AUSTRALIAN NURSING HOMES & EXTENDED CARE ASSOCIATION
(TASMANIA)

SUBMISSION
TO THE
PRODUCTIVITY COMMISSION
INQUIRY INTO NURSING HOME SUBSIDIES

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EXECUTIVE SUMMARY

This submission has been prepared by the Australian Nursing Homes & Extended Care Association - Tasmania (ANHECA-TAS) in response to the request by the Federal Treasurer, Mr Peter Costello, for his Government's principal advisory body on matters of micro-economic reform, the Productivity Commission, to conduct an examination of current and alternative nursing home funding methodologies.

ANHECA-TAS is a small but nevertheless influential peak body which represents the professional and business interests of private enterprise aged care service providers throughout Tasmania. The size and scope of the Association's representation is relative to both the structure of the industry in this State and socio/economic constraints associated with smaller populations.

The Association is an active and well represented member of the Australian Nursing Homes & Extended Care Association Limited (ANHECA) and shares that federal organisation's commitment for excellence in aged care, within a commercially viable environment.

ANHECA-TAS fully endorses the written and oral representations made to the Commission by ANHECA and the motive for this separate submission is therefore to provide an emphasising focus on those issues which impact on the sustained viability of aged care in Tasmania.

1. Background

The Residential Aged Care Reform Strategy announced as part of the 1996/97 Federal Budget included a proposal for a process of coalescence of nursing home (high care) funding subsidies to national rates over a seven (7) year period, commencing from 1 July 1998.

The proposed rate of coalescence is as follows:-

Year	Rate
1998/99	2%
1999/00	4%
2000/01	8%
2001/02	14%
2002/03	24%
2003/04	24%
2004/05	24%

(Table 1) Rate of coalescence

In response to industry concerns, the Commonwealth announced that following implementation of the initial 2% from 1 July 1998, further coalescence would be delayed pending review by the Productivity Commission.

2. Scope of the Review

The Productivity Commission has been requested to:-

Report on whether the proposed coalescence should proceed or whether it should be replaced by an alternate structure;

Examine issues, including the current and alternate funding methodology and report on:

- relative costs between States and Territories of providing nursing home care with emphasis on the relative wage costs of nursing and personal care staff.
- trends in wage costs and the likely future directions:
- the extend to which, if any, subsidies for nursing home care should vary by State and Territory. and,
- if different subsidies are considered appropriate, possible methodologies for maintaining appropriate relativity's over time.

Make recommendations on the appropriate funding methodology and take into account the views of the sector.

3. Issues Papers

The central policy issue for the inquiry is whether subsidy arrangements should recognise differences in the costs of providing nursing home services in different parts of Australia.

ANHECA, in its submission to the Inquiry, has addressed in detail the specific matters raised in the Issues Papers released by the Commission. This submission seeks to cover:-

the typical profile of nursing home costs - both wages and non-wages;

the extent of variations in costs, particularly wage costs, across and within jurisdictions and the reasons for those variations;

the effect of factors such as size and ownership on costs of nursing homes in any particular location; and,

future trends in wages and other costs;

with respect to the particular impact of coalescence on nursing home services in Tasmania.

4. Tasmanian Nursing Homes Staffing Cost Models

Three (3) nursing home models have been included as part of this submission, each with staffing roster costed over a fourteen day period, using (award) paid rates in existence as 1 July 1998

The first typifies a facility with 40 approved beds and is located in an area perhaps best described as "rural/residential". (see Appendix 1)

The second typifies a facility with of 55 approved beds, which in the context of the Tasmanian industry could be classified as being of medium size. It is located in an outer-city suburb, approximately 15 kms from the GPO. (see Appendix 2)

The third is a co-located facility with 102 (high care) approved beds, located in a inner regional city suburb of probably 4 to 5 kms from the CBD. (see Appendix 3)

In practice, there is a quite distinct relationship between size and operating efficiency (commercial viability). Apart from economies of scale, cost differences in staffing are not necessarily directly proportional to size and in terms of unit cost per resident, are likely to vary by as much as 30% - 35% from smaller facilities (< 40 beds) and their larger counterparts (> 80 beds).

The factors which might influence the Directors of Nursing's determination of staffing levels include:-

- the mix of resident categories;
- bed occupancy rate;
- availability and appropriateness of mechanical aids and equipment;
- availability of competent and experienced staff;
- layout and configuration of the facility; and
- the culture of the organisation with respect quality of care and resident lifestyle.

