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10 September 2020

Louise Amundsen / Rodger Prince
 Co-Solicitors Assisting in the Royal Commission
 Royal Commission into Aged Care Quality and Safety
 Level 5, 101 Pirie Street
 Adelaide SA 5000

Dear Ms Amundsen and Mr Prince

Steps taken by the Department of Health in response to the impact of the COVID-19 pandemic on RADs and associated liquidity risks

- 1 We refer to:
 - (a) our telephone conversation with Sam Thorpe on 3 September 2020, in which the Royal Commission requested information from the Department of Health (**Department**) in relation to the impact of the COVID-19 pandemic on Refundable Accommodation Deposits (**RADs**) and associated liquidity risks; and
 - (b) the Ansell Strategic report, '*Urgent Call for Action – short window of opportunity to prevent imminent residential aged care homes collapse*' dated March 2020 (**Ansell Report**).
- 2 This letter sets out the specific steps taken by the Department and the support of the Federal Government in response to the potential impact of the COVID-19 pandemic on RADs and associated liquidity risks for approved providers (**Providers**).

Steps taken by the Department

- 3 The Department notes that it has been cognisant of the potential impacts of the COVID-19 pandemic on the RAD balances of Providers and the associated liquidity risks from the time COVID-19 positive cases were reported in residential aged care services (**RACS**) which was prior to receipt of the Ansell Report in early April 2020. The broader role of RADs in the sector and trends in RAD outflows was already a matter of interest to Government as indicated in the Minister requesting in February 2020 that the Aged Care Financing Authority commence a project examining the role of RADs.
- 4 The Department has and continues to undertake the following steps in response to the potential impact of the COVID-19 pandemic on RADs:
 - (a) the Department set up a dedicated team within its Residential and Flexible Aged Care Division to look at options for supporting Providers who faced insolvency risks if RAD outflows increased;
 - (b) building on the initial Ansell Report dated March 2020, the Department engaged with sector representatives from Allity and Ansell Strategic in order to gather on the ground



real time information, including occupancy levels and consumer preference of RADs or Daily Accommodation Payments (**External Data**)¹. The External Data supplements the Department's existing data mechanisms.² The focus of the Department in this process is to develop an evidence base to support Government consideration of this issue as the impact of COVID-19 progresses and the options developed; and

- (c) the Department, in conjunction with the Department of the Treasury, arranged meetings with major financial institutions to seek their views regarding how COVID-19 was impacting the financial arrangements of providers in the aged care sector including potential risks arising from unusual RAD outflows resulting from COVID-19. There were discussions as to whether the institutions thought government intervention would be required and in what circumstances.
- 5 In parallel with these discussions, the Department developed a range of options which could be implemented if RAD outflows became a systemic problem, including extensive examination of loan options as proposed by Ansell Strategic and other stakeholders. However:
- (a) due to the relatively constrained spread of COVID-19 in Australia when compared to international experiences, the capital outflow was not as high as predicted in the Ansell Report; and
 - (b) information gathered from the financial institutions did not indicate significant financial risk for their existing residential aged care customers. Rather, Banks indicated a willingness to provide liquidity support to their existing customers with performing loans to the extent that may be required.
- 6 While RAD outflows have not become a systemic issue requiring a system wide support mechanism, the Department is proactively engaging with Providers identified as being at risk and has the capacity to provide emergency support to Providers on a case by case basis. This emergency support would be available should a Provider experience solvency risk as a result of RAD outflows.
- 7 The Department is also monitoring occupancy and the estimated impacts at the provider level and factors this into its risk profiling of Providers. Through the Department's Financial Monitoring Program, the Department engages with Providers identified as being at potential risk to determine their position. The Department also directs providers to support mechanisms, such as the Business Advisory Service (**BAS**), Business Improvement Fund and considers whether any emergency support is appropriate. As of 31 August 2020:
- (a) 258 applications from approved providers have been approved for a BAS review
 - (b) 86 applications have been submitted under the Fund and, of these, 36 providers have been approved for funding for a total of \$15.3 million; and
 - (c) emergency support for RAD outflows has not been required.

¹ The Department notes that the benefit of the External Data is the ability of the entities to collect data from their respective network of Providers on the impact of the pandemic in a more real time manner. The information from Allity included some additional metrics, such as enquiries for permanent admissions. This data was as close to real time as possible, taking into account data collection and analysis timeframes.

² The Department's data captures occupancy levels and the profile of consumers through ACFI scores. The data lag is approximately 2-6 weeks.



- 8 Through its engagement with sector representatives as well as Peak Bodies, the Department has been encouraging any concerned Provider to discuss their financial issues with their financial institution and engage with the Department as soon as possible.
- 9 In light of the outbreak in Victoria, the Department is currently working on options for further supports for Government's consideration.

Support from the Federal Government

- 10 In addition to the specific actions of the Department above, the Federal Government has announced a number of measures to support Providers during the COVID-19 pandemic, including:
 - (a) the \$205 million COVID-19 Support Payment to all residential aged care providers in June 2020;
 - (b) \$78 million in increased subsidies for a six-month period;
 - (c) targeted support for rural, remote and homeless services;
 - (d) a further \$245 million COVID-19 support supplement and viability and homeless supplement increases announced on 31 August 2020; and
 - (e) a range of other programmes to support the aged care sector and workforce.
- 11 In addition to these measures, emergency support mechanisms are available to support aged care providers experiencing liquidity issues as a result of RAD outflows. While support has not been required to date, peak bodies have been encouraged to advise their members to contact the Department if emergency support is necessary.
- 12 Please contact us if you have any questions or if we can otherwise be of assistance to the Royal Commission at this time.

Yours faithfully

Gilbert + Tobin

A handwritten signature in blue ink, appearing to read 'Andrew Floro'.

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