Response to Productivity Commission Inquiry into Nursing Home Subsidies

VICTORIAN DEPARTMENT OF HUMAN SERVICES

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1. Introduction

The Victorian Department of Human Services (DHS) has a strong commitment to funding and purchasing a range of aged care services which, complemented by the Commonwealth's residential care program, are aimed at establishing a comprehensive aged care system across Victoria. Although the current system is fragmented by funding from three levels of government, the effectiveness of the aged service system is interdependent upon the operation of each of this components. Consequently any changes to Commonwealth-funded services will have implications for State-funded and purchased services.

The DHS response to the Productivity Commission's issues paper on nursing home subsidies has been framed from the perspective of a policy response which seeks to highlight broad systemic issues associated with residential care funding and coalescence and to also reflect the States' experience as the largest as a provider of aged residential services in the State.

As a provider of Commonwealth-funded aged residential care services, DHS currently has close to 7300 residential care beds of which approximately 5000 are high care (nursing home). This means that the Department provides 28% of all nursing home beds in the State through the public sector. While this indicates the scope of public aged residential services, the impact of State involvement in the provision of residential care services in rural areas is more significant. In light of the Victorian government's historical commitment to the rural sector, the State currently has approximately 3500 nursing home beds in the provincial and rural sector which represents 64% of total rural service provision for high care residential places.

Funding Impacts

There are a number of factors which impact on the viability of the residential care sector in Victoria and, in particular, the public sector. These factors include:

- the potential impact of implementation of coalescence which will see Victoria's funding will decrease by a total of 5.4% over seven years;
- the discounted funding rate historically received by the public sector (the SAM discount); and
- wage rises for Victorian nurses in public sector services.

The impacts of these funding pressures are in addition to the pressures of meeting certification and accreditation standards for building. The pressures on the public sector for refurbishment and rebuild of facilities are particularly acute.

State Initiatives

The State is taking a number of initiatives to address some of the adverse impacts resulting from a large investment in the residential care sector. In particular, the State intends to divest approximately 1200 residential care beds by 2001 to the private/voluntary sector. Most of the beds identified for divestment are located in the metropolitan area or in larger regional centres, where alternative providers can be identified. In the rural sector where the State is often the sole provider, options for more flexible service arrangements are being examined.

As the above figures indicate, re-developments in the rural sector will have significant implications because of the level of State involvement in the rural sector.

This submission to the Productivity Commission will:

- provide feedback on issues with the current method of funding residential aged care (Section 2);
- raise a number of issues related to nursing home funding in Victoria; and
- propose an alternative funding method for the residential care program (nursing home, hostel and community aged care packages (CACPs)). This alternative funding methodology has been developed by the Aged Care Branch of the Victorian Department of Human Services in response to concerns that the current reforms have not been able to sufficiently remove boundaries to providing effective, quality or choice of care for older Victorians (Section 3).

2. Response to Issues raised in Issues Paper

Victoria considers that the Commonwealth residential care program must provide sufficient funding to ensure that the full costs of service provision are met through Commonwealth funding streams. Recognising that these costs will differ between States for a variety of reasons, Victoria strongly considers that State-based funding should be retained not only for high care funding but also to reflect the State-based differences for low care funding.

Basis for funding systems

Victoria's proposed funding methodology for aged residential care is outlined in detail in Section 3 of this submission and Victoria would welcome trial of this methodology. It is recognised however that this alternative methodology would require significant assessment and would need some lead and implementation time.

In the event that Victoria's proposal is not adopted, the State is strongly supportive of a funding methodology which takes into account differential costs between States over which providers have no control or influence. In light of the peculiar costs which exist in Victoria and the current, unsustainable levels of Victorian financial support given to the Commonwealth residential care program because of historical funding anomalies, funding responsive to specific State cost differentials will be the only mechanism which will ensure the viability of all Victorian services.

While it would not be expected that all costs in Victoria are higher than other states, the funding mechanism implemented must be responsive to significant costs particularly when these are outside the control of the providers. One such cost in Victoria is associated with nurse/staff ratios for care provided in public residential care services. These requirements were inserted into the Victorian award regulations at the request of the Australian Nurses' Federation and against the advice of both government and providers. The resulting cost of nursing staffing profiles therefore is beyond the capacity of the provider to influence and has implications for the private/voluntary sectors.

