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27 August 1998

The Commissioners
Nursing Home Subsidies Inquiry
Productivity Commission
PO Box 80
BELCONNEN ACT 2616

Ladies/Gentlemen

SUBMISSION – NURSING HOME SUBSIDIES INQUIRY

This company presents the following submission in the hope that the issues raised will be considered carefully in the inquiry process as we believe there is a serious threat to the on-going viability of aged care facilities if they are not properly addressed.

1. The inadequacy in the funding of "Other Costs" in relation to the infrastructure component of funding.
A paper (Attachment A) by the writer is enclosed demonstrating that there is a material shortfall in this funding category because of the failure of the present and previous government to address the increasing level of resident dependency and other cost factors peculiar to aged care facilities exceeding CP1. The result now is a cost structure far exceeding the funding presently available.

2. The totally inequitable distribution of funding for State and Territory payroll tax- There are two (2) areas which require to be addressed

- The supplement which is paid bears little relationship to the actual cost of payroll tax in a given state or territory. There are vast differences - both deficit and surplus - accordingly to the size of bed capacity of facilities. Generally homes in 1-30 bed and 31-60 bed capacity suffer destructive deficits each month. These are not marginal shortages, in some cases the facility is threatened as to non-viability for this one component alone. Yet other facilities make a very substantial surplus from this one component. As an example in Western Australia there is an estimated $80,000 per annum. difference between the deficit applicable to 60 bed facility and the surplus derived by a 61 bed facility.
- The payroll tax problem is made even more onerous in that the full payroll tax supplement is now officially extended to the tax exempt "not for profif' sector which nationally operates tens of thousands of beds in high care facilities. These exempt facilities are actually encouraged by, DHFS to claim the supplement even though the only expenditure on this item may be a modicum of payroll tax invoiced by a nursing agency contractor for casual labour supplied. Tens of thousands of dollars of funding for this item are misdirected each month in th-is state. Supporting material (Attachment B) is enclosed to illustrate the illogical and damaging methodology in this segment of funding and the obvious need for revision.

3. **Worker's Compensation premiums:**
Recently, effective 117198 legislation was passed in this state which raised the gazetted allowable rate of premiums chargeable in aged care facilities by 40%. The effect of this meant a mandatory cost increase of over 90 cents per bed day over all facilities - state wide about $4 million. The Federal Government is totally ignoring any adjustment of funding for this item (affecting WA alone) which places a further major burden on already strained finance structures. (Attachment C- refers).

4. **Funding for Registered Nurses**
In WA and Victoria, registered nurses working in aged care facilities are 101/0017 wages worse off than their counterparts in the other states because the other states funding for this item from the Commonwealth is 10% greater. The reasons for this are obscure, but the figures are factual. The RN's in WA with a 10% lag already imposed on them now face at least a 20% shortfall compared to their counterparts in the public sector. Following industrial action by the
public sector, our aged care registered nurses cannot afford to stay working with us and our facilities because of lack of funding in many areas as detailed here do not leave a sufficiency of viability for us to meet the shortfall on an unfunded basis i.e. ex our existing margins which are in most situations, non-existent.
Since registered nurses are obviously essential within the staff establishment for the rendering of professional care (and indeed their presence is legally required), it is not out of the question that WA nursing homes and hostels may be closed unless the government takes urgent action in this regard. At present, it seems all we can expect is an AWE type adjustment in June 1999 which -

- Will create a disastrous cash flow and viability problem for the remainder of this financial year.
- Fall far short of the amount required for the Western Australian RN's to reach parity.

SUMMARY

These are issues which the writer believes that on a combined basis (particularly in the private sector which is affected by the payroll tax factor) have the strength to cause the financial failure of facilities in this state in the short to medium term. Certainly, the comments above are in context operational subsidies and resident standard contribution and do not take into account income to be derived from concessional subsidies and accommodation fees as applicable to high care facilities.

However, it must be appreciated that this latter income stream is quarantined under Section 57 2n of the Aged Care Act 1997 and it appears because of the foregoing funding discrepancies is and will be heavily eroded simply because the necessity to control an ever increasing working capital debt required to 'stay afloat' e.g. bank overdraft facility (refer 57 2n ii). Having said that, any income derived after this income stream is applied is - at least so far as the private sector is concerned -returnable to government via the income tax system as to 36%.

Clearly then, the effect of unfunded operational expenditure having to be offset by an income stream targeted for capital spending in the form of upgrade (after income tax) has the opposite result to that expected by the industry, government and consumers.

For example, the following is the scenario for a 60 bed nursing home in WA having regard to the matters raised in this submission.

	Per bed day
Conservative estimate of shortage in funding for "Other Costs" of infrastructure	$ 3.50*
Shortage in funding because of legislated Worker's Compensation Premium increase in WA 1/7/98.	$0.90
Shortage of funding 10% lag registered nursing.	$2,00
Payroll tax deficit	$0,80
	$7.20
Current approved level 1/7/98 for Return on Investment included in Funding	$8.93
Less 'intrusion' of funding shortfalls as above.	$7.20
Remaining ROI	$ 1.73

from which must be met Management fees or remuneration, interest, rent, equipment leasing, HP charges. (Rent in WA for leased nursing homes is at level of 59.00 per bed day), for which there is no component, nor ever has been since 1/7/87, of funding for these items. They must be met from the R01 allowance for funding.

