OUR LADY OF CONSOLATION HOME

Conducted by the Franciscan Missionaries of Mary

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

Dear Sir

Our Lady of Consolation Home conducted by the Franciscan Missionaries of Mary has been in continuous operation since 1947. The Sisters provide care and accommodation in a 130 bed specialist high care facility and a 174 place specialist low care facility on one site at Rooty Hill in NSW.

In addition the Sisters provide community based care via four Home and Community Care programs to some 900 clients throughout the greater west of Sydney.

We would like to make a brief submission in regard to funding issues affecting both nursing home and hostel facilities.

Yours faithfully
OUR LADY OF CONSOLATION HOME

B J Dooley
GENERAL MANAGER

COALESCENCE

The previous system recognised the differences *in* the cost of providing similar levels of care from state to state. This was achieved by determination of a staffing ratio based on a common assessment tool being applied to a state based hourly rate. This hourly rate was determined by reference to a notional mix of nursing staff at award rates prevailing in each state. Where award rates varied from state to state, the impact was negated through reference back to staff hours capable of being purchased through the stated based hourly rate. Hence standards of care should be reasonably similar from state to state.

To apply a national rate based on an overall average without ensuring the award rates are, identical from state to state will necessarily result in some states being able to purchase additional hours and some less hours than previously. This must result in different standards of care from state to state. Of course those states where award rates are such that their costs are lower than average need not use the windfall which would arise by the move to uniform rates, to purchase additional staffing hours but to increase profit levels (or decrease losses!).

In our view a national funding rate is inequitable until a national uniform award rate of pay for staff applies.

In our view state based rates should continue until the aged care industry has the opportunity to move to federal awards.

Workers' compensation

There are other factors of course, which influence cost variations from state to state (and indeed from one facility to another). Workers' compensation costs are a most important factor in managing the overall cost of operation of a nursing home. The full impact of the move away from a cost reimbursed model is in our view yet to be felt <u>but represents a very significant danger to every proprietor!</u>

Workers' compensation premium rates are regulated by State governments and the same argument raised in relation to staffing costs applies here. What is different however with workers' compensation, is employers have very little real ability to manage this cost. We all understand good OH&S practices and policies are essential and we believe very few operators would not have made significant improvements over the past few years, however, anecdotal stories about 'pay outs'

for dubious claims are common, lawyers in NSW for instance advertise frequently guaranteeing pay outs or no fees.

The financial results experienced by WorkCover in NSW recently are testimony to the need to reform the workers' compensation system! To subject proprietors to the vagaries of volatile premiums on one hand whilst totally controlling income on the other is outrageously unfair.

What business operator would contemplate a situation like this?

We believe workers' compensation premiums must be fully reimbursed. Operators are bound by law to provide a safe work environment and there are penalties which may be applied where proprietors fail to comply. Why double the penalty?

One way to address the problem may be to allow every proprietor to charge the current government regulated fees plus workers' compensation levy unique to each facility, which could generate no Tore than the previous years premium. In this way the poorer performers (work safety wise) would have higher fees and clients may choose a cheaper facility. An element of competition should provide proprietors an incentive to keep workers' compensation premiums down. It is unfair to expose proprietors to this sort of risk with no way to recover costs**.**

We understand the original allowance for workers' compensation in the new fee structure was determined by reference to average rates for the 1993/94 year. If this is so, again it is most unfair.

Indexation

We must confess to being less than expert on the new subsidy indexation process (COPO). The point we wish to make is this - any system of indexation will fail to address award increases unless it is explicitly linked to the award rates. It is understood that salaries and wages account for at least 75% of total costs (in our situation it is 86.83% and I will discuss this later). Therefore an increase in award rates will disproportionately affect the overall cost of operation. The overall indexation rate based on whatever basis (excluding direct link to industry award rates) will in all probability only compensate the non-labour cost increases which would be no greater than 25% of overall costs. (Again this places proprietors in a perilous position in having no way to adjust income to match rising costs). Our question again is, who can run a business like this?

Productivity Improvements/Enterprise Bargaining

To cope with a reduced income base following the new system in October last year, we have had to reduce our nursing staff. by approximately 270 hours per week to avoid a loss in 98/99. We believe the major reason was an inadequate recognition of workers' compensation premiums in the new funding rates. On one hand in the 96/97 year under the previous system we had 130 residents, some of whom are still with us now, we spent no more than we were allowed under that system for care staff. We now find on the other hand we still have 130 residents with roughly the same care needs, we have the same number of non-nursing staff, yet we find we need to shed 270 hours under the new system to survive. We have done this notwithstanding this was the funded NPC staffing level previously provided under that system.

