to the National Wage Case each year. Indexing ACFI to the National Wage Case, an index utilised elsewhere, will reduce the widening gap between actual cost increases and the COPO indexation.

3. *Reinstatement of bond retention regime*

DPG does not support the removal of the bond retention regime currently in place and submits that it should remain unaltered.

Bond retentions are an income stream for Providers and although a modest and reasonable contribution (namely, \$3,876 per annum for new residents per bond - \$19,380 over 5 years) its loss would cause significant financial impact on Provider viability.

Although Providers could charge a higher bond amount to recoup the income currently derived from retention, this would ultimately raise the average level of bonds - an outcome which would not be consistent with consumer advocates seeking to maintain average bonds at lower levels.

Finally it is important to note that the elimination of retention seems to be a move away from the long term goal of implementing a user pay system and counter to long term aged care reform strategies.

4. *Accommodation Bonds*

Accommodation bonds represent the primary means of financing new aged care developments for Providers and accordingly it is important that any reforms implemented ensure an improvement to the current regime. Accordingly we support the proposal to

remove the distinction between high and low care, allowing Providers to charge bonds for high care beds.

DPG is of the view that the following adjustments should be made to the current proposed reforms:

- a) A Provider may seek to charge an accommodation bond above the capped amount of \$406K which is to be approved by the Aged Care Commissioner on a basis to be agreed by the Minister, the Department of Health and Ageing, and the industry. There needs to be greater certainty about the criteria upon which decisions and ultimately approval will be granted. Until there is certainty around the process and basis on which bonds above \$406k will be approved, no business case for a home requiring a bond above \$406k will be approved by Providers.
- b) The legislation around resident choice in the Aged Care Act should not be amended. In particular we are concerned that the viability of Providers will be impacted by not having the right to determine how to sell their product. It is our view that the Provider should determine whether they wish to offer a lump sum or periodic payment or a combination of both, and it is for the customer to decide between Providers as to the offer that best meets their needs. There is real concern amongst Providers that these changes will cause outflows of lump sum bonds that will make many Providers unviable. We recommend that this change be modelled by Treasury before being reconsidered as it could have a very large unintended impact on Providers.

5. *Value of person's assets – refundable deposit balance inclusion*

DPG does not support the proposal that the "refundable deposit balance" be included in calculating the value of a person's assets when determining firstly, whether the care recipient is a supported resident, concessional resident or assisted resident and ultimately, the amount of accommodation supplement payable (see proposed new section 44-26A(5) of the *Aged Care (Living Longer Living Better) Bill 2013*).

Inclusion of the refundable deposit balance will lead to a disincentive for consumers to pay a lump sum accommodation bond and will instead encourage customers to pay via periodic payment. If such a trend does occur, it will significantly impact Providers, make investment in aged care untenable for investors and financiers, and halt new aged care developments.

The Future: Introduction of User Pay Model Based on Medicare

As noted at the beginning of the Submission, DPG believes that long-term structural change in the sector is a journey – a journey that will take time. As such, we believe that policy makers should now be looking to the next iteration of aged care reform.

In this vein, DPG supports the introduction of a user pay model based on Medicare to be incorporated in the aged care sector. This would see a base entitlement provided to the consumer and a right given to the Provider to charge a market based fee with the consumer responsible for the gap - this gap should then be able to be insured. This approach would encourage the development of improved services, would be consistent with other health care structures (for example, private hospitals) and would be in line with the 2011 Productivity Commission Report, *Caring for Older Australians*.

With an ageing population and the increasing taxpayer burden for the provision of aged care services, this should be considered as part of the next suite of reforms.

Conclusion

Living Longer Living Better is an important step of a much bigger reform journey of the aged care sector. DPG is a strong believer that for that journey to progress smoothly it is vital that:

- Aged care reform is kept on the Federal Government's agenda.
- The proposed legislation is passed (subject to amendments addressing the matters raised in this Submission).
- The Government and the aged care sector continue to look at the next phase of aged care reform.
- The Government continues to work collaboratively with all parts of the aged care sector to improve services for all older Australians.

Attachment A

DPG: Background Information

Domain Principal Group (**DPG**) is one of the largest private providers of residential aged care in Australia.

Owned by AMP Life with funds managed by AMP Capital, it comprises 56 homes nationwide providing services to around 5000 residents and employing over 5000 staff.

DPG is committed to being a specialist aged care provider particularly concentrating in the areas of dementia and palliation.

DPG's mission is to deliver the highest quality care and services to residents and their families at an important time in their lives.

DPG believes that we will only be successful by engaging our workforce in the delivery of our mission, investing in them and meeting their personal and professional needs.