

**Response to the Productivity Commission Draft Report  
Caring for Older Australians**

**Deloitte**

**21 March 2011**

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

Via Email: [agedcare@pc.gov.au](mailto:agedcare@pc.gov.au)

21 March 2011

Dear Sir/Madam

## **Re: Caring for Older Australians Public Enquiry**

I appreciate the opportunity to provide you with our views on certain of the proposals which you have included as part of your draft report - Caring for Older Australians (the report).

Please find attached our response to be considered as part of your Caring for Older Australians Public Enquiry. Our response is based on the outcome of a workshop held by Deloitte on 2 March 2011 with participation from aged care providers, a representative from the Aged Care Association and other industry participants (and attended by Rosalie McLachlan, Research Manager, Productivity Commission) as well as other discussions with other clients affected by the proposals in the report. Our response is presented through the consideration of 3 questions:

- What are the transitional issues arising from the recommended changes to the current aged care system?
- One of the key recommendations is to unbundle the costs of aged care into Personal Care, Accommodation, Health Services and Everyday Living Expenses. How will this impact returns in the industry?
- How will the proposed removal of restrictions on the number of community care packages and residential care beds impact the industry?

I hope that this response is of benefit to you and would be pleased to address any queries that you might have with respect to it.

Yours sincerely

Helen Hamilton-James  
Partner  
Deloitte Touche Tohmatsu

Liability limited by a scheme approved under Professional Standards Legislation  
Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see [www.deloitte.com/au/about](http://www.deloitte.com/au/about) for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

## **What are the transitional issues arising from the recommended changes to the current aged care system?**

Although there is a transition plan outlined in the report we are of the view that this needs to be more detailed and cover a longer period of time to ensure that the impact of the proposed changes do not adversely impact current aged care providers. There appears to be general concern that the transition process outlined in the report may not give enough time for providers to adjust their business models appropriately and we therefore recommend that you give this further consideration.

There is a lack of detail behind some of the more substantial changes outlined in the report and therefore further detail on these changes and how the proposed changes would be implemented is required before a full assessment of the transitional issues can be made. Some of these more substantial changes include the removal of bed licences, the requirement to publish daily accommodation fees and the equivalent bonds and the requirement to offer a certain number of concessional beds which could be traded (amongst others).

Many of these changes will impact the funding flows for a provider and lead to changes in the associated future cash flows (ie moving from a bond funded model to an operating cashflow and debt funded model). There is a general concern that without an incentive for consumers to pay the bond equivalent for the accommodation aspects of the proposed model, most will choose to pay the daily accommodation charge and the current bonds will need to be paid back as turnover of the grandfathered residents occurs. While larger organisations would be likely to have the breadth of operations to deal with any potential fluctuations in cash flows and are more likely to be able to attract alternate funding sources for capital requirements, smaller operators are likely to face greater issues. How such a transition would be funded in the short term to counteract potential cash flow problems should be considered further.

The sector has faced funding issues as financiers have been reluctant to invest in an industry that is perceived to have low commercial viability through low returns. Future funding issues continue to be a concern for many within the industry, in particular how providers would be viewed following the unbundling of the costs of care from accommodation i.e. as an infrastructure or health care asset and how this would impact the level of interest from financiers to invest in the industry. The risk profile of the industry would increase as higher competition was introduced into the system with the removal of regulated funding payments. Lenders are likely to increase margins and therefore this increased cost of debt would need to be factored into the pricing model for charges to residents. The risk is that the cost of capital would rise materially, especially during the transition, aggravating current supply problems.

The fact that a significant share of the accommodation stock is approaching the end of its useful life continues to be an issue for many providers, and the impact of changes laid out in the report on accessibility to funding, not only to fund replacement stock but also to fund the types of accommodation required to meet the demands of future residents, is unclear at this stage. Any reduction in funding would impact the number of beds brought online and hinder future growth.

The proposals put forward would require a fundamental cultural change in the way people view the funding of their old age. The majority of Australians do not currently access formal aged care services and a shift in mindset would be required. In particular the use of the family home in the means test for assessing the level of co-contributions is likely to be a hurdle to general acceptance of the proposals from a political perspective. The family home is considered to be an entitlement by many and involves an emotional attachment. Additionally, there are well-known liquidity problems associated with accessing capital tied up in the family home and it is unclear whether these can indeed be resolved through reverse mortgage type instruments, especially in a post-GFC environment. Finally, there are complexities that arise from the growing prevalence of situations in which one member of a couple requires long term care, say for dementia, while the other remains in the family home. Both the political issues arising from this proposal and potential equity avoidance (whereby homes are leveraged prior to accessing aged care services) are consequences that may arise and the tackling of these issues should be considered further.

**One of the key recommendations is to unbundle the costs of aged care into Personal Care, Accommodation, Health Services and Everyday Living Expenses. How will this impact returns in the industry?**

The separation of costs of care from costs of accommodation has the support of many within the industry but there remain some concerns over the complexity of the current system and how any future unbundling would be conducted appropriately.

The areas of care and accommodation have long been considered to require a different focus and their separation would hopefully lead to greater transparency within the industry, better focus on care outcomes and an evolution of the care options available to older Australians.

Any unbundling should lead to changes in the level of regulation covering the sector. In particular, regulations covering care would be expected to move more in line with those applied to hospital care and to better reflect the overall levels of funding received. Similarly there should be a reduction in regulation affecting accommodation.

The pricing of each type of care service by the new gatekeeper agency is very important. It must be accurate. Questions were raised as to how the prices in different locations where there are substantial differences in input prices would be factored in and this, along with the complexities of the various care needs being catered for, could lead to a very complex system. Concern was also raised that the new gatekeeper agency would only act as a price guide with the government having discretion as to the actual prices to be paid. Concern was also raised that the pricing model being recommended is based on costs rather than value. This leads to questions requiring clarification including whether this is appropriate and how often these prices would need to be amended given the fluctuations in costs on a regular basis.

Over time it is expected that closer interaction between aged care providers and hospitals would arise. The aged care sector already has a number of best practices in place with regards to caring for special needs groups such those requiring palliative care and those with dementia. This expertise could be used to effectively reduce the pressures on the hospital system were the two to be better integrated.

With regards to the funding for home care, this is considered to be in its early stages and we anticipate that accurate costing for this would take time and investment to determine whether it was an efficient method for delivering the appropriate service and sustainable over the long term.

The adequacy of staffing within the industry continues to be an issue. The aged care sector can to some degree leave registered nurses and GPs professionally isolated. The attraction of new staff into the sector and retention of those already at work is an area that requires continued commitment.

### **How will the proposed removal of restrictions on the number of community care packages and residential care beds impact the industry?**

As noted above, access to capital remains the main driver for future growth within the industry.

Those who have access to appropriate capital have few other barriers to entering the sector. There are some concerns from providers about the ease with which under-skilled players could obtain Approved Provider status and we anticipate that protections would be required to ensure that only those who could offer appropriate care should qualify.

Removal of restrictions would likely increase competition within the industry and have significant impacts on smaller operators. Future consolidation and its potential wider reaching implications should be considered further.