5. 2000/01 NATIONAL SURVEY

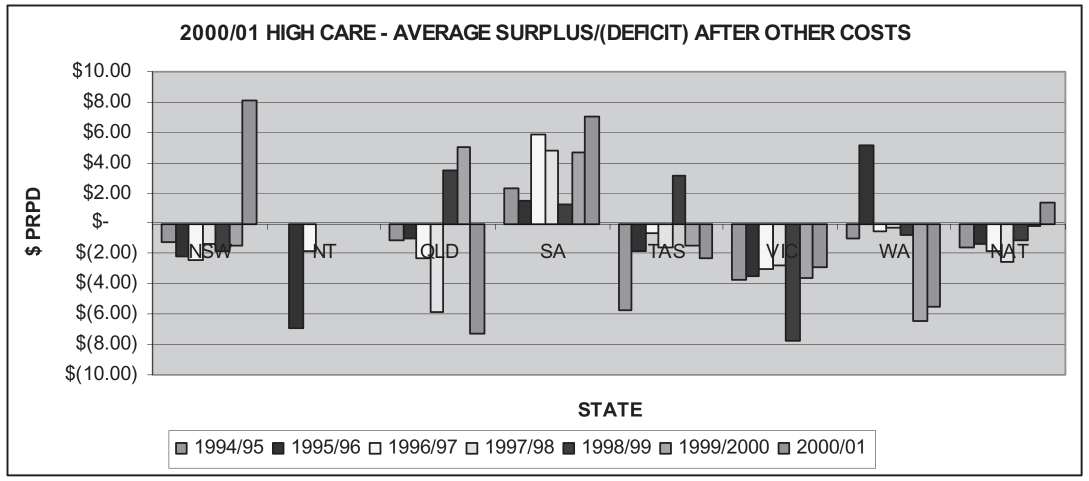
In the last JU&A Newsletter, we published seven years' benchmarks of the average surplus/(deficit) levels before "other costs". We have had a number of queries of what the averages are **after** "other costs".

"Other costs" are the capital costs of depreciation on buildings, interest paid and/or rental of the building. Because these figures vary enormously from service to service, we always provide the two sets of surplus/(deficit) figures. Some services have fully depreciated their buildings or do not allocate depreciation, whilst others may have fully paid off the buildings and be paying no interest and many are paying no rental.

Accordingly, the following two graphs show the results where all income including "capital" income is had regard to (but not donations, fundraising, etc.) and all expenditure including "capital" expenditure is had regard to.

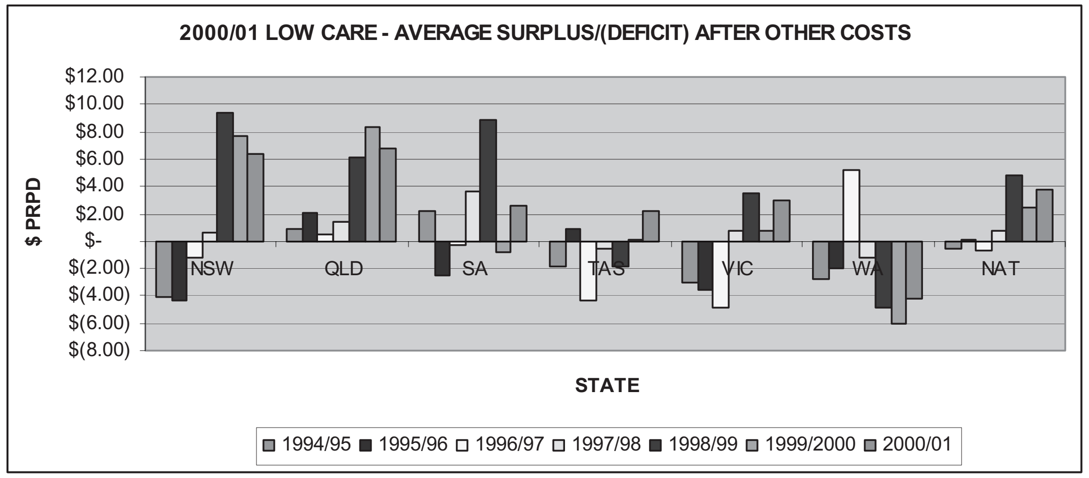
National Average Surplus/(Deficit) after Other Costs – High Care

