



15th March 2011

Caring for Older Australians  
Productivity Commission  
PO Box 1428  
Canberra City ACT 2601

## **Further Submission by Aegis Aged Care Group**

### **Background to the Aegis Aged Care Group**

The Aegis Aged Care Group of Companies (Aegis) operates 22 residential aged care facilities offering 1844 Commonwealth funded care places and 4 transition care facilities offering 157 places for both the Commonwealth Government and WA State Government.

Aegis ranks as the largest residential aged care provider in WA and has been in operation since 1982. The business is owned and operated by its two directors, Michael Cross and Geoff Taylor. Over the last 10 years, Aegis has spent over \$150 million to build new facilities and upgrade its existing facilities.

At present, we are building a new 120 bed facility, adding 82 beds to an existing 65 bed facility and adding 40 beds to an existing 100 bed facility. We are not aware of any other Group in WA who have a building program of this size in place at present.

Our future participation in constructing new and renovating old facilities very much hinges on the Government's ability to introduce the recommendations of the Productivity Commission. The status quo will result in us necessarily not proceeding with various other Facilities, extensions and refurbishments as the capital involved cannot be viably justified.

### **Draft Report by Productivity Commission**

As the largest Provider of Residential Aged Care in Western Australia, we feel well qualified to give an opinion on the draft Report submitted by the Productivity Commission.

**In our opinion, the Report is excellent.**

We have not been able to find anything in the Report we do not agree with and commend the Commissioners for the Report they have written.

For this reason, we will implore the Minister for Ageing and the Government to implement the Report in its entirety.

There have been many reports written about the plight of aged care and caring for our elderly citizens over the last 10 years. Most have had selected recommendations from the Reports implemented by the Government of the day and, in many cases, the recommendations selected have suited the Government but not been in the best interests of our frail aged.

Consequently, our Industry is in crisis.

**We hope the Government will not cherry pick this Report as it addresses all areas of aged care that need attention and amendment.**

## **Request for Comments on Various Recommendations**

The Commission has asked the Industry and interested parties for comments on various recommendations and issues within the Report.

As Aegis is only involved in residential aged care, we feel we are only competent to give our opinion on residential issues.

We therefore comment on the following:

### **1. Accommodation Charge and “equivalent” Accommodation Bond**

We agree with the Commission’s view that the accommodation charge should be determined by the Provider based on the commensurate cost of the accommodation supplied.

As stated by the Commission, both the Accommodation Charge and an equivalent accommodation bond should be set by the Facility and advertised.

To determine an equivalent accommodation bond, we believe the Reserve Bank of Australia’s “cash rate” plus an appropriate margin should be used. The RBA cash rate is seen by the public as an unbiased rate determined by economists taking into account movements in various costs and financial pressures.

At present, banks are charging a lending margin, by various names, to an average borrower of around 2%.

Therefore, an appropriate interest rate would be 6.75%, being the current RBA cash rate of 4.75% plus the 2% margin.

The PC Report only uses an interest rate once to calculate an equivalent bond.

The rate used is the MPIR rate applied by the Industry to calculate interest payable on outstanding bonds. This is a penalty rate to encourage residents to pay their bond liability. It should not be used in this instance as it is not a rate of interest that a resident could achieve if they invested the bond equivalent cash.

We attach a schedule we have prepared as a method of calculating the equivalent charge and bond, based on various land and building costs.

A return is required on land, not just buildings and fitout, as the land has a cost that is not recoverable until the building is demolished, which may be never or at least 40 or 50 years hence.

## **2. Approach to calculating Supported Resident payment**

Current residential buildings constructed prior to the introduction of the 1997 Aged Care Act are more than adequately recompensed for the cost of accommodation.

Similarly, buildings renovated since 1997 to “an existing building” standard are also adequately compensated.

Buildings that have been built to meet the “new building” certification standards since 1997 are not adequately funded for accommodation. All of these buildings have only been permitted to build single and double rooms. As such, they all comply with the PC recommendation of funding supported residents to a double room with ensuite level as a minimum.

Since around 2005, Providers have mainly been building single rooms with ensuites because everyone coming to view a facility expects a single room with an ensuite, whether they are rich or poor.

To only fund for supported residents at a double room with ensuite level will not encourage Providers to build solely for those residents as the subsidy will not cover the cost of providing single rooms to most supported residents.

We suggest the supported resident supplement could be a discounted rate of, say, 80% of the equivalent accommodation charge being levied by each facility. Otherwise, it could be 80% of the average of the accommodation charges for single rooms being advertised for all Facilities in the particular region.

### **3. Consistency in Care Co-contribution**

We support the Commission's method of calculating the care co-contribution, by including all assets including share of house, funds in APB and all other assets, but subject to a minimum asset level equivalent to the non home owner threshold.

