

CPSA



**COMBINED PENSIONERS
& SUPERANNUANTS
ASSOCIATION OF NSW INC**

SUBMISSION

Submission to the Department of Social Services on the
Draft Application Guidelines for aged care accommodation pricing

13 January 2014

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Combined Pensioners & Superannuants Association of NSW Inc (CPSA)

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Combined Pensioners & Superannuants Association of NSW Inc. (CPSA) appreciates the opportunity to provide comment on the *Draft Application Guide* for the accommodation pricing that is above the threshold set by the Minister.

CPSA welcomed the establishment of an Aged Care Pricing Commissioner to oversee accommodation price setting in the industry. Market forces have not produced fair outcomes for care recipients in the aged care sector, where many have paid excessive accommodation fees and bonds that in no way reflect the standard of accommodation.

Older people generally enter nursing home care at a time when remaining at home is no longer possible. Entering an aged care facility is therefore often a rushed and stressful process for the older person and their family. There may be pressure from a hospital to have the older person placed in a nursing home. It is also common for family members to not be in close proximity of the older person, making finding an appropriate nursing home difficult. In sum, moving into residential aged care is far from a smooth process for many older people, their families and their carers.

It is in this context that older people and their families are expected to shop around for a suitable nursing home. For many, nursing homes will be in short supply, especially in rural and regional areas. There may also be a shortage of beds, which makes finding the right facility more difficult. The older person may have care needs that cannot be met by all homes, further restricting choice. This is particularly the case for people with dementia or behavioural difficulties which only a limited number of homes can competently manage (NB. Homes are legally unable to accept older people as residents if they cannot meet their care needs).

Evidently, choice for the older person is hamstrung before price is even considered. This is why price regulation is important. The nursing home market is not like other markets. Choice is already constrained because of the individual's circumstances and they have little choice over whether they purchase the product or not. These factors leave the buyer with little bargaining power.

There will be three tiers of accommodation pricing. The first tier reflects the maximum subsidy that the Australian Government is willing to pay for accommodation. This will be made available to concessional residents, who comprised 40% of all residential aged care recipients in 2012/13¹. The second tier will apply to care recipients with means above that of concessional residents and who will be expected to contribute to the cost of their accommodation. This tier will be capped at Refundable Accommodation Deposits (RADs) of \$550,000 or a Daily Accommodation Payment of \$99.72.

It should be pointed out that there has been no mention of whether the maximum accommodation subsidy to be paid by the Australian Government (as defined under the previous government) for concessional residents (approximately \$52 per day) will rise commensurate with the increase in the tier two maximum threshold.

¹ Department of Health and Ageing (2013) *Report on the Operation of the Aged Care Act 1997*
<http://www.health.gov.au/internet/main/publishing.nsf/content/ageing-reports-acarep-2013.htm> p.89

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In effect, very few facilities will need to apply to set accommodation prices at tier three. Tiers one and two would cover in excess of 95% of existing accommodation payments. There will therefore be almost no regulation of accommodation pricing, questioning the utility of an Aged Care Pricing Commissioner. In this light, CPSA welcomes the review of the pricing thresholds after 12 months of implementation.

If an aged care provider does apply to set an accommodation price at a tier three level, then the minimum standards should be that the room must not be shared (unless with a partner) and must have a private en suite. It appears that these reasonable minimum requirements that formed part of the former pricing guidelines no longer feature in the draft guidelines.

It is also a curious development that the draft pricing guidelines invite providers to supply information (to support their claim for their three accommodation pricing) about their Weighted Average Cost of Capital (WACC) (even at an enterprise level); Internal Rate of Return (IRR) or Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA). A principle of the *Living Longer Living Better* (LLL) residential aged care pricing reforms was that the cost of care and accommodation be separated. This was strongly supported by the industry. However, in what now appears to be the industry having its cake and eating it too, the overall cost of operating the business could be considered by the Commissioner when making a decision about whether the accommodation on offer suits tier three prices.

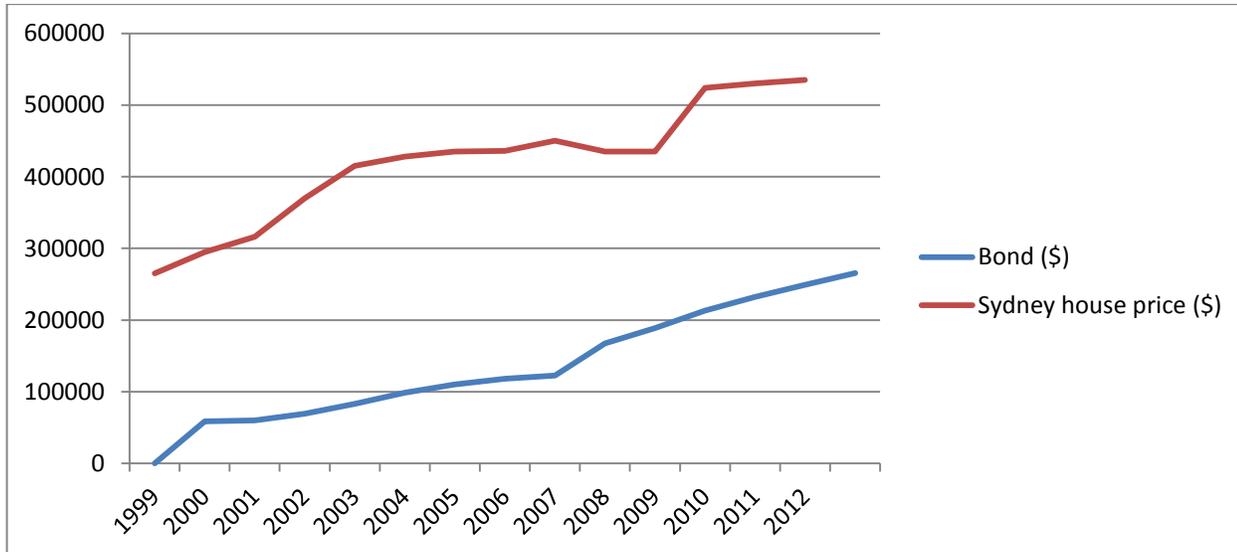
This goes against the principle of separating accommodation and care costs because suddenly all aspects of the business – cost of care staff, care goods and services, management, food, laundry, etc. – are factored into the cost of accommodation. These services are already captured by the care fee component. Therefore, if they are also considered in the accommodation component, the facility is effectively double-dipping by charging these costs to residents twice. It would also breach the principle within LLL that care recipients do not pay care fees which exceed the cost of their care because a resident could be paying for the cost of their care through their accommodation fee as well as their care fees.