For the first time in seven years, High Care services achieved a positive return after other costs – $1.36 per resident per day (prpd). This national average includes an average surplus of $9.09prpd for private sector High Care and ($0.36)prpd for the voluntary and government sectors. The $1.36prpd return has regard to an average of "other costs" of $3.71prpd.



National Average Surplus/(Deficit) after Other Costs – Low Care

The 2000/01 survey showed a national average Low Care surplus after other costs of $3.82prpd. This average includes an average for the private sector of $17.30prpd and for the voluntary and government sectors of $3.42prpd. The $3.82prpd surplus was determined after having regard to "other costs" of an average of $2.76prpd.



James Underwood and Associates Newsletter is produced two-monthly by James Underwood & Associates Pty Ltd, advisers to the nursing home, hostel and retirement village industry.

If you would like to be added to our mailing list, or for any further information, please contact our office on (07) 3222 9666.

The newsletter is a free service for clients. Non-clients are invited to subscribe to the newsletter at an annual cost of $325

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Newsletter

No. 1/04

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1. ACAR 2003 – STATE POOLS

Advice of the allocations for the 2003 Aged Care Approvals Round (ACAR) has been made available since 24 May 03. In respect of residential aged care places, the following **state pools** have been identified:

NSW	200	Low Care Places
VIC	104	High or Low Care Places
QLD	43	High or Low Care Places
WA	60	High Care Places
	90	Low Care Places for 3x Special Needs Groups
SA	Nil	
TAS	10	High Care Places (Launceston)
	20	Low Care Places (Specific Town Areas)

The way the state pools are to be used **varies** from state to state. This is very important for providers considering making application for places from the state pools.

In some states, e.g. NSW and QLD, the state pool places are identified as being available to top-up the number of places targeted **in listed regions only**, i.e. if there are not specific places identified in a listed region, applications should not be made in respect of the state pool places. For other states, e.g. WA, the state pool places are available for applications from **all regions**. Accordingly, WA applicants could consider making application for state pool places even though there are no specific places made available for their particular region.

Please check the arrangements for **your** state carefully.

2. "VARIABLE FEES" MAKE A COME BACK IN LOW CARE

The Low Care section of the residential aged care industry is starting to see a small but identifiable resurgence in "variable fees". The property boom which has resulted in enormous increases in sale prices received by residents selling their houses or units prior to or following entry to aged care has given our customers the opportunity to ask for – and pay for – **more** in Low Care facilities.

Because of the excellent "egalitarian" system we have in Australia – where mandated minimum levels of places are made available in all services for financially-disadvantaged persons – these enhanced services and accommodation are also provided for the more financially-disadvantaged in our community **in the same facilities**.

This return of variable fees is coming about through the levying of both a lump sum (to cover the **capital** costs of services) **plus** a periodic payment for those residents with the capacity to pay same. This is **not** extra services, so separately defined wings or areas are **not** required. It is available to **all** services taking in Low Care residents now with no change to existing Commonwealth approvals. What this initiative is doing is securing greater income for providers to use for **operating** expenditure. These providers believe that the types of care, accommodation and services desired and/or needed by our residents should **not** be limited to a simple national benchmark – determined as being base fees plus subsidies – but who want to offer more.