Thus it is quite likely that even facilities with comparable approved bed numbers, would incur vastly different staffing costs and related expenditure.

5. Wage Costs

(a) Registered Nurses

There is ample evidence to suggest that aged care is often the least attractive career path for most qualified nurses and the recruitment and retention of competent and caring professionals is of major concern to service providers. This situation is not unique to Tasmania but poses a particular threat to the delivery of quality care, given the island's small population.

Factors which directly or indirectly influence the ratio of registered nurses to other personal care staff employed within a facility are:-

- the care needs profile of residents (RCS)
- care standards (Aged Care Act 1997)
- licensing requirements (Hospitals Act 1918)
- administration of medications (Poisons Act 1971)
- career structure of nurses (industrial award)
- duty of care (common law)

Unless the nexus between aged care and the acute care sector (public and private) In Tasmania is maintained the industry will be confronted with serious standards compliance crisis. Parity with the wages and conditions aged care professionals in other states/territories is not likely to be meaningful.

(b) Enrolled Nurses

The wages and conditions of enrolled nurses have traditionally been benchmarked against those of registered nurses and it is difficult to envisage this scenario changing significantly.

Notwithstanding some legal constraints and them being in short supply, these para-professionals, if used discerningly and having regard for duty of care, can be used to good effect to supplement some duties otherwise carried out by registered nurses.

(c) Extended Care Assistants

Extended Care Assistants (also known as Assistants-in-Nursing in some states) are numerically the most significant designated group in aged care facilities and typically perform the bulk of direct personal care duties, under the supervision of more qualified nursing personnel.

The wage rate for the majority of employees in this "hands-on" employment classification have a current wage rate relativity of 88.5%.

Persons employed to perform almost identical duties in the outside community and covered by a "sister" award enjoy a wage relativity of 105% and a claim for parity has been served on residential aged care employers.

It is probably reasonable to anticipate that if HACSU were to proceed With a work value case before an Industrial Tribunal, as has been foreshadowed, the probability of success would have to be rated as fairly high.

Increases of this magnitude would not be sustainable under the Commonwealth's proposal for coalescence to national rates without a reduction in staff, a compromise to the quality of care or both.

Turnover in this employment category tends to be relatively high in Tasmania

(d) Diversional Therapy Staff

The former CAM funding arrangements were determined on the basis of diversional therapy staff being deployed only on week-days and at day rates of pay, and given that the funding pool for the new RCS has not been increase, the staffing models included with this submission have been costed accordingly.

However, the assumption by the architects of CAM that such services would only be needed from Monday to Friday, between 9 am and 5 pm, is false, as no doubt any person with appreciation of the usual behaviour patterns standing of Dementia sufferers person who be only too pleased to verify.

There can be no logical reason for suggesting that needs personal care needs diminish at weekends nor to ignore the reality that "sun-downer" programs are often considered to be beneficial during late afternoon and early/mid evening periods, when disorientated residents are usually most active.

(e) All Other (Non Nursing) Staff

It is noted that under previous funding arrangements non-nursing labour costs were previously coalesced to a uniform and national average, over a five year period, under the former SAM funding arrangements, from 1 July 1987.
In Tasmania's case, it is clearly a case of the Government gaveth (under Labor and taketh way (under the Coalition). Ironically, it was service providers in this State who experienced the slowest incremental gain to national rates under SAM but now stand to incur the double jeopardy of the greatest loss.

6. Wage and Salary On-costs

(a) Leave Replacement Costs

Notwithstanding the obvious correlation between the cost of relief staff to replace those on paid leave and prescribed rates of pay, Tasmania has historically had the cost burden of sick leave entitlements (20 days) in comparison with that of the wider community standard (10 days)

(b) Payroll Tax

At present there is no uniformity in the respective thresholds for payroll tax, rates of application nor definitions of the scope and composition of liability, Whilst the current funding system recognises the existence of jurisdictional differentials, it has proven to be inequitable and open to abuse.

As table 2 below serves to demonstrate, if it may be hypothesised that a service provider in each of the jurisdictions attracted had an identical annual payroll bill of exactly $1.5 million, the no two operators would incur the same payroll tax liability.

