HUON ELDERCARE
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The Secretary
Senate Finance and Public Administration Committee
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Sir/Madam

Please find attach a submission from Huon Eldercare for the Inquiry into Residential and Community Aged Care in Australia.

Huon Eldercare's Board and Management look forward to the outcome of this enquiry.

Please do not hesitate to contact the undersigned if any clarification is required, or if any further information is required.

Yours sincerely

for. Barry Lange
CEO/DON

A. WHETHER CURRENT FUNDING LEVELS ARE SUFFICIENT TO MEET THE EXPECTED QUALITY SERVICE PROVISION OUTCOMES

Huon Eldercare is very proud to have met all 44 Accreditation Standards in the last 3 triennial audits. Based on this result one could argue that Huon Eldercare has been able to meet the expected quality of service provisions given the levels of funding provided by the Commonwealth Government.

The following information is taken from the Audited Annual Accounts for the surplus from the Aged Care Segment of Huon Eldercare operations:

	Surplus/(Loss)
2005/06	$(27,844)
2006/07	$(80,179)
2007/08	$ 52,874

2006/07 was a little worse than expected due to an extra 9 new bed licenses being introduced and 2007/08 shows an improved result mainly due to negotiating Nursing Salary increase at 2.5% per annum from 1/1/08.

Huon Eldercare is in a very fortunate position of having no loans and has other segments to the business that do contribute some surpluses. Being a diversified business helps spread the risk. If we had pay for the cost of loans then the figures above would show a much worse position.

The reality is that any organisation must make reasonable surpluses from its operation and build up some reserves for a number of reasons:

- existing facilities become obsolete in a reasonably short time frame and require replacement;
- reserves help survive recessions;
- as competition for Residents increase (as encouraged by the DoHA) there may be vacant beds (that is, income may fall off);
- reserves help with future expansion to meet the growing demand in the industry; and
- reserves help cover any unexpected major one-off costs.

The current levels of funding at Huon Eldercare are insufficient to build up any reserves from Aged Care and is being crossed subsidised by other component of our business.

The Australian Government totally controls all aspects/levels of the funds an Aged Care provider receives, from both the Government and the Residents. The only area of discretion is

the level of bonds that the Provider can charge. Bonds can be charged to low care Resident and "extra service" high care Residents, whom have sufficient assets.

The Huon Valley is a lower socio-economic area, especially compared to the main capital cities of Sydney, Melbourne and Brisbane. The average house price is around $200,000. Huon Eldercare meets the 40% Concessional Ratio (Residents with assets below $56,500 under RCS and $91,410.40 under ACFI). The Government funding is increased as a result of meeting this ratio, but those Providers operating in a higher socio-economic area make considerably more by not meeting the ratio and "demanding" higher bonds. The income calculation based on ACFI is as follows:

Resident with no Bond – Fully Supported Resident Supplement @ $26.88 per day =	**$9,811 p.a.**
Resident with $400,000 Bond – Bond retention $292 per month =	$ 3,504 p.a.
Plus Interest on $400,000 @ 5% p.a. =	$20,000 p.a.
TOTAL INCOME	**$23,504 p.a.**

(Note: Bond retention is capped at 60 months)

The above calculation pretty much shows the extremes and is simplistic. Often there are some in between combinations and some Providers are taking Bonds in excess of $400,000. Even if the difference was just $10,000 per Resident, then a Home (with around 100 Residents) in the right area could make up to $1,000,000 more profit each year than a Home in a disadvantaged area, given the same staffing/service levels.

This is why the top quartile is making good money. But the reality is that 40% of Providers are running at a loss. Not all Providers offer Extra Services nor can they attract Residents with large Bonds. This does not relate to poor management, but is a direct result of following the rules.

Huon Eldercare has 81 Residents, 3 Respite Beds and 6 Rural Health Beds under an arrangement with the Tasmanian Government. Bonds are currently at $1,700,000 (26 Bonds). Our Board Policy on Bonds is for Residents to pay up to the formula of 10 times the Annual Basic Single Aged Pension (currently $141,000), based on the level of Assets (the Resident must retain a minimum of $36,500). A Resident can pay a larger Bond (after seeking financial advice) as the Bond paid is excluded from assets for Pension purposes.

The introduction of ACFI will result in less bonds, to those Providers who are not Extra Services, in the future as it shifts the funding from low-care to high-care residents. Low-care will predominately be the domain of community care in the futures, not residential aged care.

Huon Eldercare is in a poorer area and is not able to add additional beds in the near future without Capital support from the Australian Government, as the current levels of recurrent funding are insufficient to cover any additional debt required to expand. The current cost of building a Resident Room and the necessary support areas is around $200,000 each. It is better to look after the existing Residents in the manner they need and deserve than to jeopardise the viability of Huon Eldercare by adding more rooms.

With the introduction of ACFI from 20th March 2008, Huon Eldercare has experienced a reduction in Commonwealth funding. The old RCS level 1 to 3 have been consistent, but any RCS level 4 or lower has resulted in a reduction of funding. We now have 65% of our Residents being funded with ACFI.

The cost of compliance with the Government's rules and regulations has increase materially over the past decade, to which there has not been any extra funding as an offset. The triennial Accreditation audit costs providers, including a payment to the Government. The Accreditation Agency continually "lifts the bar" with expectation on the services and conditions provided to Residents. There is pressure applied to reach "best practice" with every full accreditation and annual spot visit. Yet, there is no extra funding to offset the cost increases to meet these expectations.

