



16 April 2008

## ACST Response to Draft Aurora Tariff Strategies

### Introduction

Aged and Community Services Tasmania (ACST) is the major peak body representing over 90 per cent of Tasmanian aged and community care providers. Within this membership profile we represent 95 per cent of residential aged care facilities (nursing homes) in Tasmania with these facilities all being not for profit and church, charity and/or community based organisations.

### The nature of sector

In its draft tariff strategies Aurora is proposing significant increases (between 24 per cent and 30 per cent) in the relevant nursing home tariffs (see page 26, Table 11 *Draft Retail Tariff Strategy*). This seems to be based on a view that nursing homes should be viewed the same as any other business such as a retail operation. We believe that this view is too narrow and fails to take into account the following:

- Not for profit nature of sector – any surplus if any goes back into provision of care, services and facilities;
- Owned and operated by church, charitable and community groups;
- Dependence on Government funding and therefore exposed to the subsequent insecurity and fiscal limitations of federal budgets;
- Provision of essential community service and facilities; and
- Community involvement and volunteers required to keep facilities operating whether this be volunteer board members or assistance with day to day activities.

To further highlight the nature of our sector it is useful to refer to aspects of the *Toronto Declaration of NGO Core Values* affirmed by the World Congress of NGO's held in 2007. This document affirmed the core values that underpin our sector and other similar sectors. The following selected values are fundamentally different than those organisations engaged in a pure business model of operations (such as retail):

- Service beyond self – ....*concern for the welfare of others without the primary goal of their own enhancement of profit; and*
- Nonprofit integrity - ....*as a not-for-profit organisation, with any surplus generated through its operations to be utilised solely to help the organisation fulfil its mission and objectives. The organisation is not to be operated for the primary purpose of carrying on a trade or business, unrelated to the mission and stated objectives.*

## Implications under current conditions

Currently the aged care sector is under considerable financial stress. The following issues need to be considered:

- **Meeting the cost of care** – current inadequate indexation sees 40% of residential care providers nationally operating at a loss (2005/06 financial year). Our view is that this percentage is higher in Tasmania. Currently the Government provides recurrent funding increases of 2 per cent per annum and additional interim increase of 1.75%. We are waiting to see if the interim funding is continued in the federal budget due in May however at this stage it is uncertain. As a result where expenditures increases are above these levels providers will again be expected to absorb costs. Ultimately this will adversely affect staffing and day to day inputs and has the potential to reduce quality of care to a point where operations are no longer sustainable;
- **A sustainable capital system** – it is estimated that industry will have a capital deficit of \$5.7 billion by 2020 putting the provision of high level residential care at risk. The sector in Tasmania currently faces an infrastructure crisis where it is unable to take up new age care places. Unless the federal Government is prepared to consider a sustainable system the costs of care combined with this crisis of capital will result in the Tasmanian system being unable to meet community needs and demands;
- **Compliance and regulation costs** – aged care is the second most regulated sector in Australia and we accept our responsibilities in this area. However this applies a significant cost burden on our providers and our workforce;
- **Ensuring the introduction of the new residential care funding system (ACFI)** does not adversely impact access to care. This new system is currently being introduced and requires a significant application of resources by providers.

All the above factors are exacerbated by the profile of the Tasmanian sector. Our sector has a large portion of small to medium operators who understandably do not have the economies of scale to access funding and finance, and absorb compliance and administrative costs. We have also attached some evidence of the financial challenges our sector faces (attached in email). This evidence is derived from a Federal Government funded report delivered by Grant Thornton a respected industry accountancy and consultancy firm.

## Conclusion

Our members have previously been advised by Aurora consultants of an increase to their regulated tariffs from 1 July of 2008 of 4 per cent (in addition to the approx. 16 per cent implemented 1 January 2008) and whilst this is in excess of their annual funding indexation they could attempt to absorb such costs. However the significant costs (19 per cent to 31 per cent) proposed in the tariff strategy documents could not be absorbed and some of our members will suffer significant viability issues as a result. We do not accept the argument that our regulated tariffs should be the same as businesses such as retail. We also do not accept that this is merely preparation for increased costs that may result from moving to contestability. The current environment is very uncertain for our members and this is not the time for Aurora to not support community services that provide essential and quality care for our older Tasmanians.

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