When the previous system came in in 1987 we shed over 300 non-nursing hours per week to cope with SAM.

Our point is we do not believe there are any productivity gains left or if indeed any do exist they are very very minor.

There needs to be established a staffing ratio benchmark which supports industry best practice arid subsidies should be linked to this benchmark. One of the difficulties is the comparison of staffing levels between private for profit operators and non-profit operators. There are poor, good and excellent performers in each sector no doubt, however, there have been no clearly articulated staffing ratios proposed or identified as being used in the, funding rate formula (if there has it has been kept quiet) and therefore no critical examination of its adequacy or otherwise to support best practice. It would be easy to generate profits by simply reducing staffing levels, however, quality care depends on respect for staff and their contribution. This can only happen by applying reasonable expectations and fair wages. What constitutes a reasonable input and a reasonable result needs to be established and funding linked to that benchmark.

A benchmark to establish a staffing ratio which is reasonable needs to be established, clearly stated and funded accordingly and where good operators deliver standards using less staff they reap the rewards, the poorer performers will have an identified cost structure to achieve to cope financially. Where they cannot do this and meet standards they are out of business, which is what we all want.

What we do not know is whether the funding will support best practice whilst being fair to residents, operators and staff.

Cost Ratios

The discussion paper seeks comments on the following statements -

➢ Is the commonly espoused 75/25 ratio of wage to non-wage costs reasonable (P11).

Our situation is somewhat different to this. Our ratio in the 97/98 year was 86.9% (86.59% for 96/97) which probably reflects the fact we have a relatively high ratio of higher dependency level residents. (Comparison with Cuthbertson draft report confirms this). Therefore the impact of an inappropriate indexation methodology will have, an exaggerated impact on our facility. The example found at appendix A illustrates the point. We have used our actual figures for 97/98, not all staff have received their 2% and 3% increases at this stage but the nursing staff who make up approximately 73% of total labour costs have. As stated in the example, no attempt has been made to bring in the impact of pension increases. The point is staffing costs to total cost ratios can vary depending on resident mix and it would be inappropriate to base any calculations on the assumption of a 75/25 basis across the board.

➢ How much control do providers have over non-wage costs (p12).

Again this is will vary from state to state and region to region with local and state governments influencing items such as -

∴ sewerage charges
∴ electricity (can vary based on usage - what about large and small consumer variations in purchasing rates)
∴ gas
∴ council charges

➢ What will impact on future costs is depreciation costs.

Many operators are presently depreciating buildings which cost perhaps as little as $25,000 per bed to construct. By the time the increased certification standards are met, most buildings will have a greatly enhanced value**,** certainly new buildings will cost a lot more and $90,000 to $110,000 would be a reasonable expectation.

The new funding system will not allow proprietors to make an appropriate charge for depreciation based on these new higher values.

Hostels

We understand the Commission's brief does not include hostels, however, now that hostels use the same RCS and funding scale as nursing homes, the following point needs to be made…

Under the previous system hostels had the ability to set fees, within parameters, to adjust to costs. Under the new system the previous variable fee arrangements are abolished. Hostels now have no ability to manage operational income (excluding capital income via accommodation bonds, which is specifically excluded from use to meet operational costs). However, workers' compensation rates are now identical to nursing home rates. We understand there is no allowance for what was previously OCRE expenses in the low level care band of funding rates. Again this is unfair.

APPENDIX A

97/98 ACTUAL COSTS

Labour	4,868,145	(86.9%)
Non-labour	733,248	(13.1%)
	4,601.393	

Subsidy rates have increased under indexation by 1.4%. This will generate $78,420 p.a. additional funding.

However, if we assume the indexation factor was representative of the non-labour costs only and staff had a 3% and 2% increase during the year the increased cost would be

3% of	4868,145	=	146,044
2% of	5,014,189 (103%)	=	100,283
			246,327

Plus

1.4% of 733,248	10,265
TOTAL INCREASED COST	256,592
Less increase provided by way of indexation	78,420
Shortfall	178,166

This figure of course reduced by impact of increase in pensions during the year.