It would appear therefore, that there is no scope to retain viability within the above operating scenario. In terms of a proper assessment the items which must be met from the R.O.I. i.e. Interest Rent, Management should be accounted for on a notional basis even if there is no actual financial commitment toward these items within a given facility. At $1.73 per bed day = $631 pa, the return available on investment is ludicrous with contemporary capital cost required per bed of at least $60,000. Even to restore the $1.73 to the current officially approved level of $8.93 would require an intrusion $7.20 into the 'quarantined' income stream from Accommodation Fees and Concessional Subsidies as defined in Section 57 2n referred to above.

Yours faithfully

L.W. BRAY
Executive Director

ATTACHMENT A

THE INADEQUACY OF FUNDING FOR INFRASTRUCTURE "OTHER COSTS"

by L. W.(Lyn) Bray **FCPA - Western Health Care Group WA**

An alarming omission in setting Aged Care funding at 1/10/97 was that apparently no attempt was made by the Federal Government or any stakeholder to confirm or deny the adequacy of SAM set in/97 as a basis for the funding of infrastructure "other costs" necessary for the adequate care of a resident in an aged care facility.

In the analysis which follows, infrastructure “other cost” is defined as all costs dealt with to 3019/97 as part of Standard Aggregated Module but Wages and Return on Investment are not covered. The latter is contentious indeed in its own right simply because its quantum at 1/7/97 was $8.81 .per occupied bed day (before Rent & Interest). Consequently, at that level, even assuming full occupancy, the return would be $3,214 per bed per annum. Applying double the long term bond rate (2 x 5.56%) = 11. 12% as a less than conservative deserved rate of return the capital deployed in a facility must be limited to only $28,900 per bed!. Enough said about ROI except to express a fervent hope that it will be included in submissions to the Productivity Commission!.

OTHER COSTS

Since 30/6/87 which saw the finish of the so called NH19 system of cost reimbursement, all infrastructure known as Standard Aggregated Module (SAM) has been funded on a base established at 1/7/87 and indexed accordingly to CPI and AWE factors each year on 1 July. SAM was last indexed on 1/7/97 but lost its character as Standard Aggregated Module as at 30/9/97 when the fee structure of aged care facilities was altered in line with the "reformed" system commenced 1/10/97. **The 1/7/97 "model" SAM is nevertheless our current allowance for so called infrastructure cost, for year ended 30/6/98.**

As stated, over its 10 years of life, SAM was indexed but never was any regard paid by government to any factors which may materially effect the level of SAM, the most obvious being increasing dependency of residents. That one factor alone caused material increases away beyond indexed levels "set in concrete" on 1/7/87.
e.g. massively increased laundry throughput’s, medical goods and incontinency requisites. Other costs affected by this and other factors were -

- Increased stall training to cope with increasingly dependent residents.
- Increased requirement of higher skilled administrative staff and office equipment to deal with complexity of funding administration and accountability.
- Increased repairs and maintenance on ageing buildings for which the funding provided no means for capital works or replacement.
- Huge increase in replacements of linen due to incontinency
- Impact of many cost factors not geared to inflation. e.g. increase in bank fees and associated federal and state taxes (FIDS and BADS). Rates & Taxes rises as a result of local government policies and re valuations. General insurances massively increased due to incidence of crime.

All of which had to be absorbed out of the "Return On Investment" component since we operated on a "fixed price" basis as to our direct income from fees and a fixed level of available occupancy.

The following is explanatory of the problem of inadequate infrastructure now entrenched in our operations and which undoubtedly should have been addressed and revised at 1110/97. That this was omitted is in my view an indictment on all major groups concerned with the reform process.

The first SAM was set at 1/7/1987 at $27.65 per occupied bed day (OBD) and was derived from indexing and adjusting cost components already two years old from the 1984/5 NH19 returns.

Refer Table B - SAM calculation and sufficiency.

The components were -

Wages	$13.21	
Other Costs	$ 8.38	
Return on Investment (ROI)	$ 6.06	$27,65

Six (6) years later at 1/7/93 SAM had grown via indexations to $35.76.
The components were -

Wages	$17.02	Increase 28.8%
Other Costs	$10.70	Increase 27.68%
Return on Investment (R01)	$ 8.04	Increase 32.67%
	$35.76	

Rent and/or interest and Plant/Equipment leasing had to be inet from the ROL There was no inclusion of these items in the “Other Cost” component.

The final SAM set 1/7/97 was $39.13 an increase from that set 4 years earlier of 9.42% and a total increase of 41.5% on the “first SAM” of $27.65 set 10 years earlier. Individual components after 1/7/93 are not available but that is not significant. It is the 41.5% growth over 10 years related to current cost levels which is paramount.

Nine (9) components of infrastructure cost have been selected for illustration and the initial cost awarded to these (refer SAM calculation and sufficiency Table B), represented 75% of $8.38 being the total “Other Cost” component of “first SAM” set 1/7/87. The amount for each item was extracted from the appended SAM calculation and sufficiency table and indexed at CP1 26.3% to cover the period 1985/87 as indicated in Table B.

The following tables compares cost movements taken from information provided by 4 West Australian nursing homes of 140 beds, 92 beds, 66 beds, 52 beds which being of reasonable size could be perceived to have advantage as to economies of scale.

TABLE A

The current cost has been averaged over the 4 homes.

