

Honourable Members of Parliament and Senators,

My name is Michael Kresner, I am an owner of a residential care group that has built 4 new aged care facilities in the last decade and invested near to \$70m in this industry at a time when few providers were investing in new aged care facilities.

The current proposed reform agenda to aged care is very concerning to me.

I have outlined some points below. I also believe Grant Thornton, an independent accounting firms has very well articulated many of my concerns in this analysis of the reform package I have also attached this document. I implore you to read the analysis. If you would like to discuss the issues any further with me, please be in touch.

Intro:

- The productivity recommended for a reduction in regulation of aged care in pricing to encourage innovative, sustainable and strong future aged care industry which would have the flexibility to deal with our ageing populations expectations and desires.
- The current reform before the committee sets to further regulate pricing in aged care, this has the implications of restricting innovation and possibly threatening the viability of our industry in a period where investment desperately needs to be encouraged.
- The continuum of the over burdened regulative environment in general will not lead to innovation in care service delivery models in line with the publics desires. Due to the relatively high proportion of wage costs to overall return, providers are using too many high level resources to meet regulatory compliance and do not have the resources, head space or flexibility to think out of the box to deliver on the flexible care models the public is calling for.

Over regulation of Pricing:

- The Modern Aged Care industry has been capitalised on the accommodation bond model. i.e. all providers who have built new aged care in the last decade (mostly using extra services in high care or low care who have invested on certain principles and who's rights need to be protected, including retention income) have paid back their capital costs using accommodation bonds to pay down debt. Any deviation to this policy threatens existing providers viability.
 - The returns in aged care relative to the capital investment costs are very low and have never justified a cash flow model where debt can be paid down against operating returns. Hence the entrenchment in accommodation bonds.
 - Anything which might cause a drift away from paying lump sum accommodation bonds, has a very high risk to the industry, and may threaten the viability of many organisations as the

recapitalisation of the aged care industry is something that would take many years as the banking sector is not geared to do this in a short period of time.

- Market driven accommodation bonds, has given investors the confidence to invest, know they will be able to pay back debt to acceptable levels and achieve returns that justify investment over the long term. Competition in the market place has prevailed; oversupply has often led to providers cutting their bonds to achieve occupancy in the short term. E.g. Eastern Suburbs of Sydney and South Gold Coast have experienced over supply in recent years where providers have had to be intensely competitive.
- Regulation of pricing of bonds will discourage providers building products to meet the choices of their potential consumers, and rather encourage a system that only maximises returns against the pricing model only, i.e. a k-mart approach to aged care, no shopping at DJs!!
- Regulation of pricing of bonds will not guarantee that the returns will be able to keep up with changing cost pressures, and hence discourage further future investment especially in quality products. It will create a very inefficient market, which where investment will stop and start, only as quickly as the regulators can respond to changing environments (which often takes years).
- Under the proposed reforms residential aged care is the only industry where someone providing a services does not have financial certainty as to the terms of their service provision before they enter into contractual relationships, and cannot manage their capital requirements risk in accordance with their business needs.
- The proposed reversed impact of the MPIR (to be dealt with under the Principles, but is a key issue to the viability of the industry) proposes to create a financial relationship that is the reverse of all other financial market principles, i.e. as interest rates go up, and costs go up (inflation and high interest rates are related) what bonds providers can charge goes down. This will threaten the viability of the industry in the long term.
- Proposed regulations in relation to ACFI errors in simply unjust and excessive. A whole group of facilities under the proposed amendments may have their funding rights restricted because one facility in the group has made 2 errors. I.e. the viability of a group of facilities may be challenged because of 2 basic human errors.

General Over Regulation

- In a time where the delivery of aged care is crying out for innovation so that we can meet head on the greatly increased demands and meet them in a way that satisfies the desires of our future clientele, there is a need to reduce regulation not increase it.
 - So much focus in aged care is now on just meeting burdensome regulation, it detracts from the focus of care service delivery.
 - So focused on regulatory compliance that managers simply are not allowed the head space to come up with serious innovation in terms of service delivery that is being expected by future clients.

- Government bureaucracy has become inefficient, over burdensome and does not deliver on the same standards it imposes of aged care providers.
- Aged care regulation needs to be simplified, and flexible and focus care delivery not the documenting of compliance.
- The role of Compliance and Accreditation needs to be opened up to market competition to a number of providers who compete for this service delivery so that it can be carried out more efficiently.
- Government should only be overseeing complaints, and the first point of call should always be encouraged to be onsite mediation, rather than encouraging a cloaks and daggers based system. Most people are in aged care because they want to help people not victimise them.

Regards,

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