State / Territory	Wages	Threshold	Rate	Taxable Amount	Payroll Tax Liability
NSW	$1,500,000	$600,000	6.85%	$900,000	$61,650
VIC	$1,500,000	$515,000	6.25%	$985,000	$61,563
QLD	$1,500,000	$825,000	5.00%	$675,000	$33,750
SA	$1,500,000	$456,000	6.00%	$1,044,000	$62,640
WA	$1,500,000	$675,000	3.65%	$825,000	$30,113
TAS	$1,500,000	$600,000	6.60%	$900,000	$59,400
ACT	$1,500,000	$750,000	6.85%	$750,000	$51,375
NT	$1,500,000	$600,000	6.00%	$900,000	$54,000

(Table 2) Payroll Tax liability by Jurisdiction

ANHECA-TAS contends that payroll tax should be fully funded on a "cost necessarily incurred" basis, rather than be tied to an unrelated resident classification scale (RCS) nor coalesced to a remote and irrelevant national resident per day subsidy.

If the existing subsidy funding arrangement is cost neutral to that previously funded under the former Other Cost Related Expenditure (OCRE) process, as has been claimed by the Commonwealth, it is difficult to comprehend why it should wish to continue with a process which has "winners" and "losers", without regard for performance or cost incurred.

(c) Workers' Compensation

At page 35 of its submission ANHECA has claimed that:-

> *"Workers compensation premiums for a particular facility do not depend solely on the OH&S procedures that are developed and implemented by that facility. They are based substantially on industry risk, claims history, and, in some cases, the viability of the State's Work Cover Authority".*

In Tasmania, as no doubt is equally true in other jurisdictions, underwriters of workers compensation policies also give consideration to the performance of funds under investment. Needless to say that investment returns are not within the scope of control of service providers.

As can be seen from Table 3, which is based on 1994/95 state average figures for nursing homes, there is not surprisingly any uniformity of premium charges.

NSW	-	5.57% of total wages
VIC	-	3.95% of total wages
QLD	-	4.4% of N/H total wages and .031 % for clerical staff
SA	-	6.9% of total wages
WA	-	5.15% of total wages
TAS	-	6.5% of Total wages

(Table 3) Average Premium Costs by States

As the AON Group reported in its winter 1998 edition of its newsletter to employers.

> *"Workers' compensation schemes throughout Australia are in transition. The system is undergoing one of its periodic cycles in which governments - both State and Federal - are being motivated by growing administration costs and escalating claims to initiate reform. Whether on this occasion the "reforms" will prove enduring only time will tell. History is not encouraging".*

and

> *"The root of the problem in workers compensation everywhere is that the system is highly susceptible to political pressure. On one hand, few State Governments have been able to resist the urgings of labour organisations and their grass roots members to provide generously for people who are deemed to have been injured, or to become ill, because of conditions under which they work. On the other, no State has wanted to see potential employment leaving to locate elsewhere because the costs have been forced up to uncompetitive levels by high workers' compensation premium rates".*
>
> Source: Protecting Business (Winter 1998)
> Further information: Mr Geoff Dixon, AON Group (02) 9390 7079

ANHECA-TAS claims that the Commonwealth's intention to coalesce workers compensation funding to a uniform and national level to be illogical and inequitable.

In the absence of national worker's compensation systems. a reintroduction of the previous funding system, on a State by State basis, with protective caps to ensure a "carrot and stick" approach to motivating improved performance.

(d) Superannuation

Given that the upwards movements to 9% by 1 July 2001 is under the control and direction of the Federal Government by virtue of its own Superannuation Guarantee Legislation, ANHECA-TAS recommends to the Productivity Commission that a cost reimbursement funding methodology would be appropriate.

As ANHECA his stated in its submission, the methodology used by the Department of Health and Family Services to fund the Superannuation Guarantee from 6% to 7% of wages, from 1 July 1998, is flawed due to the total disregard that was had for varying wage cost /staffing levels associated with each resident category.

(e) Long service leave

Provision movements in long service leave (LSL) for NP&C Staff only was previously funded through OCRE, recognising that responsibility for the prescription of entitlements belonged to the States/Territories.

As is the case with workers' compensation premiums, there is sufficient enough scope for political interference to place LSL accruals and, hence costs, outside of the scope of influence of employers.

(f) Training

If the residential aged care sector is to pursue "continuous improvement", through the accreditation process, as ANHECA-TAS believes is should, there will inevitably be an on-going wage on-cost for the provision of vocational training and continuous education

Although no such provision was available under CAM, this association supports the view an amount of 1.5% of wages, as would have otherwise been the case under the since lapsed Training Guarantee Act, to be a minimum requirement, and should be fully funded on a "cost necessarily incurred basis.

7. Non-Wage Costs.

It has long been generally accepted that Tasmania, by virtue of being an island state and having a small but widely dispersed population, is a high cost location in which to conduct business operations.