ITEM	Funded per bed day 1/7/87	Funded per bed day 1/7/97	Actual Bed Day Cost 97/98	% Increase of actual cost since 1/7/87 (SAM increase was 41.5%)
Medical/Incontinence	.28	.39	1.30	364
Energy	1.18	1.65	1.67	41
Rates & Taxes	.45	.70	1.33	195
Bank Charges	.08	.11	.21	162
Telephone	.17	.23	.38	124
Replacements	.05	.07	.77	1440
Maintenance	.73	1.02	1.24	70
Food Supplies	3.03	4.24	3.83	26
General Ins.	30	42	.53	76
	6.27	**8.83**	**11.26**	**Average 80**

In aggregate, the cost of the above samples on an annualised basis in terms of current 97/98 cost as an excess to SAM funding is $3 10,000 or $2.43 per bed day for the 3 50 beds.

The panel of 9 items sampled are representative of 75% of SAM costs funded as "Other Costs" at 1/7/87. The best possible assumption for the other 25% not illustrated is that they would correlate with the 41.5% indexation of Sam represented by the figure set 1/7/97. This however is most unlikely -see later comment on laundry performance (as an example).

Thus, it can be expected that additional funding which will generate in due course from accommodation fees and concessional subsidies, (assuming an average of $7 per bed day) will be severely eroded in pursuing the main objective for a facility to remain viable. But then surely Section 57.2 (n) of the Aged Care Act 1997 prohibits such a practice and virtually "quarantines" such funding for application to capital requirements.

To be realistic, since only 75% of items in original SAM have been sampled, the emerging deficit will probably be much worse since at least part of the remaining 25% not sampled will also have other serious shortfalls attached. *eg* Laundry cost, due to the incontinence factor affecting in further investment in linen, increased laundry supplies, depreciation of machinery.

One group of nursing homes in WA in 1987 handled 17 tons of laundry per month. Two years ago (1996) it was measured at 31 tons per month. At the same time a count of items in one 92 bed home comparing to numbers in 1987 showed -

Sheets	up	93%
Draw Sheets		68%
Kylies		200%
Face Washers		178%
Quilts/Blankets		400%

This particular facility had the same efficient senior laundress in 1997 as in 1987!. There was no change in bed numbers between these dates.

These comparisons made 2 years ago are now in all likelihood even more illustrative.

With these kind of increases in the throughput of that very expensive cost centre - Laundry, the most naive assessment of funding versus costs for this item could not possibly find resolution in merely the indexation factor which has been applied over the past thirteen (13) years, using the "pre-historic" NH19 of that earlier period as the base.

CONTINUING VIABILITY?

These illustrations coupled with results of a national survey by an accounting firm of 92 facilities for the 95/96 financial year which showed that 64% of those surveyed failed to make a profit, are clear indications that there simply is insufficient funding in the system at present. This will create the utmost difficulty to -

- Remain viable until funding from Accommodation Fees and Concesional subsidies build up. Even then the question arises if that type of income can be legally directed towards the maintenance of viability.
- Allow for substantial expenditure to upgrade systems, train stafl etc. for accreditation 1/ 1/200 1. Physically upgrade facilities towards accreditation.
- Enter into additional borrowing when it is virtually impossible to convince a lender (for the present and near future) that the business has a sufficient profit level (if any at all) to support such borrowing.

A comprehensive survey of all items of infrastructure cost beyond the nine (9) items illustrated herein needs to be undertaken without delay to conclusively determine the seriousness of the situation and the result referred to the productivity commission enquiry.

However, if you wish to “test” your own facility read on.

Reference earlier in the paper indicates that at **1 July 1993**, the "other costs" component of SAM was $10.70 per occupied bed day (OBD).

From **1/7/93 to 1/7/97, SAM** increased by 9.42% over all 3 components (Wages, ROI, Other Costs) *i.e.* $35.76 to $39.13.

It can therefore be assumed (whilst the individual components have in the past been dealt with as to annual adjustment by a slightly different % factor), that as at **1/7/97** "Other Costs" Component would be $11.70 ($10.70 + 9.42% = $11.70) or very close to it.

This means that the current actual average cost of the sampled 9 items referred to in Table A of the paper $11.26 OBD) almost totally consumes the allowed funding for "other costs" without any inclusion of the large number of other items in a nursing home chart of accounts beyond those 9 referred to.

<u>HOW DID YOU FARE? - For period 1/7/97 to date:</u>

a) Calculate your own cost per OBD for the 9 sampled items per Table A.
b) Calculate cost per OBD for all other items in your infrastructure "Other Costs".
c) Whatever that excess above $11.70 per OBD amounts to, it is a direct intrusion into your “Return on Investment” (ROI) which at 30/6/97 was supposed to render you $8.81 per OBD before the payment of rent or interest, plant/equipment, leasing costs.

In conclusion the writer remains strongly critical that the whole issue of Infrastructure adequacy related to dependency should have been examined thoroughly long before now in the lead up to the reforms. It is not too late however and the area should be closely explored- by the Associations in preparation of their submissions to the Productivity Commission.

END

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TABLE B

SAM CALCULATION AND SUFFICIENCY

The following is a list of those items that were extracted from the NH19's for 1984/85 and utilised into calculating the original SAM figure of $27.65

It should be noted that some items of course were adjusted to avoid duplications 'm calculations e.g. contract catering/food supplies are overlap figures and therefore components were adjusted out of the contracting staff figures so as not to duplicate amongst domestic catering staff.