The impact of the discounted funding for high care services paid by the Commonwealth to Victoria for public sector facilities should also be reviewed as part of the consideration of State-based costs. The discounted payment, previously identified as the SAM discount, is currently offset by DHS which matches Commonwealth funding in other sectors through top-up funding to State nursing homes. This top up will not be extended to counter the impact of the proposed coalescence of funding to national rates as that would create a new differential level of payment between public and other sector services. As already stated, Victoria considers that since the aged residential care program is funded, administered and monitored by the Commonwealth, funding arrangements for care and the subsidy payments for accommodation should make no distinction between sectors and should be adequate to enable agencies to operate without additional support from State revenues.

Victoria is also prepared to consider moving to funding reflective of specified differential state costs for low care facilities as well as high care to ensure consistency in approach to the

funding of aged residential services. In light of the Commonwealth policy to permit ageing in place, depending on the willingness of the provider to offer this option to residents, differential cost structures for high and low care facilities will be more difficult to maintain. The RCS Review found that there is already some movement which sees high care residents remaining in a low care facility and low care residents being admitted to high care which will minimise their movement around the residential care sector.

Nursing Wage Costs

One of the most significant costs impacting on the delivery of health and aged care services is that of increases in nursing costs. In late 1997, Victorian nurses won an 11% wage increase, over three and a quarter years, for staff in the public sector. The impact on public sector residential care services was a Commonwealth funding shortfall of $2.522 million for the 1998/99 financial year. Over the life of the wage increase agreement, the likely impact is a Commonwealth funding shortfall of over $9 million.

Despite strong representations from the Victorian Minister for Aged Care, the Hon Rob Knowles, the Commonwealth government indicated that it would not fund the wage increases but only apply the standard rate of indexation. The State has provided additional funds to hospitals to meet the impact of the wage rise for services for which the State is the funder/purchaser but should not have to provide funds for services for which the State is not the funder. No funds were provided for the first year of the increase but to resolve ongoing industrial difficulties, the State has now agreed to fund the second year of the increase in the State residential care sector on a once-of basis.

The wage increases for nurses in the public sector residential care facilities also increases the disparity between wages paid in the public sector and wages paid in the private and voluntary sectors. This will increase the difficulty currently experienced by private and voluntary sector providers in this State in recruiting and retaining qualified nursing staff. In addition to having an impact on the quality of care in these sectors, it will exacerbate the traditional difficulty experienced by the aged care industry of attracting qualified or experienced staff.

While the Victorian government is firmly committed to providing quality residential care services for older people, Victoria strongly considers that funding arrangements for residential care needs to recognise state infrastructure differentials and the impact on service viability of the interdependence of the service system. Clearly, funding the shortfall in costs for the residential care program is an unsustainable and undesirable position for Victoria to hold.

Facility size, viability and access

The current funding system is predicated on the basis that facilities need to be larger in size to sustain viability. Based on the Victorian experience from Stages 1 and 2 of the divestment of public residential care beds to the private and voluntary sector, facilities need to be at least 45 beds to be viable and to gain an adequate return on capital with 60 beds the optimal size. Whilst this is supported as an appropriate approach to both effectiveness of care and cost, it fails to recognise or support service provision in rural communities. There is a danger,

particularly in rural areas where facility sizes are considerably smaller, that if facilities seek amalgamations or additional beds to ensure viability, more institutional models of care will be implemented and local access will be severely reduced. Access is particularly important in the rural areas of Victoria (where the State provides 64% of rural residential aged care). The recently released Review of the Resident Classification Scale (RCS) found that location had a significant impact on recurrent funding outcomes for facilities. The Review found that facilities in large metropolitan centres had only a 0.5% increase in recurrent funding, large rural centres only a 0.6% increase and other small centres a 0. 1 % increase. For remote areas, a decrease of 2.0% was recorded. This should be compared with an increase of 1.2% for capital city nursing homes.

