Submission to

Senate Standing Committee on Community Affairs

inquiry into the

Aged Care (Living Longer Living Better) Bill 2013

and related Bills

April 2013

Introduction

ECH Inc., Eldercare Inc. and Resthaven Inc. are three of South Australia's largest and most experienced providers of residential and community aged care and housing options for older people. Our combined operations offer a comprehensive range of services and support to frail older South Australians and Northern Territorians, including independent retirement living, Home and Community Care (HACC) services, community packaged care, Transition Care, health and well-being services, respite and residential aged care. In all, we employ over 4,000 staff and provide assistance to many thousands of residents and clients each year.

As an opening comment, we believe that a fundamental principle underlying the government's *Living Longer. Living Better* reforms is a focus on consumers and providing them with more choice by, among other things, making the aged care system more flexible. However, it goes without saying that service providers must be in a position to deliver the degree of flexibility that consumers are seeking and that government would want us to offer. With this in mind, we believe that while the Bills include some long overdue reforms, some provisions are not in the best interests of consumers, providers or indeed, effective government administration and regulation of the aged care sector.

In this submission we will be seeking to provide a balanced view of the reforms such that the Committee might be better able to report on those aspects of the Bills that warrant amendment. Our comments appear in the same order as the Bills are structured and do not reflect their relative order of importance. Where appropriate, we have indicated what we consider to be matters that warrant priority attention.

Aged Care (Bond Security) Amendment Bill 2013
Aged Care (Bond Security) Levy Amendment Bill 2013

We welcome the government's decision to extend the Accommodation Bond Guarantee Scheme to the new lump sum accommodation payments and not to require providers to insure such payments (as was originally contemplated).

As to the levy to be applied to all providers in the event that a provider is unable to repay bonds, for example, as a result of bankruptcy or insolvency, we support the policy intent that the levy be based on a provider's total bond holdings as a proportion of total bond balances across the industry. In determining the structure of any levy, we would be looking to government to consult with industry regarding the range of factors that might be considered appropriate (such as the size of the default, percentage holdings and capacity to pay).

Australian Aged Care Quality Agency Bill 2013
Australian Aged Care Quality Agency (Transitional Provisions) Bill 2013

We support the establishment of a single agency to be responsible for quality assurance of both residential aged care and care in a person's own home but have reservations about the future lack of independence of processes and decision-making as the new agency will be directly responsible to the Minister rather than an independent board. There will also potentially be a reduced separation of responsibilities and powers between the new agency and the Department of Health and Ageing.

Recommendation:
That the Committee note the potential lack of independence of the new agency in its report and the need for clearly delineated powers and responsibilities between the agency and the Department.

Aged Care (Living Longer Living Better) Bill 2013

Item 42 Aged Care Funding Instrument (ACFI) appraisals

It is proposed that the power to suspend an approved provider be broadened to enable the Department to take action in response to an approved provider giving 'false, misleading or inaccurate information' in appraisals and reappraisals.

Such a provision could be unreasonably harsh and open to abuse. Inaccurate information could be a simple oversight or inadvertent error but could render a provider subject to suspension. We do not believe this is necessarily the intention of the power but the wording of the provision should place the onus on the Secretary to, in the first instance, invite the provider to make submissions showing cause why suspension is not warranted, particularly if the information is simply in the form of one (or even more) inaccurate appraisal(s). In any event, the proposed wording should be reviewed in the context of fairness and natural justice.

Any suspension should be commensurate with the extent of the breach of the legislated provision. For example, a single first-time instance should not be punishable to the same extent as numerous, repeated instances. The Act or Principles should be very specific about the period of suspension as it applies in different circumstances.

In the case of a suspension, the paper does not state who will then undertake the appraisals. Sections 25-4 and 27-3 of the Act allow the Secretary to authorise a person or persons other than the approved provider to undertake appraisals and reappraisals. If the authorised persons were likely to be Department of Health and Ageing (the Department) validation officers, approved providers might consider such an arrangement to be a conflict of interest.

A decision to suspend a provider is a reviewable decision. Therefore, the Secretary may reconsider a decision to suspend a provider. However, there does not appear to be a period specified in the Aged Care Act (the Act) for giving notice of the Secretary's *decision on review*. Given the seriousness of a decision to suspend a provider, there should be such a period and we believe it should be no longer than 30 days.