The component items have been arranged in groups e.g. staff (contracting/salaried) administrative etc.

CONTRACT CLEANING	**0.75**
CONTRACT CATERING	**3.17**
OTHER CATEGORY (Lab)	**0.10**
LSL, PAYMENT	**0.07**
SALS. DOMESTIC SERV.	**7.06**
SALS. ADMINISTRATION	**1.47**
LSL HANDYPERSON	**0.02**
SALS. HANDYPERSON	**0.76**
	$13.44

CLEANING MATERIAL	**0.31**
CONTRACT LAUNDRY	**0.95**
	$1.26

FOOD SUPPLIES	**$2.42**

ACCOUNTING CHARGES	**0.19**
ADVERTISING	**0.03**
AUDIT CHARGES	**0.05**
BAD DEBTS	**0.03**
BANK CHARGES	**0.07**
INSURANCE	**0.24**
LEGAL	**0.04**
MANAGEMENT	**0.75**
VEHICLE	**0.14**
STATIONERY	**0.11**
SUBSCRIPTIONS	**0.06**
TELEPHONE	**0.13**
REPLACEMENTS	**0.04**
CONFERENCE	**0.03**
DEPRECIATION	**0.45**
LEASE/H1RE,	**0.16**
REPAIR MOVEMENT	**0.08**
	$2.60

ELECTRICITY/GAS	0.94	
RATES/TAXES	0.36	
		$1.30

OTHER CAT C	0.05	
GARDEN EXPENSES	0.05	
MAINTENANCE	0.58	
REPIACEMIENTS	0.29	
OTHER CAT D	0.09	
OTHER CAT E	0.11	
		$1.17

MEDICAL SUPPLIES	0.22	
OTHER CAT.	0.07	
THERAPY MATERIAL	0.05	
		$0.34

RETURN ON INVESTMENT	$4.89	
		$4.89

TOTAL **$27.42**

As previously described, due to overlaps/duplications the 1984/85 compilation figures finally utilised were

WAGES	**$10.62**
OTHER	**$ 6.76**
ROI	**$ 4.89**

The Average Weekly Earnings figure increase from 1984-86 was 22.7% and the CP1 Increase was 26.3%. Factorisation figures were utilised comparing staffing wages DF homes to participating and using such factors the final SAM figures became -

WAGES	**$13.21**
OTHER	**$ 8.38**
ROI	**$ 6.06**
	$27.65

ATTACHMENT B

PAYROLL TAX FUNDING

The Reform process has changed the system of funding state payroll tax which every employer except those in the exempt voluntary/charitable sector has to pay to WA Government revenue based on a percentage applicable to the total payroll to staff each month. This used to be funded "dollar for dollar" on actual tax paid but on 1110197 under the reform process, a “supplement” to the subsidy was calculated to provide a differing amount of subsidy for this item, in each state and territory. Unfortunately, many smaller homes, particularly in the category of 30-60 beds have been grossly disadvantaged by this in respect of payroll tax incurred of thousands of dollars a month in excess of the “supplement” funds provided.

On the other hand, the tax exempt voluntary/charitable sector who on a casual basis contract with a nursing labour agency for temporary staff may incur a small amount of payroll tax which is charged separately to the facility by the agency. The agency is not tax exempt and usually the amounts incurred by a facility in this manner are small for this casual labour element. Never the less the facility has "incurred" payroll tax within the Act and is entitled to the full supplement. (To correct the position, the supplement of course should only be paid to facilities which are registered with State Revenue Department to pay payroll tax on their prime payrolls).

Thus, it is possible for an otherwise exempt home to receive a supplement of payroll tax of thousands of dollars a month for outlaying the barest minimum of tax paid. For example, $1,000 of casual nursing labour from an agency over a month would only incur about $60 in payroll tax billed by the agency to the facility, yet reimbursement dependent on the facilities bed numbers could be thousands of dollars.

On the other hand, sound well conducted facilities in the private sector are moving towards insolvency for this reason alone. The Government have been advised but refuse to address the issue. In fact, exempt voluntary/charitable facilities are encouraged to make the claim which could run up a bill to Treasury of tens of millions of dollars per annum. (Letter from DHFS Perth enclosed).

Finally on the matter of payroll tax, here is an example to highlight the idiocy of funding by way of the payroll tax supplement which varies state to state. The current rates per bed day are given below:

PAYROLL TAX **SUPPLEMENT**
RATE PER CATEGORY 1 TO 4 RESIDENT PER DAY ($) FROM 1/7/98

	NSW $	**VIC** $	**QLD** $	WA $	SA $	TAS $	ACT $	NT S
61+ places or grouped*	4.61	3.83	3.31	4.58	3.11	4.85	4.79	5.29
31-60 places	3.15	3.24	1.27	0.99	2.33	4.85	4.79	5.29
1-30 places	1.41	2.08	1.03	0.55	1.19	4.85	4.79	5.29

You will note from the table, that Tasmania (Minister Warrick Smith’s own state) has a uniform daily rate per resident of $4.85 and when compared to NSW, is seen to be considerably in excess of NSW over all ranges of bed groupings.

A comparison of the respective rates of payroll tax set by the NSW and Tasmanian state governments indicate only a slight variation between the two states (in fact NSW is.25% <u>more costly</u> than Tasmania).