The relative stability in the amount of recurrent funding received under the RCS for both small and large rural centres indicates that the aged care reforms have had little impact on the recurrent funding base of these facilities. One of the areas that was not considered within the RCS Review was the effect of rural viability supplements on recurrent funding outcomes. In Victoria, few rural facilities meet the criteria in the *Aged Care Act* to be eligible for rural viability supplements. The impact of this is that, although recurrent funding based on the level of resident dependency in being maintained, this funding will not be sufficient to counter the loss of viability supplements. Changes to eligibility for rural viability payments mean that many smaller, isolated rural agencies will no longer be eligible for these additional subsidies and the overall effect on recurrent funding combined with the potential impacts of coalescence and pressures for funding for capital refurbishment mean the impacts on the rural sector will be highly significant.

Capital funding for Victorian public sector facilities

The introduction of the Commonwealth's structural reforms of aged residential care have a broader impact on the Victorian industry, particularly on the public sector, than the effects of coalescence. Victorian public sector residential care services are facing massive capital rebuilding requirements with 33% of nursing homes remaining uncertified. Early certification results indicated that, across public, private and voluntary sector nursing homes, Victoria represented over half of the certification failures.

In the public sector, the need for capital works is particularly acute and will seriously impact on the rural sector. Capital redevelopment plans have already been put in place for 28% of public sector nursing homes in order to meet certification requirements and further identification of capital priorities will need to be addressed as a matter of urgency.

Under the current funding system, facilities are required to maintain funding to ensure capital upgrades consistent with certification and accreditation requirements. Given Victoria's recognition of the Commonwealth's leadership and responsibility for residential care, public sector residential care agencies are required to operate fully within the Commonwealth *Aged Care Act* and therefore are able to charge accommodation bonds and charges as prescribed.

The Commonwealth will not provide capital to allow the rebuilding of public sector services to meet contemporary standards. Their approach is premised on the requirement that providers are able to secure commercial finance to fund building works and to service that

finance through a range of resident charges. This cannot apply in the public sector because they have no access to commercial finance, thereby simply leaving the State to fund the recurring capital works our of its own budget. While Victoria will attempt to transfer beds to private/voluntary sector management's where the new managers must meet capital costs from within their resources, this is not possible in most rural settings where such a transfer is unlikely to be possible for market reasons. Estimates of the cost to the State to deal with public sector fabric issues have been as high as $120M.

The State's capital program is fully committed with high priorities already identified in rural residential care. In addition to aged care, the State's capital program must make provision for health services in other sectors and across the full range of government responsibility and business. This means that the State requires a return on investment from all public sector agencies who must ensure they have a capacity to upgrade and meet building standards.

The requirement for Victorian public sector agencies to ensure return on investment is complicated by one of the Commonwealth funding arrangements for public sector providers/ services. Previously, public sector facilities were paid a discounted rate for the SAM component of the previous system of CAM/SAM funding. Although in the past this reflected a supposed cost advantage of providing services in the public rather than the private sector, this argument no longer holds true. However, the discounted payment has been retained under the new funding arrangements. The Victorian government currently pays the top up funding of $12.9 million per year. Victoria considers that this discount should be removed and that the Commonwealth should cover the full costs of service provision, particularly in light of the new funding and quality systems introduced by the structural reform policy. Victoria considers that adjustments to service provision to facilitate the removal of the discount could be achieved in Victoria and would enhance the capacity to develop a more equitably distributed service base.

RCS Recurrent funding, Viability Supplements and Multi-Purpose Services (MPS)

As part of improving the viability of services in the rural sector and providing services to best meet the needs of the local communities, Victoria has pursued and will continue to pursue the expansion of the Multi-Purpose Service program (MPS). The MPS program is a joint Commonwealth-State initiative and is expected to expand following recent Commonwealth budget announcements. Under the MPS arrangements, funding for residential care is pooled with a range of other programs to encourage a shift away from bed-based to community based services. The pooling of funding allows communities greater flexibility to purchase services they need and to develop innovative programs to address local health needs. Funding for residential care is pooled in the MPS model at an RCS 3 level for high care beds and at RCS 7 for low care.