The History of Variable Fees

"Variable fees" was the term used for the uncapped hostel fees in place prior to the commencement of the Aged Care Act (1997) on 1 Oct 1997. Subject to minimum resident retentions, service providers could determine uncapped fees for each hostel resident based on their capacity to pay. Variable fee "guides" were produced for hostel care residents by Aged Care Australia (now ACSA) and special fee guides that had regard to the Commonwealth's minimum retention amounts for personal care subsidy recipients – for whom the fees were tax rebatable – were provided by James Underwood & Associates. The industry embraced variable fees as a way to enhance income; provide a greater range of services to residents; and, in some cases particularly in Tasmania and Victoria, to be offered **in lieu of** entry contributions (accommodation bonds). At the end of the last full year of the old system – 1996/97 – 50% of all surveyed Australian hostels were making use of variable fees.

Prevalence of "Variable Fees" in Low Care at 30/06/97			
		Variable Fees	
	Total Services	% of Services	No. of Services
NSW	36	53	19
QLD	129	47	60
SA	12	17	2
TAS	5	80	4
VIC	38	63	24
WA	7	57	4
National	227	50	113

Source: JU&A/Bentleys MRI 1996/97 National Survey

Aged Care Act (1997)

The Aged Care Act (1997) required that variable fees could not be offered to new residents entering from 1 Oct 97 and existing variable fees were grandparented by maintaining them at their current levels until they "caught up" with the base fee. As fewer than 20% of the residents who were in hostel services in 1997 are still in hostels today, variable fee income has long since diminished to almost nothing.

Lump Sum + Periodic Payment

All services have had the opportunity to offer new Low Care admissions a combination of a lump sum **plus** a periodic payment since commencement of the Aged Care Act (1997). Indeed, it is a **requirement** under the Act that all new residents be offered the opportunity to pay their determined accommodation bond as a periodic payment. Our research on the industry has shown that there has been very little take-up of periodic payments for a number of reasons. Taking of the lump sum only is by far the most prevalent across the industry. (Indeed, many prospective residents may perceive that this is the **only** option available to them as many services publicise their requirement to offer periodic payments very little, if at all.)

The enormous increase in sale prices of the houses and units residents sell prior to or following entry to aged care has given providers the opportunity to offer a combination of a lump sum to assist them to meet their capital costs plus a periodic payment to enhance operating income. Examples of these options are shown below:

Example 1

Lump Sum $110,000 + Added Fee of $20/day
(@ Interest Rate of 6.5%)

Lump Sum	$ 110,000
Lump Sum Equivalent (LSE)	
$20 x 365 / 0.065	112,300
Minimum Retention	27,500
Minimum Assets Required	$ 249,800

Example 2

Lump Sum $150,000 + Added Fee of $40/day
(@ Interest Rate of MPIR of 8.78%)

Lump Sum	$ 150,000
LSE $40 x 365 / 0.0878	166,300
Minimum Retention	27,500
Minimum Assets Required	$ 343,800

Example 3

Lump Sum $250,000 + Added Fee of $50/day
(@ Interest Rate of 7.5%)

Lump Sum	$ 250,000
LSE $50 x 365 / 0.075	243,000
Minimum Retention	27,500
Minimum Assets Required	$ 520,500

Interest Rate

It will be seen from the examples above that it is in no way a requirement to use the MPIR of, currently, 8.78%. We have shown the lower interest rates for a reason. Residents may be less willing to choose the part-periodic payment option when an interest rate of 8.78% is used as this is far above what a resident could reasonably anticipate as a return on term deposits or similar cash-based investments.

Services offering lower interest rates can more reasonably expect that the resident will elect to utilise the periodic payment on an ongoing basis rather than just change the periodic payment to a lump sum (as is their right) as soon as they have the available proceeds from a sale of a house or realising other assets. Providers who are borrowing money to build their new services are usually not paying 8.78% on those borrowings but, typically, around 7% or less.

Marketability

Example 1, above, is a simple example of a small periodic payment plus the $110,000 lump sum still quite common in many areas. The additional income from the periodic payment is $20/day. The minimum resident asset level needed to be able to be levied this bond (lump sum + periodic payment) is below $250,000 – a very achievable amount for home or unit owners throughout many parts of Australia.