That being the case, it is difficult to find a logical explanation as to why Tasmania is treated so generously particularly in the 1-30 places category where the supplement supplied for the payment of this tax is 3 ½ times more than allowed in NSW.

This is just an example of the flawed methodology which is rife "across the board". You may also wonder why in WA a 60 bed facility is funded at .99 cents per resident/day, yet obviously with the same staff establishment a 61 bed facility receives $4.58 per resident/day.

In practice, having regard to the exemptions and rates applied by WA government for this tax, a 60 bed nursing home is about $80,000 per annum worse off than a facility of 61 beds. The 60 bedder makes a deficit of $18,000 and the 61 beds enjoy a surplus from this one item of funding of $6 1,000!. The methodology is more than "flawed" - it is obscenely inequitable.

Another discrepancy with payroll tax funding is that residents who are categorised - Category 5 and above (lower dependency), apparently are seen by the Federal Government as undeserving of any labour involvement in their daily care. Why?, because the payroll tax supplement is payable only in regard to occupied beds for Categories 1 to 4.

SUPPLEMENTARY FUNDING FOR AGED CARE FACILITIES

The attached analysis of Payroll Tax (PRT) Funding and expenditure has been prepared to illustrate state by state or territory the effect of funding by the recently announced rates on a standard payroll which is comprised as follows:

Per resident per day:		
3 nursing hours	@ $21	$63
1 non-nursing hours	@ $17	$17
Total Estimated Wages per day	$80	

Therefore for singly owned -	
30 beds	$2,400 per day payroll cost
60 beds	$4,800 per day payroll cost
70 beds	$5,600 per day payroll cost
Group ownership of 200 beds overall several facilities	$16,000 per day payroll cost

Each State or Territory has been compared as to the PRT supplement available at these bed capacities with careful regard to tax rates (including variable rates at different levels of payroll) and exemption levels. This detailed information was obtained from the various State/Territory taxation offices.

It will be seen that Tasmania, NT and ACT stand out as being very creative as to surplus even at the 30 bed level and all the way through to group, but there are huge deficits created at the 200 bed, "group" category in all other states. By far the worst off "group"' wise is South Australia with a deficit against the supplement of over $ 100,000 as well as a substantial deficit for the other 3 sampled levels of capacity.

It is interesting to note that Tasmania and NSW have almost exactly the same PRT rate and threshold (NSW is .25 of a cent dearer in rate). However, at the 30 bed level, Tasmania enjoys a funding rate of 4.79 per bed day, a surplus of $94 a day for a small facility compared to a deficit of $11 per day for the 30 bed facility in NSW, funded at $1.38. It will also be seen that "'groups" as mentioned previously are a disaster with WA and QLD faring very badly because no threshold is available at this high "group" payroll level in these states.

The signs indicate a need for a return to the drawing board except perhaps in Victoria where there seems to be a reasonable balance for non-group facilities in all place categories. However, Victoria's group funding falls a very long way short

Strike some sort of average certainly (for which there will always be winners and losers), but there has to be some better methodology than that which generates the nonsense situation illustrated above at the 30 bed level between NSW and Tax. (for example) and the crippling group deficits showing up in varying degrees in other states. These are not just pin pricks on the bottom line. They are of sufficient magnitude to effect a facility’s on-going viability.

Notes

Rates of Supplement used are for period 1/10/97 to 30/6/98

ATTACHMENT B

PAYROLL TAX COMPARISON OF NEW FUNDING (NOV 1997) WITH ESTIMATED DAILY PAYROLL COST OF
30 BEDS, 60 BEDS, 70 BEDS GROUP OF 200 BEDS AT $80 PER BED PER DAY.

