

24 February 2011

Caring for Older Australians  
Productivity Commission  
GPO Box 1428  
CANBERRA CITY, ACT 2601



**MONTEFIORE**

### **Submission in relation to Productivity Commission Draft Report – January 2011**

I refer to the Productivity Commission draft report, "Caring for Older Australians", released in January 2011. May I begin by commending the Commission on producing a draft report and associated recommendations which, if adopted by Government, will support and enhance the delivery of aged care services to older Australians and ensure that the industry remains viable and able to respond to the needs of a growing ageing demographic.

I note that the Commission has invited written submissions regarding the draft report. In this regard, our organisation wishes to make the following submission in relation to the recommendation to abolish retention as well as to comment on the Draft Implementation Plan, specifically in relation to the removal of supply restrictions in community care.

#### **Abolish Retention** (*within Draft Recommendation 1.4*)

I understand that the reason the Commission recommended to abolish the charging of retention amounts on accommodation bonds was based on a desire to simplify the system and to make the link between the relevant periodic accommodation charge (i.e. rent) and the lump sum bond equivalent as transparent and straight forward as possible.

Whilst I appreciate the rationale, it is our opinion that abolishing retention would invariably result in an escalation of current bond amounts as the provider would need to compensate for this lost income stream. At the current permissible retention of around \$3,700 per annum and assuming a market interest rate of, say, 6%, a provider would need to increase the bond amount by \$61,000 in order to recover the lost income.

We believe the Commission should give careful consideration to this unintended consequence which could potentially disadvantage the older person entering care. In point of fact, there is a compelling argument to suggest that the older person should have the right to pay retention of the amount they choose in order to offset the upfront cost. This would enable the older person to retain cash which could be spent on additional items and thereby enhance their quality of life.

As an example, please refer to the following two options:

Option 1: \$300,000 accommodation bond and no annual retention

Option 2: \$135,000 accommodation bond and \$10,000 annual retention

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In the example above, assuming a market interest rate of 6%, the income for the Approved Provider is almost identical with either option at around \$18,000 per annum. However, "Option 2", which includes retention, would provide the care recipient with access to an additional \$165,000 in funds to put towards living expenses and items that will enhance their quality of life.

**By denying the older person the option of paying retention, the system is effectively protecting the inheritance of the older person's beneficiaries at the detriment to the older person themselves.**

**It is our opinion that the Commission should not regulate in relation to retention and allow retention as a permissible option, the amount and duration of which should be at the discretion of the older person and with the agreement of the Approved Provider.**

### **Draft Implementation Plan – Removing supply restrictions in community care**

Within the Commission's Draft Implementation Plan, it proposes the removal of supply restrictions in both residential and community care in Stage 3, namely five years and beyond.

We believe consideration should be given to bringing the removal of supply restrictions for community care forward into Stage 1, being in the first two years of the reform process. This would enable residential aged care providers who are currently excluded from entering this market to explore and develop alternative business models which would enable them to better adjust to changing market forces once supply constraints on residential aged care are removed.

Lifting supply restrictions in community care does not require a lengthy transition period. Unlike residential aged care, it does not suffer from the same complexity in terms of significant capital investment underpinned by the financial banking sector.

Removing supply restrictions for community care earlier in the transitional period would provide the community and the industry with an immediate and tangible benefit associated with the reform agenda.

Robert Orié  
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