One of the issues with this funding rate under the current system is that, for some agencies, the pooling of funds at the prescribed RCS level will result in a decrease in residential care funding. The RCS Review shows that on a national basis 56.3% of nursing home residents are in RCS 1 and 2 with an additional 32. 1 % at RCS 3. Only 11.6% of residents are below an RCS 3. The Review also indicates that while 44. 1 % of hostel residents are at RCS 7 level, 45.9% of residents are above RCS 7 (also extending into RCS categories 1-4). This indicates

that the funding rates for MPSs set at RCS 3 and 7 results in underfunding of residential care in an MPS. In addition since the development of an MPS is cost-neutral to Commonwealth budgets, and offers the most effective solution to pursue service provision, the funding of the MPS expansion should be maintained at a more appropriate level at an agreed number of new sites per annum.

In the current MPS program, services that are already in receipt of viability supplements have those supplements stopped at the point that MPS funding flows. This assumes that the new agency can achieve the benefit of MPS staffing efficiencies and building works from day one. This is not realistic given that in some MPSs it is not possible to co-locate separate buildings and in others where new co-located buildings are planned, the staffing efficiencies will not flow until the new building is completed and operational.

One example of the impact of the current MPS process for residential care is that of Robinvale. Calculations provided to the agency by the Victorian office of the Commonwealth Department of Health and Family Services indicates that Robinvale, which has 14 high care beds, will have its funding reduced by approximately $170,000pa. This reduction is attributed in part to the cessation of viability funding.

Although Multi-Purpose Services are not explicitly addressed in the Productivity Commission's issues paper, the impacts of funding changes and the broader impacts of the Commonwealth's structural reforms are significant and should be considered. Despite the basis of the MPS program as a joint Commonwealth/State initiative, the impacts of the reforms on existing and potential MPS agencies have not fully been considered by the Commonwealth when making policy decisions. Providing agencies with disadvantageous funding mechanisms will not encourage rural agency participation in the program, and will threaten quality service provision, viability and the potential to develop sustainable, innovative and flexible services in isolated rural communities.

The Cumulative Impact of Commonwealth Nursing Home Funding Policy

In the event that the Productivity Commission finds that coalescence should proceed as planned, Victoria will lose 5.4% of current funding over seven years. Although some reduction in the cost of providing care may be achievable, this will have serious and grave implications for industry viability in combination with the other factors mentioned above (eg capital pressures).

Projections undertaken by the Department of Human Services
indicate that the impact of coalescence combined with other impacts on income will see funding for Victorian residential care reduced by 6.6% over the next 6 years. When the effect of these factors is combined with impacts on costs of service provision such as nursing and other wage costs, the total shortfall in Commonwealth funding for Victoria over the next 6 years is projected as being approximately 25% of current funding levels (refer to Attachment 1). Under these conditions, it will impossible for any public sector residential care service to maintain viability.

If coalescence proceeds to implementation, the original timetable for phasing arrangements needs to be followed. A shorter implementation time will impact adversely on the residential care sector in Victoria.

Victoria also recommends that further work should be undertaken to determine the appropriate level to be set as the target for coalescence. Any national funding rates set for high care services must be able to fully cover the costs of service provision in each State to ensure that the industry in each state can provide quality services to the levels specified by Commonwealth accreditation and outcome standards. With the levels set for the proposed coalescence, resident care will suffer as agencies in Victoria try to reduce costs while being legally bound to staffing ratios and wage levels prescribed in awards.

3. Victorian Proposal for Alternative funding methodology

The Victorian proposal has been developed by the Aged Care branch of the Victorian Department of Human Services on the basis of current research into classification and funding arrangements for all forms of aged care. It is now proposed for consideration given this State's concern that the Commonwealth reforms have been unable to remove funding rigidities and program boundaries to provide access, choice and quality care for older Victorians. The Victorian proposal captures the spirit of the Commonwealth reforms and removes issues of capital refurbishment and rebuild through the separation of payments for care from payments for accommodation.

Basis for proposal

The Victorian proposed funding system is based on the principle that public funding to support care needs should directly relate to the care needs of each individual and should be available to support each individual in the setting that most appropriately meets the person's care and other needs and the person's preferences.