If half of your residents were paying an additional $20/day (the other half being concessional, assisted or lower-asset residents) you would increase your overall income by more than $10/day. This is more than the average return of the average Australian hostel (Source: JU&A/Bentleys MRI National Survey 2001).

Rent Assistance/Pensioner Supplement

Rent assistance or pensioner supplement is generally not payable when residents pay a lump sum and/or periodic payment based on a total bond above, currently, $110,000. It is important to note that rent assistance/pensioner supplement is **only** available for **pensioners** and **part-pensioners**. Any person with assets above $406,250 has no eligibility for a pension (there is a phase-out for rent assistance/pensioner supplement for persons with assets up to $31,000 above this $406,250 cut-off). An increasing number of persons are simply not eligible for pensions once the proceeds of their house or unit are added to their other assets. Accordingly, the higher bonds do not impact on rent assistance/pensioner supplement for many persons – they would not have received it in any event!

Extra Services

The combination lump sum/"variable fee" methodology has a lot of benefits over the extra services status system:

- There is no requirement to have separate wings, houses or floors
- There is no requirement to have separate dining/lounge areas
- There is no "claw-back" of Commonwealth subsidy at the rate of 20% of the additional amount you charge
- You do not require any separate approval process to gain the right to charge lump sums plus periodic payments
- You need show no differentiation of any sort whatsoever between those who pay higher fees and those who don't
- The system of levying higher fees plus lump sums on those with the capacity to pay has previously been fully "road tested" through the variable fee system and worked very well indeed
- The Commonwealth income-tested subsidy reduction (means-tested fee) system – coupled with accommodation payments for those persons who have the capacity to pay them – means that prospective and current users of residential aged care may already be all too well aware that persons on higher means have higher charges.

Does this mean the end of extra services for Low Care Facilities? No, not really. Many Low Care services provide direct entry to High Care residents and have, as their principal and growing target group, High Care residents, not Low Care residents. There is no general capacity to charge accommodation bonds to new High Care admissions. If you can't charge bonds, then you can't offer lump sum/periodic payment options. Only through extra services can new High Care admissions generally be levied accommodation bonds.

As the demand for High Care continues to grow – and the demand for Low Care in a number of areas continues to wane – the need for **expansion** of extra services to allow organisations to meet the capital (and operating) needs of their enhanced care, accommodation and services would be expected to grow.

3. SALE OF RESIDENTIAL CARE PLACES – QLD

The sale of residential aged care places – Low or High – continues in a brisk market. We have recently seen places sold for transfer within Brisbane and from Brisbane to Toowoomba and from Brisbane to the Gold Coast for $40,000 + GST.

Services are able to request of the Commonwealth whether they wish the places to be commenced as Low Care or High Care and the Commonwealth will generally accept the change where it is supported by appropriate research and statistics.

The places from two more Brisbane High Care services are now available for sale and transfer to other parts of Brisbane or elsewhere in Queensland. Please contact JU&A for details of the agents handling the sales.

4. 2001/02 AND 2002/03 NATIONAL SURVEYS

Our national surveys have been operating for seven years. Comparisons to previous years are a standard part of the reports. A 2001/02 survey is currently being undertaken by and for the Pricing Review using a survey form partly based on the JU&A-Bentleys MRI national survey template. As this survey is still being finalised by the Pricing Review, there are no 2002 figures currently available.

James Underwood & Associates and Bentleys MRI will be again offering the opportunity for all Australian services to participate in the 2002/03 survey. The survey forms will be forwarded to all services in the first week of October 03, immediately after the conclusion of the September auditing and annual general meeting timeframes for many/most services. We strongly welcome any and all input from current users and prospective users of the survey on any additional information or adjustments you may like to see in our national surveys.

We also offer the opportunity for separate reports and separate averages to be provided for any **larger groups** of homes, e.g. all services operated by one group in a state such as a major religious group or a state government or private-sector grouping. Any major groups that would like this to be provided can make use of this complimentary additional service by calling us and we will place a tick box on the front of the surveys so their services can denote their participation in the group activity.