STATE	BEDS	EST WAGE COST PER DAY	EXEMPTION	AMT FOR ASSESMENT	PR TAX RATE	FACILITY DAILY PRT COST	FUNDING FORMULA PER BED DAY	PRT FUNDED	FACILITY DAILY SURPLUS **(DEFICIT)**	ANNUAL SURPLUS (DEFICIT]
		$	$	$	%	$	$	$	$	$
NSW	30	2,400	1,644	756	6.85%	52	1.38	41	(10)	(3,791)
	60	4,800	1,644	3,156	6.85%	216	3.12	387	(29)	(10,580)
	70	5,600	1,644	3,956	6,85%	271	4.56	319	48	17,598
	200	16,000	1,644	14.356	6.85%	983	4.56	912	(71)	(26,056)
VICTORIA	30	2,400	1,410	990	6,25%	62	2.05	62	(0)	(137)
	60	4,800	1,410	3,390	6.25%	272	3.21	193	(19)	(7,035)
	70	5,600	1,410	4,190	6.25%	262	3.77	264	2	739
	2C10	16,000	1,410	14,590	6.25%	912	3.77	754	(158)	(57,624)
QLD	110	2,400	2,260	140	6.70%	9	1.00	30	21	7,526
	60	4,800	2,260	2,540	6.70%	170	1.22	73	(97)	(35 398)
	70	5,600	2,260	3,340	6.70%	224	3.24	227	3	1,102
	200	16,000	-	16,000	5.00%	800	3.24	648	(152)	(55,480)
WA	30	2,400	1,849	551	3.65%	20	0.51	15	(5)	(1,756)
	60	4,800	1,849	2,951	3.65%	108	0.95	57	(51)	(18,510)
	70	5,600	1,849	3,751	3.65%	137	3.53	247	110	40,219
	200	16,000	-	16,000	5.56%	890	3.53	706	(184)	(67,014)
SA	30	2,400	1,250	1,150	6.00%	69	1.16	35	(34)	(12,483)
	60	4,800	1,250	3,550	6.00%	213	2.29	137	(76)	(27,594)
	70	5,600	1,250	4,350	6.00%	261	3.05	274	(48)	(17,338)
	200	16,000	1,250	14,750	6.00%	885	3.05	610	(275)	(100,375)
TAS	30	2,400	1,644	756	6.60%	50	4.79	144	94	34,238
	60	4,800	1,644	3,156	6.60%	208	4.79	287	79	28,873
	70	5,600	1,644	3,956	6.60%	261	4.79	335	74	27,084
	200	16,000	1,644	14,356	6.60%	947	4.79	958	11	3,834
NT	30	2,400	1,643	757	6.00%	45	5.24	157	112	40,800
	60	4,600	-	4,800	6.00%	288	5,24	314	26	9,636
	70	5,600	-	5,600	6.00%	336	5.24	367	31	11,242
	200	16,000	-	16,00O	6.00%	960	5.24	1,048	88	32,120
ACT	30	2,400	2,055	345	6.85%	24	4.73	142	118	43,168
	60	4,800	2,055	2,745	6.85%	188	4.73	284	96	34,955
	70	5,600	2,055	3,545	6.85%	243	4.73	’z31	88	32,218
	200	16,000	2,055	13,945	6.85%	955	4.73	946	(9)	(3,3,70)

Payroll Tax Supplement (Nov 97) For Aged Care Facilites

STATE	BEDS	COST BASED ON STATE FORMULAE Per Bed Day	APPROVED SUPPLEMENT' Per Bed Day
NSW	30	1.73	1.38
	60	3.60	3.12
	70	3.87	4.56
	Group 200	4.92	4.56
VIC	30	2.06	2.05
	60	3.53	3.21
	70	3.74	3.77
	Group 200	4.56	3.77
QLD	30	0.30	1.00
	60	2.83	1.22
	70	3.20	3.24
	Group 200	4.00	3.24
WA	30	0.66	0.51
	60	1.80	0.95
	70	1.95	3.53
	Group 200	4.45	3.53
SA	30	2.30	1.16
	60	3.55	2.29
	70	3.72	3.05
	Group 200	4.43	3.05
TAS	30	1.66	4.79
	60	3.43	4.79
	70	3.73	4.79
	Group 200	4.73	4.79
NT	30	1.50	5.24
	60	4.80	5.24
	70	4.80	5.24
	Group 200	4.80	5.24
ACT	30	0.80	4.73
	60	3.13	4.73
	70	3.47	4.73
	Group 200	4.77	4.73

Increase to 4.53 from 1/4/1998

NOTES

** Note Per Bed Day Cost Based on state Formulae comprised

** 3 Hours Nursing Labour	63.00
1 Hour Non Nursing Labour	17.00
Per Bed Day	$ 80.00

** Thus

30 Beds =	$2,400
60 Beds =	$4,800
70 Beds =	$5,600
Group 200 Beds	$16,000

At Respective State Tax Dept Rates & Thresholds

ATTACHMENT B

ATTACHMENT B

29 April 1998

Mr Stephen French
Assist. State Manager Aged & Community Care
Department Health and Family Services
GPO Box 9848
PERTH 6001

Dear Mr French

RE: **PAYROLL TAX SUPPLEMENT**
(Your letter 15 April 1998 to non-profit organisations)

May we be advised please as to whether the “liability to pay an amount of payroll tax” (refer para.3) extends to trades people and the like who highlight, on request, this item on invoices which relate to work of a non-nursing nature - e*.g.* a plumber, an electrician, a painter. There are of course large contracting firms in these callings who pay payroll tax - like nursing agencies.

If this is so, it seems that some formality of exemption similar to provisions which apply for sales tax *(e.g.* quoting a sales tax exemption number) is necessary which of course requires legislation. Otherwise, surely the end result is that DHFS could be in the position of financing the payroll tax commitment in every state of every sundry supplier of any service, who may take the trouble to show on his supplier's invoice the payroll tax element of the total contract price!.

In general, we and other colleagues find it hard to believe that such a directive can be issued. It is clearly fair and reasonable that the exempt non profit sector should be able to recoup this tax (for example as part of a bill paid to a nurse agency) and this has always been the case since 1988. To have a situation where literally one shift of agency may be worked in a given month(s) costing a few dollars in payroll tax and enabling the facility in any state, depending on its size, to receive a supplement of thousands of dollars can only be described as a gross mishandling of treasury funds - "Legalised Fraud" is a term actually used by a senator of this state as a colourful description of this scenario when it was explained to him.

So far as operators of private sector high care facilities are concerned, many remain caught with large deficits of funding as to payroll tax paid, particularly in the 31160 beds bracket of the supplement. We are all caught by the ridiculous ban on payroll tax funding for Category 5 residents and yet this colossal sum (perhaps $30m pa of funding or more) is showered on the "not for profit” group who already enjoy the privilege of no income tax, no sales tax an exemption from most rates and taxes attached to building occupancy.

