COTA For older Australians

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Director
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Department of Health and Ageing

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SUBMISSION IN RESPONSE TO ISSUES PAPER *ENHANCED PRUDENTIAL REGULATION OF ACCOMMODATION BONDS*

COTA welcomes the opportunity to provide comment on the Issues Paper as we have taken a strong interest in all the work around prudential regulation of accommodation bonds.

In any discussions about the possible use of accommodation bond funds it is important to remember that these monies belong to the older people and essentially are on loan to aged care providers. It is also important to remember that these are not voluntary payments; people are required, subject to means testing, to make them if they are to access care.

Apart from issues about the process of determining the level of accommodation bonds, and the level of higher value bonds, older people and their families consistently raise two issues with us. The first is around protecting the bond to ensure that it is returned when the person leaves the facility. This is the key issue for consumers, residents and their families, and the one on which COTA gets most enquiries.

The second concern is about the use of bond funds, with consumers wanting to have confidence they are used for aged care purposes. Most consumers actually assume that bond funds are toward the provision of quality care, but may then ask questions when it is suggested they may be used for other purposes.

In considering any changes to the prudential arrangements COTA will want to be sure that the bonds are protected and that they are used for aged care.

Permitted Uses of Loans Made Using Bonds

COTA accepts that the current limitations on the purposes for loans made from accommodation bonds do restrict aged care providers from lending on the funds. However we once again make the point, which to us is obvious but seems to need to be repeatedly re-emphasised, that the bonds are not the providers' money but the older person's.

We believe it is not likely that the older person's consent would be sought for lending the bond on to another entity, or that they would even be consulted or informed. We believe many older people would not be comfortable with their bond money being lent on to another organisation in this way. They may consider this does not meet their criterion that their money is used to improve the care they themselves receive.

The paper identifies that extending the range of uses for bonds in this way would increase the risk of non-repayment. The paper says this is marginal but does not provide any evidence on how much of an increase in risk there might be. For an individual any increase in the possibility that they may not get their money back could be seen to be unacceptable. Bonds have to be repaid within tightly specified time frames and lending the funds out may create liquidity problems for the lending organisation. If the purposes for which they can lend funds were broadened in this way they may need to be a tightening up of the liquidity provisions so they have to hold higher reserves.

Overall COTA does not support the proposed expansion of the purposes for loans from accommodation bonds.

Religious Charitable Development Funds (RCDF)

The key issue for COTA here is the protection of the funds that are held in trust by the aged care providers. We note that RCDF's are not prudentially regulated and do not have the same status as an APRA regulated authorised deposit-taking institution (ADI).

We support the current practice of all funds from accommodation bonds being identified separately from other monies as it ensures they can be monitored for their use being limited to permitted purposes. This applies to all providers and we see no reason why RCDFs should be treated any differently in this regard. Consumers want certainty that the funds are used for aged care.

The paper acknowledges that the Department has no information on the risks represented by RCDFs and so it is difficult to assess the possible impact of allowing bonds to be deposited into RCDFs that are separate legal entities.   We are not convinced by the providers' argument that the current arrangements are a significant impediment to the usual mode of operation.

APRA is intending to review the Exemption for RCDFs and we suggest that any changes should wait until the outcome of that review is known as that could significantly impact on the operation of RCDFs and cause a further legislative change. This could create lack of confidence amongst consumers.

We are happy to discuss COTA's concerns with you. In the first instance please contact Ms Jo Root our National Policy Manager on 02 6282 3436.

Yours sincerely

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Chief Executive