Recommendation:

- **That before suspending a provider from undertaking ACFI appraisals, the Secretary be required to invite a provider to make submissions showing cause as to why the suspension is not warranted;**
- **The Department of Health and Ageing be required to establish a list of agents, independent of the Department, that a suspended provider can select from for the purposes of ACFI appraisals;**
- **The agents be approved as part of a panel from which the provider can select, in the same way nurse advisers and administrators are approved in the case of sanctions action;**
- **The Secretary be required to make a decision on an application for reconsideration of suspension within 30 days of the date of application.**

Item 103 Primary supplements

The list of primary supplements is to include a new workforce supplement, to be included in new Sections 44-5 and 48-3. The effect of this is that the workforce supplement will be taken into account in applying the new means test to the calculation of means tested care fees in residential care and the income tested fee for home care. As a result, if a care recipient's care subsidy reduction exceeds the sum of the basic subsidy and all primary supplements applying to that care recipient, they will be fully subsidising the workforce supplement.

It has been the sector's understanding that the workforce supplement was being fully funded by the redirection of $1.2 billion in ACFI funding that would have flowed to residential care services had cuts not been made to the way in which the ACFI is calculated. However, it now appears that a proportion of care recipients will be subsidising the government's workforce supplement (along with all other primary supplements potentially), on top of the cut to ACFI funding.

Recommendation:
The workforce supplement be removed from the list of primary supplements and be transferred to 'other supplements', which are not included in the calculation of the care subsidy reduction.

The eligibility criteria and rules regarding the workforce supplement are not specified in the Bill but have already been issued by the Department. Despite direct attempts at clarification by us and industry groups, the eligibility criteria are still ambiguous, despite the fact that the supplement comes into effect from 1 July 2013. The required wage increases and associated terms and conditions are not straightforward matters and many providers will be in the process of deciding whether they are even affordable, regardless of the workforce supplement. Rural and regional service providers may face particular difficulties in meeting the terms and conditions.

The government's and Department's assumptions about industrial arrangements in aged care are somewhat misguided. For example, the official information packs talk about 'aged care providers that have an enterprise agreement in place' and having to pass on the supplement in full to each of the provider's aged care employees. However, organisations such as ours may have more than one agreement in place (e.g. one covering nursing staff and one or more covering care workers and maintenance, gardening, laundry and hospitality staff). Commonly, we have enterprise agreements covering most direct care employees but also employ many other 'aged care employees' under contracts (e.g. senior nursing staff and therapy staff), paying above award salaries and wages. It makes no sense to suddenly attempt to strike enterprise agreements with such staff simply to meet the eligibility requirements for the supplement. To do so would be highly disruptive and resource intensive and would not improve wages or conditions to any greater extent than would have occurred.

Recommendation:
That providers be able to obtain immediate and definitive individual guidance from the Department as to their eligibility and the amount of funding they would attract under the terms and conditions of the Workforce Supplement.

Item 118 The value of a person's assets

Section 44-26A(7) of the Bill provides that in working out the value of a person's assets, the value of a family home is to be disregarded 'to the extent that it exceeded the maximum home value in force at that time.'

The government intends to cap that value at $144,500, irrespective of the actual value of the asset. This will mean that two people on the same income but one with a home valued at say, $300,000, and the other at $1 million, will pay the same means tested care fee. This seems very unfair and is at odds with the recommendations of the Productivity Commission in terms of treatment of the family home.

On the other hand, if the home is sold, the proceeds from the sale of the house become assessable assets and act to increase the resident's means tested care fee. Any refundable accommodation deposit paid by the resident is included as an assessable asset. However, if the house is retained and rented, the rental income is not an assessable asset (and the value of the home is still capped at $144,500).

The proposed capping of the value of the family home, particularly at such a low value, discriminates against people who choose to sell the home.

Recommendation:
That the government apply the same treatment of the value of a person's assets, both for residents who choose to pay a refundable deposit and those who choose to retain the principal home. The value above $144,500 could be included on a taper basis, which would better reflect a person's capacity to contribute to the cost of their care.

In its present form, the proposed means testing arrangement could result in a significant preference for the daily accommodation payment over refundable deposits.

By choosing the daily accommodation payment and to retain the home and rent it out, the resident would reduce their means tested care fee (possibly to zero) while the home and rental income would be exempt from the age pension means test. Unlike a refundable deposit, the rental income would also be exempt from aged care means testing.