We are left incredulous and dismayed but not paralysed. The whole issue has today been referred to a Federal member of parliament by several nursing home proprietors.

As qualified professionals and experienced business people our firm has nothing but praise for the interpretation placed on this issue by the WA office of your department in the first instance as described in para. 1 of your circular letter to the sector concerned 1514198. However, the revised interpretation given by your central office can only be condemned both in our capacity as Aged Care providers and ordinary taxpaying citizens.

Yours sincerely

LM. **BRAY**
Executive Director

ATTACHMENT B

COMMONWEALTH OF AUSTRALIA

Department Health and Family Services
GPO Box 9848 Perth Western Australia 6001
Telephone: (09) 3465212 Fax (09) 3465222

Commonwealth Department of
Health and
Family Services

All non -profit organisations

Dear Provider

Payroll Tax Supplement

Following the proclamation of the Aged Care Act and the publication of the Residential Care Manual, staff of this office interpreted the sections relating to the payment of the Payroll Tax Supplement as applying only to those facilities which were liable to pay the tax direct to the State Government.

Following discussions with staff of the Department's Central Office advice has been received that the above interpretation of the legislation is incorrect.

As a result of the revised interpretation, if your facility incurs a liability to pay an amount of payroll tax, for example as part of an account from an nursing agency, your facility can claim the payroll tax supplement. If your facility incurred a payroll tax bill prior to receiving this letter and has not claimed the supplement from the Department, due to the original advice emanating from this office, a back claim can be lodged.

I apologise for any inconvenience which may have been resulted from the above. Should you require further information on this matter please contact John Sharp on telephone 93465212 .

Yours faithfully

Stephen French
Assistant State Manager
Aged and Community Care

15 April '98

ATTACHMENT C

AON

Aon Risk Services

Insurance Brokers
Risk Consultants

Insurance Services Division
PO Box 7026, PERTH WA 6850
Level 32, QV.1.
250 St Georges Tce, PERTH WA 6000
Telephone (08) 9429 4444
Facsimile (08) 9429 4490

19 May 1998

Mr M Saunders
Department of Health & Family Services
GPO Box 9848
PERTH WA 6000

Dear Mark

WORKERS COMPENSATION INSURANCE

I refer to our discussion relative to Workers Compensation premium rates as they relate to the Nursing Home Industry.

As advised the Workers' Compensation Premium Rates Committee has determined the recommended premium rates, in respect to Workers' Compensation policies, for the forthcoming twelve month period effective 4:00P.M. 30th June.

These rates were declared under Western Australia Government Gazette, dated Tuesday 31st March 1998 (70).

The Industry Rate for Nursing Homes has increased from the 1997/98 rate of 3.68% to 5.15%, for the 1998/99 period, an increase of 40%.

I also confirm that under present legislation insurers have the ability to load this rate by an additional 50% if they consider the claims experience warrants this.

There is legislation before Parliament containing a number of amendments to the Workers' Compensation Act which includes a proviso allowing insurers to increase the maximum loading from 50% to 100%, however it is anticipated that this legislation will not be dealt with in the near future.

I am attaching an article which appeared in a publication issued by the Industrial Foundation for Accident Prevention which also deals with the increase in Workers Compensation Insurance costs.

If I can be of further assistance please do not hesitate to contact me.

Regards

Tony Pinnegar
Senior Account Executive

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Workers' compensation

Claims blow-out forces up insurance costs

The continuing trend towards user-pays in workers' compensation will bring pain or pleasure for employers for 1998/99, depending on which industry they are in.

Each year the Premium Rates Committee sets recommended premiums for insurance companies to charge. The rates are based on the claims history in each of the 480 industry classifications.

Next financial year's recommended rates were announced recently — an average increase of 13.6% compared with the current year. The biggest increase in recommended premiums will be 106.4% for international sea transport and the biggest reduction will be 51.9% for nickel ore mining. The highest rates become 10.73% of salary/wages for bricklaying and 10.28% for horse farming.

In setting the new rates, the committee made greater use of its "risk sensitivity" methodology by removing artificial barriers to increases and decreases for individual industries. It also increased the margin by which "safe" industries are priced below the average of all industries.

These changes will reduce the amount of cross-subsidy of unsafe industries by safe ones.

However, the overall increase of 13.6% is an unpleasant surprise in view of the 30% reduction achieved in the years since 1983. Lost-time accidents declined by 8.7% last year.

The chairman of the committee, Des Pearson, said: "The increase continues to be directly attributable to the escalating costs in the area of weekly benefits, common law, medical treatment and vocational rehabilitation.

"The increase is made up of a 4% increase in view of the very significant cost escalation at a current level of 15% per annum or more over and above wage inflation, together with a 9.2% uncertainty margin in view of the volatility in the current claims cost environment.

The Labour Relations Minister, Graham Kierath, said that the workers' compensation "system" had blown out by $82 million last financial year and the cost of certain common law claims had reached $107 million from a 1993 estimate of $2 million. He forecast action to close this loophole shortly.

