

LLLB will assist Regional, Rural and Remote

By James Underwood

The new accommodation payment system to commence from 1 July 2014 has great advantages for Regional, Rural and Remote (RR&R) residential aged care services.

The new system using Daily Accommodation Payments (DAP's) addresses a major imbalance in the Australian system. Currently, although the capital cost of building is similar in the city and in the country, the available income to cover that capital cost has been effectively "capped" at an accommodation bond tied to the low average RR&R house prices or at an inadequately low accommodation charge. This will change on 1 July 2014.

Under LLLB, both metropolitan and RR&R services will be able to legally seek and gain an equivalent return on capital. Services with similar capital costs may seek to self-assess a maximum Level 2 DAP of up to \$90/day or \$33,000pa for all those new residents with assessable assets above \$153,000. This is very different to the current system where RR&R can charge high care persons only a maximum of \$33.29/day or \$12,000pa regardless of their capital outlay on buildings. By contrast, metropolitan services can levy very large accommodation bonds on new high care residents (and low care residents) through the extra services system and be far less impacted upon by this low maximum accommodation charge cap.

Why don't bonds fill this capital income shortfall for RR&R? Because the lower home prices mean that only low bonds can be sought. The bank interest received from investing a typical RR&R bond of \$180,000 is far below the income received from a "metropolitan" lump sum of \$473,000 (the likely maximum Level 2 Refundable Accommodation Deposit or "RAD" at current rates). In the future, both could seek a charge of \$90/day for the same level of accommodation. That's \$21,000pa extra per new resident over the current accommodation charge!

Through LLLB, the nexus between houses prices and capital costs is broken. If a person hasn't the assets to pay a \$473,000 lump sum, they can be asked to pay the relevant DAP instead. Most residents would have the assets to be able to afford to pay a maximum Level 2 DAP of \$90/day for many many years even with the lower house prices we see in RR&R. Many people might choose to pay a part DAP/part RAD option that still provides \$90/day to providers, including an interest rate payable to providers of the quite attractive MPIR. (The MPIR is currently 6.95%pa – well above what providers can receive on term deposits).

In addition to the DAP arrangements, we see a major boost to the capital supplement for financially-disadvantaged persons, subject to services meeting new or substantially refurbished rules. This big boost applies to all residents – both existing and new – and will be more beneficial to services with higher levels of financially-disadvantaged persons as are often seen in RR&R.

So...LLLB should be very very advantageous to the capital equation for many or most RR&R services.

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