The Government has to find ways to support the regional Aged Care Providers, who are happy to service the lower socio-economic population. The Government cannot keep comparing to the top quartile that make reasonable, albeit reducing, surpluses. By just looking at the top quartile, the bottom three quarters is being ignored. If the Not for Profits do not service this important group of people then who will?

B. HOW APPROPRIATE THE CURRENT INDEXATION FORMULA IS IN RECOGNISING THE ACTUAL COST OF PRICING AGED CARE SERVICES TO MEET THE EXPECTED LEVEL AND QUALITY OF SUCH SERVICES

This is an area where the Total Income of an Aged Care Provider need to be considered to show the total affects of CPI increases, but is a very complex area as individual components are indexed in different ways. Also, as time goes by the mix will be marginally affect by the transfer from the RCS to the ACFI Residential care Funding.

It is best to set out two tables to provide the explanation of the effect of CPI and the COPO has on the increase in funding, as follows:

PERCENTAGE INCREASE OVER PREVIOUS YEAR

	COPO	CAP	COPO + CAP	CPI
July 2006	2.00%	1.75%	3.75%	2.98%
July 2007	2.00%	1.75%	3.75%	2.44%
July 2008	2.30%	1.75%	4.05%	4.24%
3 Year Compounded	6.43%	5.34%	12.00%	9.97%

Please not that the CPI is based on the March quarters and the Table assumes that the COPO is based on the same and is applied from 1st July each year, as the COPO is not advised until late June.

TOTAL AFFECT OF INCOME INCREASES

	INCOME MIX	HOW INDEXED	RATE INDEXED	INDEXED INCOME
Residential Care Subsidy (incl. CAP)	67.4%	COPO + CAP	4.05%	70.1%
Pensioner Supplement	4.0%	COPO	2.30%	4.1%
Viability Supplement	0.9%	COPO	2.30%	0.9%
Concessional Resident Supplement	4.6%	COPO	2.30%	4.7%
Accommodation Bond Retention	0.9%	Not Indexed		0.9%
Acommodation Charge	1.3%	Not Indexed		1.3%
Resident Fees	20.9%	CPI	4.24%	21.8%
TOTAL	**100.0%**			**103.8%**

Note: the above table is based on Huon Eldercare's 2008/09 Budget

The first table shows that the COPO (in isolation) falls a significant amount below the general CPI for Australia over the last three years. Costs have increased by more than the general CPI, specifically in relation to nursing salaries, food and energy costs – which comprises around one third of Huon Eldercare's total costs.

The second table shows an increase in income for the 2008/09 year of 3.8% including the CAP, whereas the general CPI was 4.24%. This is why the sector is showing declining returns over recent years.

Community Care is only indexed by COPO and falls short of the actual cost increases and the general CPI.

C. MEASURES THAN CAN BE TAKEN TO ADDRESS REGIONAL VARIATIONS IN THE COST OF SERVICE DELIVERY AND THE CONSTRUCTION OF AGED CARE FACILITIES

The simplest way of addressing the cost issue is to increase the Supported Resident / Concessional Resident supplement. A reduction in the 40% ratio to say 30% would make it much easier to manage the intake of Residents based on need rather than financial status.

The best method of addressing building cost and providing incentives to providers in Regional area is to increase the level of Capital Grants. An annual allocation of $43 million for all of Australia is very low.

Huon Eldercare is eligible for the Viability Supplement under grand-parenting arrangements as it holds two licenses, both below 45 beds. If more licenses were received then the viability supplement would be lost on one of those licenses (a little in excess of $20,000 per annum). The whole of Tasmania should be classed as rural and remote. Because Tasmania is an Island, then the cost of food, freight and other services are higher than in the major capital cities. The basis for allocating the Viability Supplement should be reviewed to cover Tasmania. A review should also include Community Care as well.

D. WHETHER THERE IS INEQUITY IN USER PAYMENTS BETWEEN DIFFERENT GROUPS OF AGED CARE CONSUMERS AND, IF SO, HOW THE INEQUITY BE ADDRESSED

The only issue Huon Eldercare has in relation to user payment inequity is in relation to bonds. This is covered under A. above. Huon Eldercare cannot attract large bond payers and normally selects Residents based on needs rather than financial. Therefore, Huon Eldercare cannot make reasonable surpluses, especially compared to providers in the major capital cities.

Otherwise, there are not major inequities. The system should be based on user pays, which it is.

E. WHETHER THE CURRENT PLANNING RATIO BETWEEN COMMUNITY, HIGH- AND LOW-CARE PLACES IS APPROPRIATE

From Huon Eldercare point of view the ratios appear to be reasonable. We have small waiting lists for both Residential and Community Care. It is health to have waiting lists at the level we have. Most, especially the neediest, are being provided a service within a reasonable period of time.

F. THE IMPACT OF CURRENT AND FUTURE RESIDENTIAL PLACES ALLOCATION AND FUNDING ON THE NUMBER AND PROVISION OF COMMUNITY CARE PLACES

Huon Eldercare's experience with the addition of high-care (EACH and EACHD) community care places is that our aged care waiting list has reduced. Therefore, we are reluctant to expand too much too quickly with EACH and EACHD and run the risk of having empty aged care beds. Our income will drop off, but it is very hard to reduce costs incrementally.

It is logical that community care services low-care (CACPS). To service high-care community care does come at some risk. The funding covers up to 16 hours weekly, but it is less risky and more efficient to have high-care services centrally and be there 24/7 for the client. There may come a point with EACH and EACHD where a provider needs to withdraw services as the level of funding is insufficient to meet the needs of the client and the best option for that client is residential aged care. The thrust by the Government is to give people choice. Most people, if given a choice, do not want to come into aged care, however, there may well come a point in time where aged care is the only alternative for an individual client.