To be consistent and keep the system simple, the care co-contribution should only apply to care subsidies and be a maximum of 25% of the care subsidy.

We commend the Commission for the introduction of both the Australian Pensioners Bond fund and the proposed Equity Release Scheme. These two initiatives will enable potential residents and pensioners the ability to access funds to pay their fair share of care co-contribution and not be unnecessarily disadvantaged by selling their homes.

We also support the maximum care co-contribution of \$50,000 per resident.

We recommend the cap be increased by the CPI each year as both asset values and incomes usually increase by this or an equivalent indexation.

We are unable to comment on how the care co-contribution should apply in the community setting.

### **4. Compulsory Insurance Scheme**

The Commission's Report adequately points out that a significant amount of the wealth of Australia is in the hands of the aged and the ageing baby boomers.

The implementation of the recommendations made by the Commission in relation to user pays for accommodation, living expenses and care co-contributions would alleviate the need to introduce any compulsory insurance scheme.

### **5. Mandatory Reporting Review**

We believe it is time for a review of the Mandatory Reporting regulations.

In many instances, the theory of mandatory reporting within 24 hours is impractical. The Department should now have enough evidence to reconsider a lot of the reporting requirements, particularly the practicality of the regulations and their relationship to consumers' expectations of Providers in this area.

### **SUMMARY**

As we said in our original Submission, normal Government policy is to cherry pick suggestions from Reviews and Productivity Commission Reports and the Industry ends up with a piece meal addition to an already complicated system.

The Report by the Productivity Commission has dealt with all issues causing difficulty for the Industry so comprehensively that the Government should not cherry pick from the Report.

The staging of the recommendations over 5 years would enable all steps to be followed through carefully and amended as needed over that time.

One can only hope!

Yours sincerely,

Geoff Taylor

Director

Aegis Aged Care Group

## Cost of Accommodation: Determining Suitable Interest Rate

Appropriate interest rate should be Reserve Bank cash rate plus bank margin of 2%

PC Report at p160 uses MPIR to calculate equivalent accommodation charge from average accommodation bond in 2008-09.

The interest rate currently payable on unpaid bonds is not appropriate to calculate an equivalent Accommodation Bond from an Accommodation Charge.

The MPIR is Bank Bill rate plus 4%. This rate of interest is not attainable or payable on loans.

The Reserve Bank of Australia cash rate is an unbiased rate reviewed every month and changed based on economic pressures within the Australian economy.

A margin of 2% should be applied to the RBA cash rate in line with bank margins typically charged to Providers for borrowings.

At present, the RBA cash rate is 4.75%.

A cost of capital rate of 6.75% has therefore been used.

**Note: The accommodation charge should be increased each year by the equivalent rate of increase for the Australian aged pension.**

### Calculation of Accommodation charge and equivalent Accommodation Bond

#### **Benchmark costs\***

	<i>pbpd</i>
Property and Maintenance	\$ 7.20
Utilities	\$ 4.00
5% share of Administration costs	\$ 1.00
Cleaning - not included as Care Cost	\$ -
Sub Total - Accommodation Operating Per Day	\$ 12.20
Accommodation Operating Costs Per annum	\$ 4,453.00

\* Source: Aegis Aged Care Group average costs for new buildings.

### **Examples**

Cost of Land per bed (an essential accomm outlay)	\$ 20,000	\$ 40,000	\$ 20,000	\$ 40,000
Cost to Build per bed	\$ 170,000	\$ 170,000	\$ 200,000	\$ 200,000
Depreciation @ 2.5% ( 40 year life per ATO)	\$ 4,250	\$ 4,250	\$ 5,000	\$ 5,000
Cost of Capital 6.75% / ROI	\$ 12,825	\$ 14,175	\$ 14,850	\$ 16,200
Accommodation Operating costs - from above	\$ 4,453	\$ 4,453	\$ 4,453	\$ 4,453
Annual Cost Of Accommodation	\$ 21,528	\$ 22,878	\$ 24,303	\$ 25,653

<b>Daily equivalent cost of accommodation</b>	<b>\$ 58.98</b>	<b>\$ 62.68</b>	<b>\$ 66.58</b>	<b>\$ 70.28</b>
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<b>Equivalent Bond to finance Cost of Accommodation</b>	<b>\$318,933</b>	<b>\$338,933</b>	<b>\$360,044</b>	<b>\$380,044</b>
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Assuming return of 6.75% return on investment and no retentions from the Bond

Under the Commission's proposals, residential facilities would be required to set an accommodation charge that is consistent with the cost of providing the accommodation (rather than a resident's ability to pay) and to publish the charge, as well as set and publish an equivalent accommodation bond ( if offered). The Commission's proposed removal of accommodation bond retention amounts would occur at the same time.