As noted by the Productivity Commission, a significant shift to daily payments by new residents could pose a liquidity risk for providers. Furthermore, as observed by PricewaterhouseCoopers (PwC) in its response:

A move to rental income may hamper capital programs and exposes providers to liquidity risk, whilst alternative forms of finance are arranged. The Productivity Commission recognises that debt financing may be difficult to procure, but argues this is a short term, transitional issue. The Productivity Commission's expectation is that banks will learn to assess aged care facilities and become a source of capital to the industry. This expectation is untested. Over the last few years, the Global Financial Crisis and continued uncertainties in global capital markets raise serious questions as to whether commercial finance can be considered a reliable source of finance. Even where finance is available, the terms may vary over time, exposing residents to charges related to the cost of finance and potentially adding unwelcome volatility to residents' costs. With a significant proportion of the total capacity supplied by smaller operators that may be particularly vulnerable to a move to commercial finance, care is needed to ensure that a move to periodic payments and commercial finance doesn't lead to shortages in supply.[1]

We would add that a significant shift to daily payments as a result of more residents retaining and renting their homes will increase the cost of aged care for government as it will reduce the level of care subsidy reduction that would otherwise be achieved through the means tested care fee.

Recommendation:
The Committee note:

- **the liquidity risk to providers and to government outlays should there be a significant shift away from refundable deposits to daily payments; and that**
- **the adoption of the previous recommendation would be a fairer and lower risk approach to the treatment of assets.**

Item 149 Fees and payments

Section 52D-2 of the Bill contains the home care fee calculator. The income tested care fee is the amount equal to the care subsidy reduction calculated in accordance with Sections 48-7 and 48-8.

We believe the taper rate and income threshold for part pensioners is inequitable in that it discriminates against those part pensioners on the lower end of the income threshold. Specifically, all part pensioners with incomes between $32,701 and $43,186 will pay the maximum of $5,000 a year as an income tested home care fee. We believe this is unfair to part pensioners on lower incomes.

Recommendation:
Remove the first part-pensioner income threshold for payment of the maximum income tested fee and adjust the proposed taper to 25% of income up to $43,186.

Item 149 Rules about accommodation payments

Sections 52G-2 and 52G-3 set out the rules about charging accommodation payments and the Minister's powers to determine a maximum amount of accommodation payment.

Section 52G-2(e) requires an approved provider to comply with the rules of the Division and 'any rules about charging accommodation payments specified in the Fees and Payments Principles.' The Minister for Mental Health and Ageing, the Hon. Mark Butler MP, has already made decisions in this regard and we are particularly concerned about the method for determining equivalence between a

[1] http://www.pwc.com.au/industry/healthcare/assets/Aged-Care-Oct11.pdf

daily accommodation payment (DAP) and a refundable accommodation deposit (RAD). While it is not specified in the Bill, we would like the Committee to understand the implications of the Minister's decision for consumers and their families; and for residential aged care providers. To this end, we have illustrated our concerns at Attachment A.

The government's proposed methodology uses daily payments as the starting point for determining equivalence rather than the refundable accommodation deposit, which makes no sense as accommodation costs are a function of the cost per bed of establishing an aged care home, not some daily charge. They are capital costs in the main, which do not vary quarter to quarter, particularly not downwards. Yet the government's methodology will force providers to reduce the RAD simply because of upward movements in interest rates (refer to comments below and in Attachment A). This will result in the RAD equivalent fluctuating up and down potentially each quarter for the same amount of daily payment.

It has been argued that a provider simply needs to increase the daily payment to compensate for loss of income from the RAD but we see no logic to pricing arrangements being so volatile when the cost/value of the accommodation has not changed. Conversely, a provider could charge a higher RAD if the Reserve Bank lowered the base interest rate, again despite there being no change in the value of the accommodation.

