



Robert Orie of Sydney's Sir Moses Montefiore Jewish Home says the bond cap is of 'great concern'. PHOTO: MICHEL O'SULLIVAN

Industry warns of facility closures

Reforms 'threaten aged-care finances'

Mathew Dunckley

A federal government overhaul of financial arrangements in the aged-care sector has sparked an industry backlash and warnings of an investment freeze and facility closures.

The reforms were supposed to have been passed by Parliament in its last sitting week but that was postponed because of Labor's leadership tussles.

The industry and others have already reacted strongly to proposed industrial changes in the legislation but it has also emerged that there are serious concerns about changes to the \$12 billion bond system that is used to finance much of the industry's expansion and underpin its capital base.

In particular, the government will require aged-care providers to seek permission from a new regulator to charge a bond of more than \$400,000.

Bonds are usually refundable when a resident leaves a facility and they are used as a key financing tool, particularly for development.

The cap was floated in 2012 but the industry is yet to receive any detail on criteria for approving breaching the limit. Industry leaders complain that the proposal and uncertainty over its shape are hampering the sector.

"Because accommodation bonds represent the primary means of financing new aged-care developments, these proposed arrangements make investment in aged care untenable for investors and their financiers," says Grant Thornton aged-care specialist **Cam Ansell** in a soon-to-be-released paper.

Uncertainty has halted development, particularly at the upper end where larger bonds are needed, he says.

"It is more prejudice against people with financial means. There has been a massive slowdown of development of new aged-care facilities at a time when we are all getting older and what we

expect from the accommodation is just increasing all the time.

"Until we have an understanding of how providers are able to provide accommodation that is going to yield a higher bond than \$408,000, there are very few people who are likely to build to the high-end standard."

Andrew Tyndale, chairman of the nation's largest private aged-care company, BUPA Care Services Australia, said the uncertainty was hurting the industry.

"Whenever social policy changes, investors require a higher risk premium and in a capital-intensive business like this that can be pretty expensive," he said. Bonds had provided a low-cost source of capital for

Capping bonds is a solution that is looking for a problem and could cause some collateral damage.

Brendon Earle, Herbert Smith Freehills

development and some providers, particularly charities, saw the returns from investing their bond pools as a "significant top-up" to their financing.

Some facilities would struggle to stay open if the government did not approve their bond asking prices.

"I think there are going to be some facilities in trouble and they will have to come up with a source of funding which will cost more," he said. He hoped the government would allow existing arrangements to stand and apply the caps only to new developments.

Mr Tyndale said capping bonds would reduce government financial exposure through its bond guarantee. A

Productivity Commission inquiry found the average bond in 2010 was about \$232,000, and about 90 per cent of residents paid it rather than rent.

Robert Orie, chief executive of Sydney's Sir Moses Montefiore Jewish Home, said the bond cap was of "great concern" to the industry.

"The legislation didn't give us any clarity," said Mr Orie, who is also on the board of industry peak body Leading Age Services Australia.

"We know very little about what that approval process will be. There is a lot of concern about how even-handed that approval process will be or the time frames for getting approval."

Mr Orie said the major lenders to the sector were watching closely.

Herbert Smith Freehills corporate group partner **Brendon Earle** said the proposed cap did not have a policy justification and went against the findings of the Productivity Commission inquiry.

"The Labor government has only picked up a few of those and freelanced on some ideas of its own," he said.

"This whole thing about capping bonds was about addressing private sector rorting, though no evidence has been produced. Not only is it an administrative nightmare, it is a solution that is looking for a problem and could cause some collateral damage."

Federal opposition aged-care spokeswoman **Concetta Fierravanti-Wells** said the government should delay a vote on its legislation, now expected in the same week in May as the budget, until after a Senate committee reported on the reforms in June.

Minister for Ageing **Mark Butler** said the government had provided detailed information about the bond changes in recent months, including industry briefings. Detailed guidelines on accommodation payments would be released for consultation in the next week or so.

Corbett calls for focus on dementia

Carrie LaFrenz

About fifty years ago they talked statistics, today it's senility.

Businessman **Roger Corbett** first met **Roger Layton** when he was a young student in the academic's statistics class at University of NSW in 1961. Now the two hope to use their profile and business acumen to bring attention to brain and ageing research and, in particular, Alzheimer's disease.

The pair, along with six others including **Richard Grellman**, chairman of WHK and Genworth Mortgage Insurance; **John Gray**, partner at HWL Ebsworth law firm; and **Richard Matthews**, director at Neuroscience Research Australia sit on an advisory committee for the Centre for Healthy Brain Ageing at the University of NSW, the institution where they first met.

"It [Alzheimer's] will be one of the big burdens on Western civilisation," said Mr Corbett, who chairs the committee and is also a chairman of Fairfax Media, the publisher of *The Australian Financial Review* and a Reserve Bank board member.

"Our bodies live longer but our minds fail to keep pace. The numbers of people who will need significant amount of care at the end of their life is growing with a very substantial impact on the public purse. Anything you can do to prolong your effective life, and peoples' brains in line with the prolonging of the life of their bodies is going to be a worthwhile thing," he said.

A growing ageing population means dementia is a substantial challenge to health, aged care and social policy. Total direct health and aged care system expenditure on people with dementia was almost \$5 billion in 2009-10, according to a 2012 report from the Australian Institute of Health and Welfare.

"It's important as a community we come to grips more than we have with the implications of a rapidly ageing population," said Professor Layton, whose wife had dementia for a decade.

"The baby boomers are now on the verge of becoming elderly. Many of these people are potential leaders in their fields in business or the community so it's important they understand."

"This is not only about funding that

might be necessary, it's also about commitment and hope that something can be done."

The Brain and Ageing Research program was initiated at the UNSW Faculty of Medicine in 1999 under Professors Perminder Sachdev and Henry Brodaty.

The centre was launched last October with an initial focus on brain ageing, but it will gradually be broadened to include all medical aspects of ageing. Its work will include molecular work in the genetics and proteomics laboratories, tissue culture and cell-related work in the stem cell lab and research on ageing health policy.

Mr Corbett said Australia had world class researchers at universities but by paring with such an advisory committee it strengthened their relationships, their contacts and standing in the community.

Mr Corbett said he agreed with the key findings of last year's Strategic

A growing ageing population means dementia is a substantial challenge to health, aged care and social policy.

Review of Health and Medical Research, led by CSIRO chairman **Simon McKeon**, which recommended more investment, advancing clinical trials, establishing Silicon Valley-style research hubs, and providing incentives for philanthropists.

Mr Corbett said government should not be expected to provide all funding.

"If we want big taxes and big government we will keep looking for government to fund everything and they can only do that by charging more taxes," he said.

"Those taxes are a big burden on the community. What I'm really arguing is we cannot expect the government to provide everything. Even with tax breaks, you are creating a situation where the government is subsidising it indirectly... I think the issue is public awareness."



Roger Corbett aims to raise public awareness of the problem. PHOTO: LOUIE DOUVIS

2012 EXECUTIVE SALARY DATABASE

The *Financial Review's* Executive Salary Database, with over 27,000 remuneration records, is the premier source of remuneration data in Australia. We can provide the complete picture on Australia's highest paid executives of ASX 500 organisations. All yours for just \$1870 (incl GST).

Contact **Fiona Carmady** on 02 9282 1731 or fcarmady@fairfaxmedia.com.au or go to www.fairfaxbr.com/execsalary to order your copy now.

FINANCIAL REVIEW
BUSINESSINTELLIGENCE