



## **Submission on the Review of the Bond Guarantee Scheme**

### **Introduction**

The Chinese Australian Services Society Limited (commonly known as “CASS” in the community) welcomes the opportunity to provide a submission on the Accommodation Bond Guarantee Scheme (the Scheme) to Aged Care Financing Authority (ACFA).

As a long standing community organisation, CASS has been dedicated to assisting disadvantaged people from local communities and advocating on their behalf. We would like to share our views and experience with ACFA on the Scheme.

Our submission is a reflection of the viewpoints and concerns that we received from our service users and people in our community, as well as observation and conclusions we made while delivering services to our clients, whose interests are closely connected to the Scheme.

### **About Our Organisation**

CASS was founded in 1981. Its main service objective is to provide a wide range of welfare services to the community, and assist migrants to settle and integrate into the Australian society. The comprehensive range of community services and activities provided by CASS includes residential aged care, home ageing services, disability services, vocational training, settlement and health, volunteering, and family and children services. Most of the services we provide cover the whole of Metropolitan Sydney, with some covering the areas down to Wollongong. We serve the Chinese, Korean, Indonesian, Vietnamese, people from other CALD communities, as well as mainstream Australians. More than 2,400 families access our services and activities weekly.

### **The views that we would like to bring to the attention of ACFA on the Scheme**

---

The Scheme guarantees the repayment of all lump sum accommodation bonds in the event that an aged care provider becomes bankrupt or insolvent. Thus, the protection provided by the Scheme is important to enable the confidence of consumers, providers, and investors alike, and is critical to the entire aged care sector.

**We support the continuation of the existing Scheme** as it has proved to be the best practice and the most cost effective measure for the management of the lump sum accommodation bond pool.

**First of all**, we believe it is important that the Government continues its role as the manager of the accommodation bond pool. For consumers, the Refundable Accommodation Deposit is



a large capital investment with their life time saving or assets. Knowing the Government is managing and monitoring the deposit they pay is a positive psychological reassurance and a guarantee of refund for all consumers. Given the unique nature of aged care sector, it is not recommended that the Government amends the existing Scheme to shift this part of obligation from government to the industry.

**Secondly**, under the existing Scheme the Government has the right and discretion as to implement a retrospective levy on providers in case of a default event, which means providers already are, in some ways, bearing the requirement to cover the Government's costs of repaying consumers' entitlements. Although taxpayers and government have borne the full cost of claims on the Scheme to date, we, as service provider, understand that the Government would trigger levy provision when required.

According to ACFA's discussion paper the scheme had been triggered ten times over the past 8 year, within which there was no single default between 2011 to 2013 as well as 2015. It indicates that the occurrence of default largely depends on each case scenario. It is not considered suitable that the entire industry bears the consequences brought by poor business management of just one provider.

**Thirdly**, both the financial and management practices of the sector need to be strengthened to minimise defaults.

Some believe that the current Scheme does not provide an incentive to providers to minimise their prudential risk, because each provider makes no contribution to guarantee against the risk that they may default. On the other hand, the Government has a strong incentive to ensure its prudential oversight is effective, as it carries all of the risk. Therefore, the implementation of higher prudential standards and monitoring and business management is necessary to boost providers' incentive to sustain their business.

The prudential arrangements for providers should be thorough, and departmental scrutiny should be able to identify any provider who is at risk of insolvency, thus avoiding the situation which the provider itself becomes incapable of the repayment of accommodation deposits.

In terms of the management standards, an analysis found that more than 20% of providers of the industry were not generating a positive EBITDA (earnings before interest, taxes, depreciation and amortization), which result in an increased risk on the Government subsequently having to repay for them. Therefore, EBITDA may be utilised as an indicator to monitor a provider's business operation. Another indicator to assess the financial health of a business may be bed utilisation rates of the facility.



In fact, aged care service providers have gone through comprehensive financial assessment to be identified as capable of running the business and to be granted the Approved Providers Status. Furthermore, providers need to participate in Aged Care Approval Round (ACAR) for a range of government funded aged care places, of which places are allocated to those applicants demonstrating that they can best meet the care needs and manage the service. In the delivery of services, Prudential Standards will apply to ensure prudential compliance of providers in terms of their permitted uses of the funds and also liquidity management systems. It is evident that all providers being granted access to this industry already have satisfactory financial capacity and management capability. With higher prudential standards and closer monitoring on the business, the Government would be able to detect more signs of potential risks of bankruptcy, and to allow time for actions to secure some funding for future repayment prior to a default event.

## **Conclusion**

---

We welcome the opportunity to review the existing Accommodation Bond Guarantee Scheme. We also acknowledge the researches and studies being undertaken for the proposal of alternative options, which is remarkable and will be of tremendous assistance to facilitate public discussion and informed decision. We support the continuation of the existing Scheme as it has proved to be effective and reasonable, as well as continuous review to ensure the Scheme reflects the changing dynamic of the industry and suits the needs of consumers.

In this submission, we have included the feedback that we received from people in our community, including our volunteers and staff members. We would appreciate if ACFA takes into account of the viewpoints and concerns expressed in this submission. We are happy to discuss further to elaborate on our viewpoints and concerns.