Recommendation:
That the government's proposed methodology for determining equivalence between a daily accommodation payment and a refundable accommodation deposit; and rules about payments be as follows:

1. **the provider firstly determines the amount(s) of the refundable accommodation deposit(s) based on guidelines to be issued by the Department[2];**
2. **the equivalent daily payment be derived using the formula already contained in the Act but without the addition of retention amounts[3], i.e.**

$$\frac{\text{RAD} \times \text{MPIR}}{364}$$

where MPIR = the maximum permissible interest rate as defined in the Act

3. **having been determined, the RAD only be varied if the provider chooses to do so, according to a published self-assessment (except in the case of Level 1 payments) of the value of the accommodation; or as approved by the Aged Care Pricing Commissioner;**

The recommendation above is our highest priority issue for consideration.

Item 149 Aged Care Pricing Commissioner may approve higher maximum amount of accommodation payment

Section 52G-4 provides that an approved provider may apply to the Pricing Commissioner for approval of a higher accommodation payment than otherwise determined by the Minister but not within 12 months after a decision on a previous application, unless otherwise specified in the Fees and Payments Principles. However, the method for determining equivalence, as referred to above, is based on quarterly fluctuations in the Maximum Permissible Interest Rate (MPIR) as defined in the Act.

As described above and in Attachment A, the equivalent refundable accommodation payment for any given daily accommodation payment is likely to vary each quarter. However, the provision that the

[2] the Department has issued a discussion paper on Accommodation Pricing Guidelines for comment by 1 May 2013
[3] the industry has consistently argued against the abolition of retention sums and has drawn attention to the consequences for accommodation pricing

Pricing Commissioner can only consider applications for higher payments every 12 months unless otherwise specified is at odds with the quarterly fluctuations in pricing. A provider could therefore be faced with a situation in which the MPIR has been higher in successive quarters, forcing reductions in the RAD they can charge, and not being able to apply for an increase in the daily payment to compensate until 12 months after the last application. As illustrated in Attachment A, the necessary pricing changes can be very significant.

Furthermore, there is no provision for a provider to obtain approval-in-principle of higher (Level 3) payments before committing to the construction of a new facility or a significant refurbishment. The approval-in-principle could be based on the specifications set for the development and confirmed once the development is completed to the specifications. In the absence of a pre-approval, providers who need to set a higher RAD and daily payment based on the higher cost and quality of the facility they wish to develop, will not be able to lock down their business/funding model for, in our case, their Board's approval, without some assurance that the pricing they will need to set will be approved once the facility is built.

Recommendation:

- **The proposed methodology for determining equivalence between refundable accommodation deposits and daily accommodation payments be as described above; but in any case**
- **the Commissioner be able to consider applications for higher accommodation payments on at least the same cycle as changes in the MPIR; and**
- **the Commissioner be able to consider applications for approval-in-principle of higher accommodation payments in the case of planned new developments or significant refurbishments.**

Item 149 Rules about accommodation contributions

Section 52G-6 establishes the circumstances under which a care recipient may be charged an accommodation contribution in a residential care service. The section provides that, inter alia, the actual contribution 'cannot exceed the accommodation supplement applicable to the service for that day; or the amount assessed for the person based on the means tested amount.' The wording could be made clearer as follows:

the accommodation contribution for a day must not exceed <u>the lesser of</u> … the supplement … or the amount assessed … based on the person's means tested amount

Item 149 Prudential requirements

Section 52M-1 provides that the Fees and Payments Principles may set out Prudential Standards, including 'sound financial management' and 'provision of information about the financial managements of approved providers.'

Recommendation:
The Prudential Standards must be consistent with and not impose more onerous requirements than the Australian Charities and Not-for-profits Commission's governance standards and reporting requirements or equivalent requirements of Australian corporations law.

Item 149 Permitted uses

Section 52N-1 omits the existing permitted use of accommodation bonds for reasonable operational losses accrued during the first 12 months that the approved provider operates a residential or flexible aged care service.

Recommendation:
That the permitted uses of accommodation bonds continue to include reasonable operational losses accrued during the first 12 months that the approved provider operates a residential or flexible aged care service.

Approval for a type and level of care

The Bill introduces two new levels of home care and an assessment process that will result in a person being approved for either Levels 1 – 2 or all levels of home care.

We would argue that to be consistent with the consumer focus underlying the government's *Living Longer. Living Better* reforms, it is the right of an individual to choose the setting in which they would like their care and services to be delivered (having first been approved as eligible for a particular type(s) of care). There will no longer be a distinction between low and high care in residential care. We therefore recommend that the Bill not distinguish between home care and residential care eligibility by determining that a person is eligible for Level 1 - 2 of Home Care; or all levels of care, irrespective of the setting.