As the focus of the Review is on the funding of residential care, the proposed funds pooling model is directed at the provision of residential care services (high and low care) and Community Aged Care Packages (CACPs). However, once this base has been established it could be expanded to include a range of other key related programs where both Commonwealth and State fund similar or linked aged care programs.

Rather than support a subsidy system for a group of providers, funds for residential care should be provided directly to the consumer following the determination of their eligibility and care needs. The individual should then be able to purchase care in the setting of their choice. This might be with a current high care provider, in their own home or in some other type of accommodation. The care package which is similar, and indeed an expansion of the current Community Aged Care Packages (CACP) scheme, could be supplemented by a facility charge package where the consumer seeks care from an approved, accredited provider. The value of the care package should be linked to the consumers need for service, as occurs currently, while the facility package should most likely be fixed. Funds sufficient to provide the current benchmark levels of service provision would ideally be included to provide the funding base. This base should then be indexed for inflation and growth in the target group to ensure that service provision does not erode over time. Day to day management of the program should reside with one level of government to ensure co-ordination and integration across the aged care specific program.

Key features

Client Assessment and funding principles

- An enhanced ACAS/Geriatric Evaluation Service would operate in each region to assess and reassess individual care needs. Access to care would be through assessment against a comprehensive classification system assigning a resource value to each level of assessed need.

- Once the individual's care needs were assessed, their dependency level would be linked to a Classification Scale (possibly through extension of the existing RCS or a modified version to apply across residential and home based settings). Assessment would assign the person, through the care needs classification scale, an average cost of care/maximum level of public subsidy (allocated resources level).

- This links the individual to a package of care (to maximum dollar value) to meet their assessed level of care needs in the setting of their choice (in the home or residential care). The dollar value of the package of care would provide access to services from a defined group of approved service types. The Commonwealth Aged Care Act's income testing arrangements could be used to determine the proportion of public/individual payment at each dependency level on an individual basis.

- As the value of the package would vary with any increase/decrease in dependency levels, regular monitoring of each individual would be necessary to ensure that care needs are recognised and individuals can purchase an adequate amount of care. Care needs could be reassessed on a twelve monthly basis at categories 5-8 and a six monthly basis for categories 1-4. Care needs would be automatically reviewed after a sudden or sustained change in health status (e.g. all/certain acute hospital admissions).

- Where significant State based differences in the cost of service provision existed that were outside the control of individual providers, the subsidy levels/costs of care should be adjusted on a State by State basis to reflect those cost differences (see discussion in Section 2).

Where an individual chooses care in a residential care setting

- If an individual chose a residential care setting to receive care, the subsidy could be paid direct to the residential service provider selected by that individual. This would provide a clear stream of funding to residential care providers to address the care needs of residents. Capital upgrade and maintenance requirements would be met from a separate payment stream (e.g. the current accommodation bonds/ accommodation charge/concessional resident supplements linked to an assets test OR an alternative funding stream - see options below).

- People who choose to use their care package to purchase care in a residential setting would need to have access to quality facilities which meet Accreditation/ Residential Care Standards as outlined in the Quality of Care Principles. To meet Accreditation/Residential Care Standards, the funding system would need to provide the capacity and incentives for providers to upgrade and maintain building quality to contemporary standards/expectations (which are likely to increase over time). Residential care providers could receive a separate payment/income stream to ensure suitable building quality which is tied to certification/accreditation. There are number of options for how this could operate:

- 100% of residential building subsidy paid by Commonwealth.
- Proportion of residential building subsidy paid by Commonwealth and a proportion paid by consumer. This could be fixed or vary in accordance with individual asset testing.

- A percentage of variable residential building subsidy paid by the individual in accordance with asset testing. Commonwealth pays for the whole subsidy where assets are below a fixed amount.

Where an individual chooses to remain at home

- If the individual preferred to receive care in their home they could utilise the package to engage an existing brokerage service to purchase the appropriate package of services on their behalf. The brokerage service would have the capacity to spread costs across a larger number of people and the potential to purchase services at a lower unit cost. However, administration costs would have to be taken into account.