State is highly dependent on the importation of goods and services, as well as being totally dependent on costly sea and air services for transportation and travel across Bass Straight.

The Island's topography does not readily lend itself to inexpensive construction works. Progressing works to floor level is frequently more costly than in most mainland capital and regional areas.

Higher costs may also, in part, be attributed to the understandable lessening of competition for both the wholesale and retail provision of goods typically experienced by smaller populations. This lack of a competitive local distribution market is might perhaps be best demonstrated by the absence of (at least) a third national major supermarket operator.

(a) Food & Provisions

As may be seen below, at Table 4, the retail price paid by Hobart consumers for food, as well as cleaning and hygiene products, is (on aggregate) greater than that paid by consumers in all Australian mainland capital cities.

Category	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Average	Tasmanian Relativity
Total Food	1921..38	1840.13	1853.93	1773.05	1946.28	**1952.42**	1881.20	**103.79%**
Total Cleaning & Hygiene	1840.00	1838.00	1948.00	1770.00	1857.00	**2029.00**	1880.33	**107.91%**
Combined Costs	3761.38	3678.13	3801..93	3543.05	3803.28	**3981.42**	3761.53	**105.85%**

(Table 4) Comparative Retail Prices by Capital Cities
Source: ABS Cat No. 6403.0, June 1998

(b) Petroleum Products

A further impost on the cost of goods and service purchased by Tasmanian consumers is necessitated by the higher than average cost of petroleum products. As may be seen from Table 5 below, Tasmanians pay more than 7.4% more than the average retail price paid for petrol elsewhere,

Category	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Average	Tasmanian Relativity
Petrol Super Unleaded	73.50 71.30	70.90 68.70	64.40 62.10	73.10 70.70	74.50 72.40	**77.50** **75.50**	72.32 70.12	**107.17%** **107.68%**
Mean	72.40	69.80	63.25	71.90	73.45	**76.50**	71.22	**107.42%**

(Table 5) Comparative Retail Prices for Petrol, by Capital Cities
Source. ABS Cat No. 6403.0, June 1998

(c) Heating. Light & Power

Commercial electricity tariffs in Tasmania tend to be higher than those of most other states. Most facilities would be almost totally dependent on electricity as a safe and clean form of heating, and given the climatic conditions typically experience in Australia's southernmost State, it would be reasonable to anticipate higher consumption of power per resident day than might be the case in most other mainland locations.

Moreover, the State does not have access to supplies of (cheaper than L. P) natural gas for heating, cooking nor laundry purposes.

In August 1998, the Bacon ALP Government won office a platform that the Hydro Electric Commission (HEC) would be retained in public ownership. It had been argued that it would not be necessary to lease or sell the HEC in order to reduce the level of Tasmania's massive infrastructure debt. Instead, the HEC would be required to make a bigger contribution to the public purse, which inevitably means an escalation of charges to consumers.

8. Options

(a) Extra Services

Application for extra service status is undoubtedly a viable option for some service providers in larger mainland metropolitan regions but in the case of Tasmania, which has a total population of less than say the City of Parramatta, an extra service nursing home would not be a viable proposition,

The alternative option of extra service wings, unless catered for within an entirely separate residential community within the facility, has some serious social and no doubt political implications.

The fact that there has not been a single application for extra service status in Tasmania should tell its own story. Such is not to infer that such options have not been considered, but rather that it is not an option which has been retained in the final draft of business plans.

The requirement to have to repay additional recurrent funding receipts, whist still having to service loans for previous capital upgrades/rebuilding, also provides a powerful disincentive to some who might otherwise be tempted to seriously consider applying for extra service status.

(b) Additional Recurrent Funding

Additional Recurrent Funding (ARF) was introduced in 1992 to afford private sector operators, who unlike their not-for-profit counterparts were not eligible to receive capital grants, with an equal incentive to upgrade or rebuild nursing homes. The ARF option was however was also available to not-for-profit services.

The formula for entitlement was:-

Value of works x 65% of the (fixed) bond rate at the time of completion.

Payment is by monthly instalments over a 10 Year period. Unlike capital grants ARF receipts are treated as taxable income.

With the introduction of the Aged Care Reforms from 1 October 1997, the Government legislated that any provider in receipt of an ARF would not be eligible for building certification (a compulsory prerequisite to being able to receive accommodation charges or concessional resident subsidies) without forgoing the balance of ARF owed to the Service.

Moreover, those facilities who had received (up-front) capital grants under the Aged and Disabled Persons Act 1954, were permitted to apply for building certification without the need to repay any of those funds.