As a result, a consumer approved for all levels of care would be able to choose whether they receive that care in a residential care facility or at home. This would obviate the need for a separate residential care approval and pave the way in the future for portability of an approval, if not an entitlement, to care. It would then at least be possible for a person to choose to move from home care to residential care and vice versa, without the need for further external assessments. The subsidy level would be determined by their choice of care (Home Care or residential).

Recommendation
That the Bill not distinguish between residential care and Home Care Levels 3 and 4 by allowing a prospective care recipient to be approved for Home Care Level 1 – 2 or all levels of care.

Summary of recommendations

1. **Australian Aged Care Quality Agency**
   That the Committee note in its report, the potential lack of independence of the new agency and the need for clearly delineated powers and responsibilities between the agency and the Department;

2. **ACFI appraisals**
   1) That before suspending a provider from undertaking ACFI appraisals, the Secretary be required to invite a provider to make submissions showing cause as to why the suspension is not warranted;
   2) The Department of Health and Ageing be required to establish a list of agents, independent of the Department, that a provider can select from for the purposes of ACFI appraisals in instances of suspension;
   3) The agents be approved as part of a panel from which the provider can select, in the same way nurse advisers and administrators are approved in the case of sanctions action;
   4) The Secretary be required to make a decision on an application for reconsideration of suspension within 30 days of the date of application.

3. **Workforce supplement**
   5) The workforce supplement be removed from the list of primary supplements and be transferred to 'other supplements', which are not included in the calculation of the care subsidy reduction;
   6) That providers be able to obtain immediate and definitive individual guidance from the Department as to their eligibility and the amount of funding they would attract under the terms and conditions of the Workforce Supplement.

4. **Value of a person's assets**
   1) That the government apply the same treatment of the value of a person's assets, both for residents who choose to pay a refundable deposit and those who choose to retain the principal home. The value above $144,500 could be included on a taper basis, which would better reflect a person's capacity to contribute to the cost of their care;
   2) The Committee note:

a) the liquidity risk to providers and to government outlays should there be a significant shift away from refundable deposits to daily payments; and that
b) the adoption of the previous recommendation would be a fairer and lower risk approach to the treatment of assets.

5. Home care income tested fees

Remove the first part pensioner income threshold for payment of the maximum income tested fee and adjust the proposed taper to 25% of income up to $43,186.

6. Rules about accommodation payments

1) That the government's proposed methodology for determining equivalence between a daily accommodation payment and a refundable accommodation deposit; and rules about payments be as follows:
   a) the provider firstly determines the amount(s) of the refundable accommodation deposit(s) based on guidelines to be issued by the Department[4];
   b) the equivalent daily payment be derived using the formula already contained in the Act but without the addition of retention amounts[5], i.e.

$$\frac{RAD \times MPIR}{364}$$

where MPIR = the maximum permissible interest rate as defined in the Act

   c) having been determined, the RAD only be varied if the provider chooses to do so, according to a published self-assessment (except in the case of Level 1 payments) of the value of the accommodation or as approved by the Aged Care Pricing Commissioner;

   d) the Commissioner be able to consider applications for higher accommodation payments on the same cycle as changes in the MPIR; and
   e) the Commissioner be able to consider applications for approval-in-principle of higher accommodation payments in the case of planned new developments or significant refurbishments.

7. Prudential requirements

The Prudential Standards must be consistent with and not impose more onerous requirements than the Australian Charities and Not-for-profits Commission's governance standards and reporting requirements or equivalent requirements of Australian corporations law.

8. Permitted uses

That the permitted uses of accommodation bonds continue to include reasonable operational losses accrued during the first 12 months that the approved provide operates a residential or flexible aged care service**.**

9. Approval for a type and level of care

That the Bill not distinguish between residential care and Home Care Levels 3 and 4 by allowing a prospective care recipient to be approved for Home Care Level 1 – 2 or all levels of care.

