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PRODUCTIVITY COMMISSION INQUIRY INTO NURSING HOME SUBSIDIES

SUPPLEMENTARY SUBMISSION BY

AGED SERVICES ASSOCIATION OF NSW & ACT INC

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Introduction

This submission is in response to the Position Paper by the Productivity Commission. It supplements comments previously provided to the Commission from our peak body, Aged Care Australia and in turn is supplemented by our submissions at the public hearing in Tamworth, NSW on 27 November 1998.

The submission covers the following issues:

A. Benchmarking in Aged Care
B. Workers' Compensation
C. Case studies highlighting the impact of a potential 4% reduction in nursing home subsidies on nursing homes outside the Sydney greater metropolitan area.

A. Benchmarking in Aged Care

On behalf of Aged Care Australia, ASA is managing the first phase in a national project to develop a "first generation" set of financial, organisational and quality benchmarks. A second product is being developed to assist aged care providers to use these benchmarks to inform a strategic planning process and development of business plans. The Commonwealth Department of Health and Aged Care has funded the project.

We will present to the Commission an overview of the lessons learnt to-date with this project at the public hearing. In brief, the following can be observed:

- The aged care industry is collecting a lot of information
- Because of the complex relationships between minimum standards of care, quality care ('best practice') and financial viability, there is currently no unanimity as to what are the best indicators.
- Industry ownership of the 'true' concept of benchmarking does not yet exist.
- Individual providers will need to make a commitment to the principles of benchmarking for the concept to work.

This first phase in the project will result in a "Benchmarking in Aged Care resource which will provide information on the important elements to benchmarking. It is envisaged the resource listing the first generation benchmarks, with suggested definitions, will be piloted in the first part of next year in a number of regions. An integral component to the resource is the planning kit which assists providers to apply, validate (or refute) the benchmarks and assess their relevance at the local level. It is hoped that the pilot will help in the refining of both the benchmarks and the planning kit and demonstrate the commitment needed to benchmark and their use as a model for planning. The pilot will provide ACA with a clearer feel for the strategies needed to apply the benchmarking processes at a state and national level and of the nature of the support and education required by providers to ensure that the principles of benchmarking are adhered to.

At the public hearing we will present further information on the following areas:

- Identification of the benchmarking processes.
- The current status of the data base.
- The nature of the variables within the industry, including the range of organisations.

- The current lack of sophistication of the industry regarding benchmarking.
- Lessons to be learned from benchmarking and unit cost exercises in the acute health care and Home and Community Care (HACC) sectors.
- The need to develop a model which captures common measures and variations.

B. Workers' Compensation

Introduction

This is probably the most serious expenditure area for New South Wales operators as a problem claims history can result in the escalation of premiums to levels that have the potential to put them out of business.

In our submission of September 1998 we provided a detailed outline of concerns regarding the costs associated with worker's compensation. We included a paper prepared by PriceWaterhouseCoopers for ASA, which provides a history of the NSW Workers' Compensation scheme. In this submission we present further information in support of our initial recommendation regarding the need to fund workers' compensation using a transparent state averaging system.

Other Cost Reimbursed Expenditure (OCRE)

OCRE under the previous funding arrangements was the funding component which comprised Workers' Compensation Insurance Premiums, Superannuation for Nursing & Personal Care staff, the Movement in Long Service Leave Provisions for Nursing & Personal Care staff and Payroll Tax. Payroll Tax under the new arrangements is paid as a separate Supplement and is therefore excluded from this submission.

The essential problem arises from the inclusion in the RCS funding rates from the 1 October 1997, of a component to cover OCRE (excluding Payroll Tax) of only $6.59. With the indexation of the Subsidy Rates from the 1 July 1998, it has been calculated that this component of the funding has increased to around $6.68. Please refer to Attachment m l" for a copy of how the $6.68 has been calculated.

The OCRE component for the new funding rates from 1 October 1998 was derived by indexing the 1994/95 State Average OCRE costs for NSW. However this failed to take account of sharp increases in Workers' Compensation Insurance in 1995/96 and 1996/97

Recent Workers' Compensation Insurance History in NSW

The essential problem appears to be that the $6.59 OCRE component has been calculated from historical data, which does not take into account the huge increase that occurred in Workers' Compensation Insurance rates in NSW from 1 July 1996. Using 1994/95 as a base year, the percentage increases in the tariff rate, or base premium, for nursing homes has been as follows:

1995/96	1996/7	1997/98	1998/99
41.0%	11.9%	3.9%	Nil

The problems these increases have caused are reflected in the 1996/97 OCRE components determined for a sample of thirty six (36) nursing homes from their NH20 Departmental assessments. Please refer to Attachment "2". You will note that the average Actual OCRE costs for 1996/97 from this sample was $9.26 per day whilst the funded average was $9.32 per bed day.