- Given the preference of most people to remain in their home as long as possible, use of a "package of care" system would be likely to shift the proportion of service provision from residential care to community care. This would necessitate a significant increase in availability of appropriate respite care to support carers in their role. Provision of sufficient levels of respite, both home-based and residential, is therefore an integral component of this proposal.

Advantages and Disadvantages of Victorian Proposal

Advantages:

- Significant improvement in consumer choice in how an individual's care needs would be met. Service system more responsive to consumer needs/regional characteristics.
- Opportunity for service providers to innovate in how care is provided.
- Total cost of care provision to Government is unchanged. Capital stock upgrades dependent on provider choice of business and local area supply/competition.
- Improved consumer choice
- More flexible and responsive service system requiring providers to compete on quality, accessibility and price.
- More integrated service system.
- Single level of government is responsible for care package management.
- Reduced expenditure in one service type (eg residential care) would be paralleled by increased expenditure in other service types (eg respite services and assessment) through consumer selection.

Disadvantages:

- Successful operation of this model would require an enhanced ACAS and increased frequency of re-assessments.
- Potentially less "certainty" for some residential care providers in terms of a virtually assured supply of residents for a limited number of beds, dependent on their competitive capacity and the existence of alternative providers.
- Increased stress/pressure on carers if there is an increased demand (and capacity to meet the demand) for care in the community - this could be addressed by adequate carer support services and the availability of the new care packages themselves.

- Pressures for growth in new services may become apparent.
- Decrease in residential care provision may require alternative approaches to ensure the availability of residential respite.

4. Summary of Victorian position

Victoria maintains that the funding structure used by the Commonwealth for aged residential care should fully accommodate the cost of actual service provision, without requiring top-up funding from State programs.

Victoria's preferred funding methodology based on current program resource levels is outlined and features the separation of the purchase of care from the purchase of accommodation (see Section 3).

If the preferred funding methodology is not accepted, Victoria strongly believes that:

- state-based funding should be retained and, if necessary, extended to include hostel funding; and
- due consideration should be given to rural weighting/viability measures to ensure small, essential residential services are maintained.

If coalescence is to proceed against Victoria's advice:

- further work should be undertaken to determine the appropriate level to be set as the target for coalescence. The rate set should be able to adequately cover the cost of services provided to residents without compromising the quality of care;

- implementation should not occur on a timetable shorter than originally planned.

Attachment A

Projected impact of Commonwealth funding reductions on public sector residential care funding in Victoria 1997 - 2004

	97/98	98/99	99/00	00/01	01/02	02/03	03/04-	04/05	**TOTAL**
INCOME: Reduction in recurrent funding due to introduction of national funding rate		-0.1%	-0.2%	-0.4%	-0.8%	-1.3%	-1.3%	-1.3%	-5.4%
Estimated Commonwealth Indexation based on safety net rises only)	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	12%
Estimated Commonwealth income changes for Victorian services	1.5%	1.4%	1.3%	1.1%	0.7%	0.2%	0.2%	0.2%	**6.6%**
COSTS: Actual and estimated nursing wage increases	+3%	+3%	+3%	+3%	+3%	+3%	+3%	+3%	24.0
Wage costs as proportion of total costs	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	-19.2
Estimated CPI increases	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	-12.0
Overall shortfall in Commonwealth funding	-2.4%	-2.5%	-2.6%	-2.8%	-3.2%	-3.7%	-3.7%	-3.7%	-24.6%
Overall shortfall in Commonwealth funding - cumulative	**-2.4%**	**-4.9%**	**-7.5%**	**-10.3%**	**-13.5%**	**-17.2%**	**-20.9%**	**-24.6%**	**-24.6%**

Notes:

- Percentage increases or decreased are based on 1996/97 funding base for all Victorian aged care facilities
- For small rural services, impacts on income will also stem from reduction in rural viability payments - effective 1 July 1998. Impact will vary according, to individual facility circumstances.
- The overall level of funds may change through the introduction of the new resident classification tool and associated funding rates.
- The figures used above do not take into account of any concessional resident payments, accommodation funds or accommodation charges.