[4] the Department has issued a discussion paper on Accommodation Pricing Guidelines for comment by 1 May 2013
[5] the industry has consistently argued against the abolition of retention sums and has drawn attention to the consequences for accommodation pricing

ROB HANKINS
Chief Executive
ECH Inc.
174 Greenhill Road
Parkside SA 5063

RICHARD HEARN
Chief Executive
Resthaven Inc.
43 Marlborough Street
Malvern SA 5061

KLAUS ZIMMERMAN
Chief Executive
Eldercare Inc.
247 Fullarton Road
Eastwood SA 5063

22 April 2013

Attachment A

Determining equivalence between a daily accommodation payment and a refundable accommodation deposit

Some of our issues of concern have already been alluded to in a joint letter to the Minister from Australia's leading aged care sector peak bodies.

http://www.agedcare.org.au/news/2013-news/documents/providers-accommodation-pricing-letter-to-minister-jan-25.pdf/view

The first matter for consideration is the pricing guidelines for determining accommodation payments. The proposed system has been structured around setting a daily accommodation payment as the starting point, with equivalent lump sums (currently referred to as accommodation bonds) being calculated using a formula which is based on the government's Maximum Permissible Interest Rate (MPIR).

The MPIR is derived from the 'base interest rate' set by the Reserve Bank of Australia, which varies from quarter to quarter, via the 'general interest rate' as defined by the ATO. Firstly, the MPIR does not reflect the investment income a provider will need to earn to ensure equivalence to the daily rate, bearing in mind the focus of government prudential requirements on utilising fixed deposit investment strategies. Secondly, it does not reflect the cost of borrowings or prevailing investment rates; and thirdly, providers have usually only had to review lump sum accommodation charges annually: that will have to change to quarterly under the proposed rules (except that the Pricing Commissioner can only consider applications annually, which poses a significant problem).

Use of the MPIR for the purposes proposed (which is not how the MPIR has been used in current regulation) will have the following potential effects:

1) For the same daily charge, the lump sum equivalent payable by new residents will vary from quarter to quarter - see the attached table;
2) Providers will not attract equivalent income;
3) Providers will have to publish or seek approval of revised daily charges (to apply to new residents) each quarter in order to maintain relativity with the initial lump sum price (i.e. the total per bed cost of accommodation, cross-subsidy of supported residents, loss of retention amounts etc) – see the attached table.
4) Volatility in lump sums charged and held and therefore in the liquidity required to be held to repay lump sums. We see this effect as creating a new and significant risk in the management of the proposed lump sum system (which is not a factor in the current system risk exposure). This issue of risk is a key point for providers, financers and consumers.

In the case of 1) above, future variations in the lump sum equivalent will be frequent and will bear no relationship to the cost of accommodation. For 2), daily charges will vary frequently and could both under and over reflect the actual cost of the accommodation each time. In the case of 3), there will have to be a variable relationship between income earned from a lump sum and that from a daily charge.

The letter from the provider peak bodies gave the example of a change in the MPIR from its current 7.24%, to 9%, not affecting the daily accommodation charge (in the example) of $85, but causing a drop in the lump sum equivalent from $427,500 to $343,800 (NB the cost of the accommodation to the provider would not have changed). Fluctuations in the MPIR of this magnitude are not unprecedented. As illustrated in the attached table, just in the past three years, providers and consumers would have been faced with quarterly variations in the lump sum accommodation payment as illustrated in the previous example; and variations in the daily payment of between $83 and $137.

Such variation in pricing will simply be unmanageable, not to mention financially unsustainable, if residents are to have the choice of making a daily payment or lump sum. One would opt for the lump sum in circumstances of a rising MPIR and the daily charge when the interest rate was falling. We do not believe that consumers will welcome this level of complexity and volatility in pricing.

The Aged Care Financing Authority has more or less accepted that the cost of accommodation is determined by multiple factors, including land and building costs, type of room, borrowings etc. The peak bodies' letter also refers to several factors but both omit consideration of the significant impact of the loss of retention amounts from the lump sum. Average bond levels are currently around $250,000 but the loss of retentions will add as much as $100,000 to the per bed cost to residents of their accommodation, based on current investment interest rates. While we acknowledge the Government has not allowed the continuation of retentions (notwithstanding the sector's strong advocacy for them to be continued), the proposed system does not acknowledge the limited ability for providers to maintain required capital funding levels in the absence of retentions, particularly for the moderate to low wealth older people we currently admit to our accommodation.

