



18 August 2010

Productivity Commission

SOLUTION TO CAPITAL ISSUE BY EXTENDING EXTRA SERVICE AND RENAMING EXEMPT HOMES

I believe a simple way of addressing the capital issue in Residential Aged Care has been overlooked in the quest for “new systems”.

The current system of Extra Service has allowed significant investment in new infrastructure over the last 10 years but it has stalled at approximately 6% due to the difficulty in jumping the hurdles in the application form and the perception that it is all about additional “bells and whistles” when it really is about Accommodation and hotel services.

Assumptions

- a) Consumers need choice, this has been provided by the Extra Service Scheme (ESS)
- b) in that the Provider sets a fee comprising an Extra Service Fee and a Periodic Payment (PP) and the consumer can choose to pay the full amount or reduce the fee by depositing a refundable Bond (Annuity) dispensing with part or all of the PP
- c) there is already oversupply (occupancy around 93%) in both High and Low care due to the large number of Community Age care Packages, EACH and Transitional beds in the system
- d) Concessional resident funding is currently not payable for citizens in ESS Homes, thus discriminating and limiting choice of both providers to offer this and consumers to accept;
- e) The “separate wing” requirements of the ESS Principles discriminate and limit choice;
- f) Current Senate testimony (Grant Thornton, Underwood etc.) and surveys have shown that homes built to meet the “NEW BUILDING” requirements for Certification ie: 1 and 2 bed rooms with no more than 1 in 3 and 4 toilets and showers are the least profitable;
- g) Surveys also show Homes renovated to meet 2008 Certification retaining multi bed rooms ie: no more that 4 beds with 1 in 6 and 7 toilets and showers, are the most profitable
- h) Thus there is a disincentive to build new homes as the financial model only works with ESS

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Proposal

1. Change the name back to Exempt Homes, (EXH) so that it has wider application and implies a “free market” solution;
2. Extend and modify the existing application form and modify the ESS Principles (not sure about need to even change legislation so leave that to others) ;
3. Allow all Homes which have been or will be built to meet the “New Homes” requirements of certification (1 and 2 bed rooms, u to 1 in 3 and 4 toilets and showers) to be classified as EXEMPT HOMES;
4. Allow approval of EXH status “in principle” at DA stage to give certainty to providers and their financiers;
5. Allow Concessional pensioners to be funded with NO CLAWBACK of funding if accommodated in an EXH. This has the advantage of extending consumer choice if a vacancy is available in an EXH and allows providers to choose to take a Concessional in EXH improving Access;
6. Remove the requirement for a “separate wing’ with ‘separate facilities” so that providers with EXH approval can offer citizens greater CHOICE of a room anywhere in the facility agreed between the provider and resident (carer);
7. Allow provider and Client to agree and EXH Fee and BOND (Annuity), as currently in ESS;
8. Remove the 15% limit which applies to ESS and set no limit

Advantages

1. Providers with existing renovated multi-bed homes can choose to continue as they are or have an **incentive** to build new as they know EXH status will allow them to access higher fees and Annuities;
- 2 Consumer remains protected by current Government guarantee on Bonds;
- 3 **ability to raise capital** by higher fees and Bonds (Annuities) extended to ALL homes built to “New Building” Certification, both existing and future;
- 4 increases consumer choice in both providing an option to pay a daily fee or discount it by paying an Annuity depending on their individual circumstances;
- 5 Increases options available to Concessionals by allowing their funding in EXH;

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- 6 Provides incentive and certainty to BUILD NEW as provider knows they can charge an appropriate fee and Annuity, not restricted ;
- 7 Financiers will support the industry as an appropriate **Business Plan** can be put forward by the borrower;
- 8 Will restore faith in the industry for Financiers which is important for industry stability and growth.

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