Funding under both arrangements was designated towards the cost of previously completed capital works, yet ARF recipients are being treated less favourably by the Commonwealth.

9. Indexation

The Commonwealth Own Purpose Outlays (COPOS) indexation formulae, as developed by the Department of Finance for the purpose of the 1996 Federal Budget, comprises of a cocktail of 75% wages and 25% non wage costs for nursing homes and many have argued that this process is fundamentally is flawed. Rather than ensuring that indexation covers cost movements over time, its prime function has been to slash Commonwealth spending in residential aged care.

At a time when the high care sector is incurring a loss of operational funding by way of: -

- the RCS process (particularly for the frailest of residents who are need of Specialised nursing care. and,

- in many instances, payroll tax supplements, it can ill-afford to suffer further financial hardship as a consequence of an inaccurate and inappropriate indexation process.

For Tasmania, any form of downward coalescence to a uniform and national fee, particularly in final three years when the rate peaks at 24%, the financial hardship would be compounded, if it is accompanied by indexation process which is neither soundly based nor equitable.

If coalescence is resumed at some future time, its span of life Will be finite. The same may not necessarily be said of the COPOS indexation process.

10. Recommendations

ANHECA -TAS wishes to endorse the following recommendations, which were included in the submission made to the Productivity Commission by the Australian Nursing Homes & Extended care Association Limited:-

Recommendation 1

ANHECA considers that funding should be set on a State by State formula basis and should include:

✶ The current cost of Nursing and Personal Care staff, based on an agreed mix between the different types of employees. ANHECA suggests; register nursing staff (33%), non-registered nursing staff (60%) and therapy staff (7%).

✶ The current cost of non-NPC staff.

✶ The cost of award conditions (ie, leave, public holidays etc).

✶ The cost of non-wage expenditure.

✶ The cost of training, set at 1.5% of wages.

✶ The cost of Long Service Leave, set at 1 % of wages.

✶ A return on investment based on an imputed rental plus a reasonable return on the business.

Recommendation 2

ANHECA considers that the indexation arrangements should allow for the maintenance of parity between the public and non-government sectors. ANHECA would prefer an industry basket approach to indexation, however, if this approach is not acceptable, ANHECA would suggest that the aged care sector should be linked to the ABS index ABS index for Health and Community Services industry. This would provide a direct link to the public sector.

Recommendation 3

ANHECA recommends that the subsidy levels reflect the level of wages in the public sector. This will be the first step in restoring parity in the first instance.

Recommendation 4

ANHECA considers that statutory costs should be outside the subsidy arrangements and funded as follows:-

Payroll Tax This is a cost outside the control of the provider. The provider should be funded, throughout the year, at the latest known rate for the facility and the exact amount payable by reconciliation at the end of the year. This will overcome the problems faced by providers owning more than one facility.

Superannuation This is a cost outside the control of the provider. The provider should be funded, throughout the year, at the latest known rate for the facility and the exact amount payable by reconciliation at the end of the year.

Workers' compensation This is a cost outside the control of the provider. The provider should be funded, throughout the year, at the State average for the year and reconciled at the end of the year, within caps, to provide incentives for continuing good OH&S practices and to ensure that unavoidable workplace injuries do not force providers into receivership.

Recommendation 5

ANHECA considers that the concessional resident supplement should be earmarked for capital and not compared with recurrent funding as was done under the recent RCS Review.

Recommendation 6

ANHECA considers that the level of subsidy could be supplemented with an increased resident payment that will give them the choice of accommodation.

Recommendation 7

ANHECA considers that the current control over price totally limits the income of aged care facilities and consequently limit the services and accommodation which can be provided to Australian aged residents. ANHECA therefore recommends a slight relaxation in price control so that the resident can be offered a choice in the type of accommodation.

Recommendation 8

ANHECA recommends that where a Government nursing home is purchased by a non-government entity then subsidy be paid at the full rate after taking into account any equalisation grant paid by the government to the purchaser to account for that variation.

Recommendation 9

The income tested amount would create an access barrier for some. To over come this ANHECA recommends that the resident pay the basic amount only depending on pension status. As the vast majority of residents who would have to pay an income tested fee would also have to submit a tax return at the end of each financial year, ANHECA considers that nursing home and personal care fees should be deleted from the medical rebate for residents entering care after 1 March 1998.

Recommendation 10

ANHECA also considers that the subsidy payments should continue to be paid to the facility. To empower the resident with the payment of the subsidy would lead to massive administrative problems both for the provider as well as the Government.