Accommodation prices could therefore start very close to and rapidly overtake the government's threshold self-assessment prices of $85 a day or $406,000, resulting in many if not most providers having to seek approval of their prices from the new Pricing Commissioner. This would increase the amount of administration beyond what we already envisage, and this will be costly for both government and providers, which in the latter case will have to be funded by the residents. The table below clearly demonstrates the significant quarterly changes in the RAD for a daily payment of $85 (the government's proposed Level 2 threshold) and equally significant changes in the daily payment to maintain a RAD of $427,348.07.

We can only emphasize our experience in managing such lump sum options and the need we have to remain sustainable. One option might be to use the MPIR figure applicable at the time of first publishing accommodation prices and establishing a fixed link between daily charges and lump sums, not one that varies by way of the MPIR as has been proposed. Our preference however is to replace the government's proposed methodology with the one shown on page 3.

In summary, we believe the proposed new system will introduce unprecedented levels of uncertainty, complexity and volatility to accommodation pricing, both for aged care providers and for older Australians. The aged care sector needs greater certainty, not less; simpler administration and less regulation, not more; pricing that reflects the actual cost of the accommodation that older Australians want to live in; and greater stability to face the challenges that lie ahead.

Lump Sum Equivalent Calculations using historical MPIR

		Minimum Threshold		Maximum Threshold		
Applicable Dates	Maximum Permissible Interest Rate (MPIR)	Daily Accommodation Payment (DAP)	Refundable Accommodation Deposit (RAD)	Daily Accommodation Payment (DAP)	Refundable Accommodation Deposit (RAD)	Daily Accommodation Payment to maintain RAD at $427,348.07
01/07/2006 to 30/09/2006	9.87%	50	184,397.16	85	313,475.18	115.88
01/10/2006 to 31/12/2006	10.19%	50	178,606.48	85	303,631.01	119.63
01/01/2007 to 31/03/2007	10.37%	50	175,506.27	85	298,360.66	121.75
01/04/2007 to 30/06/2007	10.37%	50	175,506.27	85	298,360.66	121.75
01/07/2007 to 30/09/2007	10.37%	50	175,506.27	85	298,360.66	121.75
01/10/2007 to 31/12/2007	10.75%	50	169,302.33	85	287,813.95	126.21
01/01/2008 to 31/03/2008	11.15%	50	163,228.70	85	277,488.79	130.90
01/04/2008 to 30/06/2008	11.69%	50	155,688.62	85	264,670.66	137.24
01/07/2008 to 30/09/2008	11.75%	50	154,893.62	85	263,319.15	137.95
01/10/2008 to 16/11/2008	11.31%	50	160,919.54	85	273,563.22	132.78
17/11/2008 to 31/12/2008	11.31%	50	160,919.54	85	273,563.22	132.78
01/01/2009 to 31/03/2009	8.76%	50	207,762.56	85	353,196.35	102.85
01/04/2009 to 30/06/2009	7.16%	50	254,189.94	85	432,122.91	84.06
01/07/2009 to 30/09/2009	7.13%	50	255,259.47	85	433,941.09	83.71
01/10/2009 to 30/12/2009	7.30%	50	249,315.07	85	423,835.62	85.70
01/01/2010 to 31/03/2010	7.95%	50	228,930.82	85	389,182.39	93.34
01/04/2010 to 30/06/2010	8.16%	50	223,039.22	85	379,166.67	95.80
01/07/2010 to 30/09/2010	8.80%	50	206,818.18	85	351,590.91	103.31
01/10/2010 to 31/12/2010	8.74%	50	208,237.99	85	354,004.58	102.61
01/01/2011 to 31/03/2011	9.02%	50	201,773.84	85	343,015.52	105.90
01/04/2011 to 30/06/2011	8.92%	50	204,035.87	85	346,860.99	104.72
01/07/2011 to 30/09/2011	9.00%	50	202,222.22	85	343,777.78	105.66
01/10/2011 to 31/12/2011	8.86%	50	205,417.61	85	349,209.93	104.02
01/01/2012 to 31/03/2012	8.62%	50	211,136.89	85	358,932.71	101.20
01/04/2012 to 30/06/2012	8.37%	50	217,443.25	85	369,653.52	98.27
01/07/2012 to 30/09/2012	7.66%	50	237,597.91	85	403,916.45	89.93
01/10/2012 to 31/12/2012	7.62%	50	238,845.14	85	406,036.75	89.46
From 1 January 2013	7.24%	50	251,381.22	85	427,348.07	85.00