Providers are also invited to provide details of risk margins, expected occupancy levels and expected concessional resident numbers. Again, these components should not be factored into decision-making about tier three pricing because it will lead to homes being approved to charge accommodation fees that do not reflect the standard of accommodation. There is a risk that accommodation would be used to cross-subsidise other (less profitable) parts of the business (as happens now).

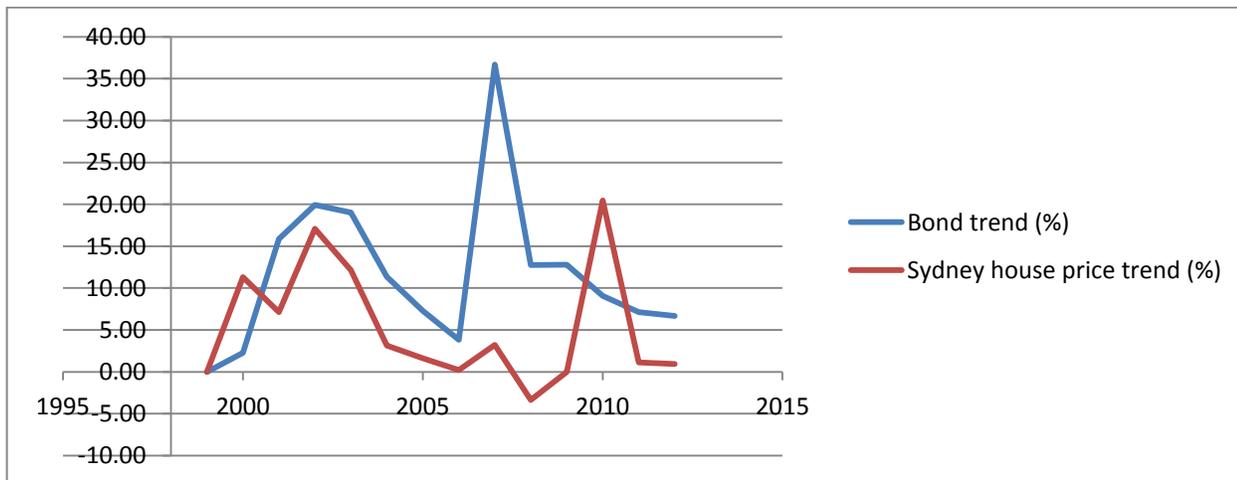
Existing facilities are encouraged to supply the average bond amount paid over the previous 12 months. It was well established that under the existing system, many residents pay bonds that far exceed the value and standard of their accommodation. Rather, bonds reflect the value of the resident's assets, which is normally the family home. Therefore, the average bond paid over the previous 12 months for existing facilities will not necessarily demonstrate the quality of the accommodation. It will simply give an indication of the residents' asset levels.

For example, the following graphs compare the growth of accommodation bonds (Australia wide) with Sydney house prices between 1999 and 2012. Although bonds have risen generally in step with house prices, they have increased at a faster pace, as shown in 1.2.

1.1. Australian aged care accommodation bonds compared with Sydney house prices, 1999-2012 (averages)



1.2. Australian aged care accommodation bond and Sydney house price trends, 1999-2012²



² Data sourced from the Department of Health & Ageing's Reports on the Operation of the Aged Care Act 1997 (1999-2012) and Housing NSW's Greater Metropolitan Region -Time Series of Median Sale Prices, 1991-2012.

These graphs indicate that bonds correspond with wealth derived from the family home, as opposed to reflecting the standard of accommodation. Graph 1.2 indicates that bonds change in response to financial conditions, with average bonds jumping by over 35% in 2007, presumably in response to falling interest rates. Again, this shows that average bonds reflect external factors rather than the accommodation quality.

There are no details about what care recipients may do if they consider that a home is overcharging for the accommodation provided. The former guidelines advised care recipients to contact the Aged Care Complaints Scheme if they disagreed with the accommodation price. As CPSA pointed out at the time, this would have been a futile exercise because the Complaints Scheme has no jurisdiction over accommodation pricing.

Independent advice from the Aged Care Financing Authority (ACFA) recommended that there be a “complaints process available [to consumers] if proposed pricing [is] not set on [a] reasonable basis”³. Obviously ACFA intended that the complaints process allow for unreasonable pricing to be addressed.

There needs to be a mechanism through which care recipients or their families may contest the accommodation price for both tier two and three prices. CPSA submits that the Pricing Commissioner would be best placed to handle such complaints and should have the power to order facilities to reduce unreasonable prices.

³ The Department of Health (2013) ‘Advice on accommodation payments’
<http://www.health.gov.au/internet/main/publishing.nsf/Content/ageing-aged-care-acfa-final-recommendation-accom-payments>