Winners and losers

	% Increase	New rate*
Biggest decreases compared with 1997/98		
Nickel Ore Mining	-51.9	0.90
Computer Maintenance	-44.9	0.48
Lotteries	-41.6	0.87
Banks	-40.3	0.40
Money Market Dealers	-40.3	0.40
Deposit Taking Financiers†	-40.3	0.40
Other Financiers	-40.3	0.40
Architectural Services	-40.3	0.40
Information Retrieval and Storage	-40.3	0.40
Computer Consultancy	-40.3	0.40
Biggest increases compared with 1997/98		
Waste Disposal Services	+65.0	4.92
Prefabricated Building Manufacturing	+67.2	5.59
Personal and Household Goods Hiring	+67.2	2.94
Financial Asset Investors	+67.3	1.12
Plastic Extruded Product Manufacturing	+68.4	5.39
Rubber Tyre Manufacturing	+69.3	9.07
Takeaway Food Retailing	+71.1	1.56
Wood Product Manufacturing†	+83.2	4.76
Health Services†	+94.9	2.41
International Sea Transport	+106.4	6.25

* % of salary/wages
† unless otherwise classified

Injury Management Week

Injury Management Week during May 11 to 15 aims to improve awareness of the effective approaches to managing injuries and the importance of maintaining the relationship between employer and injured worker.

A total of 27 events will take place on subjects including vocational assessments, rehabilitation for injured workers from non-English speaking backgrounds, office ergonomics, critical incident stress, managing recurring back injuries and preventing pain from becoming chronic.

A full calendar of events is available by phoning Linda McCardle at WorkCover WA on 9388 5574.

RCDs

from page 7

aerial wires or lighting circuits and of the remaining eight, four would have been prevented by the installation of RCDs.

"Of these four, at least two and possibly three electrocutions involved portable equipment within the scope of Regulation 3 60."

He said there were also eight cases of severe injury from electrical shock which might have been prevented.

The installation cost should be seen in the context of $1 billion annual cost of work-related injuries and deaths.

Produced by the Industrial Foundation for Accident Prevention, PO Box 339, Willetton, WA 6155.
Telephone (08) 9310 3760, fax (08) 9332 3511, Internet www.iinet.net.au/~ifap/
ISSN 1321-9553. Registered by Australia Post. Publication number WBC9214.
Views expressed in "Safety WA" are not necessarily those of IFAP.

- INCREASED COMPENSATION REMOVES ANY INCENTIVE FOR INJURED EMPLOYEES TO RETURN TO WORK RESULTING IN EXTENDED PERIODS OF ABSENCE
- INCREASED REHABILITATION COSTS WITHOUT THE DESIRED EFFECT
- INABILITY TO REDEEM/SETTLE WORKERS COMPENSATION CLAIMS RESULTING IN LONGER TERM LIABILITIES AND INCREASED CLAIMS RESERVES
- INCREASED EXPOSURE FOR UNDERWRITERS IN RESPECT OF CONTRACTORS/SUB-CONTRACTORS DUE TO PRINCIPALS "CONTRACTING OUT" OF LIABILITIES
- COMMON LAW THRESHOLDS HAVE HAD LITTLE EFFECT ON THE NUMBER OF DAMAGES CLAIMS BEING PERSUED. COMMON LAW COSTS HAVE ACTUALLY INCREASED BY APPROXIMATELY 30%
- INCREASE IN THE NUMBER OF SECOND SCHEDULE SPINAL INJURY SETTLMENTS

Attached is an article produced by the Industrial Foundation for Accident Prevention, which reinforces the current situation.

Aon Risk Services acting in our capacity as your Insurance Brokers are continually working to minimise premium increases and we will be contacting you in the near future for individual discussions on this matter.

Workers Compensation continues to be a source of escalating costs with the Workers' Compensation Premium Rates Committee recently announcing an increase in the rate for the 1998/99 period from 3.68% to 5.15%.

In addition to this insurers have the ability to load this rate by a further 50% if they consider the claims experience warrants this loading.

Further to this there is a legislation before parliament with various changes to the Workers' Compensation Act, including the option of increasing the 50% loading to 100%. However, it is anticipated that this legislation will not be approved in the short term.

The action of the premium rates committee confirms the present extremely hard state of the Workers' Compensation market, with underwriters continuing to report significant overall losses, estimated at the current time at 125%.

The major reason for increased claims costs stems from effects of leglislative changes made in 1993, which did not achieve the result expected by the Western Australian Government and Work Cover Authority.

The changes were designed to achieve the following:

- **REDUCE THE COST AND NUMBER OF COMMON LAW CLAIMS**
- **LIMIT THE INVOLVEMENT OF LAWYERS IN THE WORKERS' COMPENSATION DISPUTE RESOLUTION SYSTEM**
- **REDUCE LEGAL FEES FOR MINOR CLAIMS**
- **PLACE A MAJOR EMPHASIS ON REHABILITATION**

To offset the restrictions imposed the legislation provided for:

- **HIGHER RATES OF COMPENSATION FOR THE FIRST FOUR WEEKS OF INCAPACITY**
- **INCREASE OF PRESCRIBED AMOUNT PAYABLE BY 25%**
- **INTRODUCTION OF SECOND SCHEDULE LUMP SUM SETTLMENT ENTITLEMENTS FOR SPINAL INJURIES**

Unfortunately the changes have not had the desired effect and claims costs have continued to increase. The major reasons are:-

- **ENTERPRISE BARGAINING AGREEMENTS AND WORKPLACE AGREEMENTS HAVE REPLACED AWARD RATES AND CONSEQUENTLY INCREASED WEEKLY COMPENSATION PAYMENTS**