

24 November 2008

To the Committee Secretary
Senate Finance and Public Administration Committee
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Sir/Madam

I am writing in response to the call for written submissions for the **inquiry into residential and community aged care in Australia.**

I am a proprietor of two residential aged care facilities in Adelaide, Gleneagles and Monreith, both of which are extra service facilities. I have been involved in aged care since 1988, and have been an active member of ACAA (SA) since that time.

Over the past 20 years I have experienced a serious erosion of funding as wages, building costs, electricity, rates and taxes, daily living costs and the operating costs associated with accreditation and having single rooms with ensembles rather than multibedded wards, have spiralled.

Current funding levels are insufficient to meet the expected quality service provision outcomes and at the moment, our ability to charge an accommodation bond is the only way that we are able to meet the cost of such services. It should be noted that our accommodation bonds range from \$50,000 to \$170,000, with the large majority being half the latter amount. You will note that these bonds are much smaller than those levied in the eastern states but are driven by what the market can afford.

Being a private operator, it is a struggle to compete with the church and charitable sector, who not only have the advantage of not paying sales tax, payroll tax, council rates and Fringe Benefits tax, for example. Our land tax alone is \$60,000 per year, a cost for which the "not-for profit" sector is exempt. They also have the advantage of attracting volunteer staff and significant bequests and donations, which supplement their Commonwealth funding in order to meet the standards associated with the provision of care.

In addition, over the years we have faced an increasing problem of attracting skilled labour to our industry, in particular nurses. Nurses' salaries in the hospital sector are up to 10% higher than in aged care, and so in recent times we have experienced a dramatic exodus of staff from aged care. Many leave to become casual staff employed by nursing agencies where the conditions are far more attractive. In the last year, we expended more than \$750,000 on Agency casual staff, which has a serious effect not only on the stability of our organisation and quality of care, but also on our profitability.

It is worrying to note that the recently published Grant Thornton survey clearly supports that providers' returns on investments have declined further, while building and operating costs have spiralled, and that funding has not kept pace with these changes. The report found that the average cost of building a new facility per room is now \$200,000, which is more than double the cost of building ten years ago.

The report also found that consumers are demanding modern, single rooms with ensuites, and that the return on investment for providers offering this level of accommodation was an average of 1.1%, which is economically unviable.

The current indexation formula is inappropriate in recognising the actual cost of pricing aged care services to meet the expected level and quality of such service.

I have been advised that CAP will remain at 8.75% for the next four years and that there will be no annual 1.75% increases. COPO has been proven totally inadequate; its real value has eroded 23.5% over the last eight years, which means a continued deterioration in our sector's viability in the long term. As you are aware, we are an industry with no ability to set our own fees or recover increased costs, except by way of extra service charges or an accommodation bond. We are restricted in South Australia as we are unable to charge comparable bonds and extra service fees, as charged interstate, due to market constraints.

There are several measures which can be taken to address variations in the cost of service delivery and the construction of aged care facilities, which are of no cost to the Government and hence the public tax payer, not the least which is the introduction of accommodation bonds in all facilities, both high care and low care.

The introduction of accommodation bonds across the board, would provide funding to the growing high care sector, where the capital is required.

The second measure is to increase bond retention amounts, which have not kept pace with spiralling land and building costs. These have doubled and in some cases, tripled in the same period. Currently we are only able to retain around \$3500 per bond per year, an amount that has only increased by 20% since 1997. By contrast, accommodation charges have increased by more than 50% from \$12 to cost the Government \$26.34 per day or \$9636 per year.

Should accommodation bond retention amounts also be increased by this percentage or to \$6000 per annum, it is still significantly less than the accommodation charge of \$9636 and would not incur any additional cost to the Government.

Concerns regarding the perceived inequities in user payments between different groups be addressed, by ensuring there is a safety net in place to guarantee quality aged care for all older Australians who require it.

It is incorrect to assume that the current system is equitable as self-funded retirees are penalised by way of income tested fees, paid by non-pensioners which are collected by the provider and deducted from the subsidies paid by government.

ACAT assessed residents on RCS categories 6, 7 and 8, currently do not receive subsidies under the ACFI and may at times be discriminated against by aged care facilities in terms of admission, in favour of higher categories.

Notwithstanding, financially disadvantaged older Australians will continue to be guaranteed quality aged care, as enshrined in the legislation and principles.

The allocation of residential and community care places has had a significant impact on my facilities in terms of our occupancy, and hence economic returns.

Although Department of Health and Ageing 2007 data showed SA residential aged care occupancy rate at 97.75%, our facilities have experienced vacancy rates of up to 94%, due to flawed planning ratios which allowed more than six new services to commence operation within a short distance from Gleneagles, in north-eastern Adelaide. It is my personal experience that some areas have serious shortfalls in places, others have an over supply. Our second facility is located in an area, which in the past has been considered an area of oversupply, and yet bed occupancy has not been a problem as there are few comparable facilities in the area.

It is important to note that rates of payment for resident care classifications are seriously flawed, being based on occupancy rates of not less than 98%. Facilities with lower occupancy are unable to cut operating costs, but will experience significantly lower income.

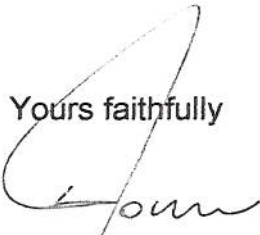
The introduction of community care places has led to frail aged being kept in their homes, at times unsatisfactorily, where they are unable to receive the appropriate care. It also has placed an enormous burden on primary care givers in the community, usually an elderly spouse or child, who is ill trained and ill-equipped for the specialist and demanding care needed.

In my experience it would appear that the **current planning ratio between high and low-care places is appropriate; what is inappropriate are the subsidies associated with such places.**

In order that the aged care industry remain robust and viable, and an attractive option for both consumers and operators, it is imperative that funding be increased to reflect the true cost of the provision of quality residential aged care.

I would welcome the opportunity to provide further information on the effect of the Government's policies and funding, in relation to the Gleneagles and Monreith Aged Care Facilities and all their stakeholders.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Nick House', written over the typed name below.

Nick House
Proprietor