

BONDS IN HIGH CARE WITHOUT THE PAIN

The Australian Government sets maximum daily fees and accommodation charges that apply to all High Care (nursing home) services. These can not be exceeded, regardless of the higher costs of building and running newer, better services. The levying of Accommodation Bonds is one of the few ways to increase the income of High Care services, because there is no prescribed maximum Bond – only an assessment of a person’s capacity to pay that Bond. But, services can only charge Bonds to new High Care residents if they have an “extra services” (“ES”) approval. With that approval comes a requirement to also levy a minimum additional fee. Many providers say that the marketing of Bonds instead of accommodation charges for High Care residents is fine, but levying an additional ES fee is next to impossible. The solution may be simple – discount the total fee so new Bond-paying residents pay little or no extra fees!

Many (most?) providers build identical new High Care rooms – all single; all ensuited; all the same size. They don’t wish to differentiate between classes of residents or services to residents, **but** they need **Bonds** to cover their costs. To be able to seek Bonds, they can gain “extra services” approval for all their places other than those desired to meet the concessional (i.e. financially-disadvantaged) needs of their target market.

The challenge has been that these ES places come with a requirement to charge a minimum of an additional \$12.50/day in resident fees. So, if you are charging more, many people expect you have to provide more to “sell” the concept, and an unwelcome differentiation is created. What if the standard fees to **all** residents were the same?

The minimum additional ES fee is \$12.50/day, being \$10/day extra income and \$2.50 to cover a reduction in Australian Government subsidy. **But**, the Basic Daily Fee itself is not subject to a minimum, just a maximum. The Residential Care Manual states, “*The Government does not set the resident fees... . It does, however, set the maximum that may be charged... .*”

So, if you discount the Basic Daily Fee by \$12.50 (or more, if desired), then the total fee can remain unchanged. Indeed, by new residents paying a Bond, in lieu of a charge, they will often reduce any income-tested fee payable and may even increase their pension!

So, What About the Cost to the Provider?

If you are still required to provide the additional services specified in your conditions of approval for extra services – and you don’t charge for them – won’t you lose money? The answer for many providers is – no.

Newer High Care services usually meet and exceed all the 2008 certification requirements already. Most good providers already would receive far in excess of the “60 points out of 100” needed for accommodation, food and services in an ES application. It is **because of** the cost of providing newer buildings; single rooms; and good outcomes that they make poor returns or losses and thus need Bonds. Many are already at or above an “extra services” level. All that’s needed for most better providers is to state in an application what they already supply and they may be eligible for ES. (The need to have “definable areas” for ES and non-ES is also little difficulty for most – they already have different floors or wings with a dining/sitting area for each!)

The reality is that, for many providers, the major enhancement to income they desire is through charging the Accommodation Bond, not through levying the additional fee. When viewed solely as income, the benefit of Bonds compared to accommodation charges is as follows:

\$250,000 Bond

\$250,000 @ 5.5%p.a.	\$13,750
Plus: Retention	<u>3,186</u>
Total Income	<u>\$16,936p.a.</u>

Maximum Accommodation Charge

\$16.63/day x 365 days = \$6,070p.a.

Difference **\$10,866p.a.**
\$29.77/day

The minimum reduction in Australian Government subsidy for ES of \$2.50/day is just \$912.50p.a. As the High Care service may already be receiving \$10,866p.a. more in income by taking Bonds instead of accommodation charges, if it were to effectively forego recouping this minimum reduction of \$912.50p.a., then it could still receive c.\$10,000/resident p.a. **more** in income by having ES in High Care. (This is over \$27 per resident per day!)

When the Extra Services concept began as “Exempt Beds” some fifteen years ago, **no** Bonds were taken, **only** higher fees. Higher fees were perhaps more appropriate when Bonds of only \$90,000 were common, not the situation today where, in most metropolitan regions, \$250,000+ Bonds can be sought and gained by good services. It is recommended that consideration be given to re-tailoring your extra services proposals.

James Underwood
James Underwood and Associates
Nov 05