LEADING AGE SERVICES
AUSTRALIA

The voice of aged care

8 March 2017

Ms Lynda O'Grady (ACFA Chairman)

Aged Care Financing Authority

Via email: ACFA.Secretariat@health.gov.au

Re: *"Public Discussion Paper: The Protection of Residential Aged Care Lump Sum Accommodation Payments",* Aged Care Financing Authority (ACFA)

Dear Ms O'Grady

Thank you for meeting with LASA late last year to discuss the protection of residential aged care lump sum accommodation payments and the review of the existing Accommodation Bond Guarantee Scheme (the Scheme).

As an adjunct to the current ACFA review of the Scheme, LASA has also participated in discussions with Ernst & Young on the Department of Health's review of the prudential regulations for Refundable Accommodation Deposits (RADs) and will continue to actively participate in the Aged Care Legislated Review currently underway, and led by Mr David Tune AO PSM.

Taken as a whole, LASA recommends the current Scheme should continue in place, unchanged.

A key message LASA received from its Members on the content and direction of the Discussion Paper was, although it articulated the reason for the review - that previous inquiries had proposed the Scheme be altered - the Discussion Paper does not necessarily provide a strong 'case for change'.

Whilst LASA appreciates the need for Government to periodically reconsider the existing arrangements for the Scheme, noting also the growth in the bond pool and the *potential* cost to Government the financial risk exposure for Government is very low.

This is evidenced as the Discussion Paper highlights, the probability of a Provider failing is just 0.13 per cent. That is, for each 1000 Providers in the industry, just one is likely to fail in any one year requiring a payment (on average of just $5 Million) from the Scheme – a miniscule number and level of financial risk to the Scheme.

In seeking LASA's views on the Scheme, ACFA has posed three main questions:

1. What do you see as the costs, benefits and risks of the current Scheme;
2. What do you see as the costs, benefits and risks of the main options explained in this paper; and,
3. What are your views about the policy issues identified in the Discussion Paper.

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In reflection on these questions we put forward the following points for your consideration.

Historical advice (March 2003) by PricewaterhouseCoopers (PWC) indicated, at the time, the best option for an Accommodation Bond Guarantee Scheme was the system we now have and any other insurance option would be too difficult and complicated. The insurance and banking industries indicated they would not be enthusiastic for such a Scheme given the complexity of administration involved. LASA is not aware of any meaningful change in attitude by the financial sector in this regard.

The ACFA Discussion Paper does not seem to take into consideration the possibility of new requirements in a deregulated market. We note that some years ago, the Australian Securities and Investments Commission (ASIC), in response to a change to the Australian Accounting Standards (AAS), required aged care Providers to reflect their bond/RAD holding as either a current liability (provision for the next twelve months draw-downs) or a contingent liability on the balance sheet. As such, Providers now report their bond/RAD holdings in annual accounts filings with the Department of Health.

The bond/RAD pool is now greater than $20 Billion and will continue to grow over the next decade. LASA Members have often asked why Government insists on guaranteeing the whole pool. Given the very small number of incidences and (average) monetary sums involved in failures to date, a guarantee of an agreed sum, (say $1 Billion) would cover any situation encountered to date and any conceivable situation likely to arise in the future.

With only ten failures over the past decade totalling $43 Million where the Scheme has been triggered, LASA is concerned Options 1B and 2 would constitute disproportionate reactions to what appears to be a relatively minor problem. The cost of either approach is likely to be in the order of $200 Million per annum. As such, imposing a Scheme that will have an annual cost forty times the annual cost of the Scheme seems like a very inefficient method to solve a minor problem.

It is LASA's opinion if a Scheme was introduced to protect the total pool in all circumstances, the estimates of the cost to the industry are underestimated in the Discussion Paper. Similarly, transferring the whole cost to the aged care sector is likely to lead to Providers seeking to recoup the cost from consumers. Our estimate of the cost of $200 Million per annum is likely to cost each bond/RAD paying resident as much as $2,500 per annum. As such, any such changes are likely to amount to a new flat tax on consumers of aged care services.

LASA believes no new Scheme can equal the very low-cost of the existing Scheme and given the very small number of failures to date and the almost non-existent cost to the Government, the current Scheme should remain in place, unchanged.

As the ACFA Discussion Paper indicates, if Government were to pursue any option in more detail, there would need to be further modelling and discussion with the sector to ensure any future Scheme ensures the security of aged care consumers' funds and meets the other principles.

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Therefore, if Government should wish to explore any of the options further, LASA seeks a more fulsome public disclosure of the PWC modelling. LASA also seeks from ACFA copies of the cost/benefit analyses done under the Australian Government Guide to Regulation requirements (promulgated by Prime Minister and Cabinet). Similarly, LASA calls for the release of costings for Option 1A, 1B and 2 for years 4, 8 and 12 of the proposed pool, so we can compare multi-year (rather than single year) forward estimates of potential costs of the different options.

In closing, LASA believes the current Scheme is already effective, demonstrates efficiencies, is simple and well understood by Providers and consumers alike.

The aged care sector has always been aware of the Government's ability to call on the levy and has accepted, and continues to accept, that obligation.

Continued operability and assurance of the existing scheme can be met through existing prudential requirements and this is evidenced by the very small number of triggers to the Scheme since inception.

LASA therefore recommends the current Scheme should continue in place, unchanged.

Please do not hesitate to contact Dr Brent Davis, General Manager – Policy and Advocacy, or Ms Kay Richards, National Policy Manager, on 02 6230 1676, should you require any further detail.

Yours sincerely

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