This difference between the two (2) figures arises because of the funding of Workers' Compensation Insurance at the State Average level.

In order to prove the desperate position that nursing homes are in because of this unfavourable funding of the OCRE component, the Department has been contacted and requested to provide details of the State Average OCRE costs for 1996/97, excluding Payroll Tax. This information can be calculated by the Department from the NH20 returns for 1996/97. We can see no reason why this information cannot be officially provided. We suspect the Department is not keen to provide this information because it will show average OCRE costs close to levels in the attached sample, which is greater than $9.00 per bed day. (Note: unofficial advice from Departmental Officers indicated an average of $9.39 for 1996/97.)

Based on information provided by the Department to nursing homes visited by the State Alert Response Team (SART), the following table has been prepared. Note the cost levels compared to the OCRE funding component in Attachment "2" calculated at $6.68.

Category Type	**Median Workers' Compensation per bed day**	**Median OCRE Costs per bed day**
40 Bed Country Nursing Home	$5.95	$10.63
79/80 Bed Country Nursing Home	$4.55	$10.81
60 Bed Country Nursing Home	$4.73	$ 9.13
51 Bed Country Nursing Home	$3.99	$ 7.87
30 Bed Country Nursing Home	$3.86	$ 8.82

Although there was no increase in the tariff rate in nursing homes for 1998/99 there was what might be considered a hidden increase by the State Government through an increase in the "F" factor. This is the factor used in determining the claims history adjustment component of the Workers' Compensation Insurance. From the 1 July 1998 these "F" factors increased from 3.4% to 3.9% for claims in 1997/98 and from 2.4% to 2.9% for claims in 1996/97. This has the effect of substantially increasing the claims history component of the total Workers' Compensation Insurance premium for those operators that have had claims in those particular years because of the three (3) year moving average basis for determining this component of the premium.

Attachment "3", provides a small sample of 1997/98 Workers' Compensation costs for twenty-four (24) nursing homes. This indicates a bed day cost in 1997/98 of $6.63. It is evident the situation for the industry is not improving. This sample is currently being added to, as information becomes available.

NSW Government Workers' Compensation Insurance Legislation

Workers' Compensation Tariff Premium Rates, which are gazetted in respect of each business or industry activity, and the method of experience adjustment are fixed by the Insurance Premiums Order which is issued under the Workers' Compensation Act 1987. Licensed Insurers are not permitted to grant any employer a discount in relation to the gazetted premium rates nor do they have discretion to charge more than these rates, subject to adjustment for the experience of the particular employer.

Essentially Licensed Insurers classify employers according to the tariff classification, which most accurately describes the employer's business or industry activity.

For 1998/99 there are twenty-eight (28) tariff levels ("pools"). Each industry tariff classification is assigned to one of these pools based upon the claims experience of the industry. Nursing Homes & Hostels are in premium rated pool number 18 at 5.57%.

The tariff premium rate for each industry classification reflects the claims experience of the employers included within the classification. There is no cross-subsidisation between groups. The premium rates and assignment of tariff classifications to a pool are annual.

Experience Adjustment System
Basic tariff premiums are adjusted on the basis of the experience of individual employers.

All employers are classified into either Category A or Category B for the purpose of determining whether an experience adjustment is required in the calculation of their premium. Employers are classified into one of these categories under the following rules:

i. Category A employers are those whose basic tariff rate applied to estimated wages for the forthcoming year of cover results in a tariff premium exceeding $3,000. This would cover the majority of employers.
ii. Category B includes all other employers.

Category A employers have an experience adjustment made to their tariff premium based on past claims experience, if they have at least two (2) years claims experience.

Employers are required to repay to their insurers the first (up to) $500 of weekly benefit on each claim paid as an excess.

The initial premium payable by Category A employers is a combination of the gazetted rates of premium and an experience premium assessed on the basis of the employer's claims experience over the previous two (2) years.

The previous two (2) years' experience is used in calculating the initial premium. The final premium is calculated by including the previous two (2) years' experience plus the experience for the period of cover.

A ceiling on premiums payable by certain Category A employers applies. For employers where the basic tariff premium does not exceed $100,000 the experience adjusted premium [(Tx(l-S))+(ExS)] can not exceed two (2) times the employer's basic tariff premium (i.e. 2xT). This ceiling applies to both the initial premium calculation and final premium calculation. The ceiling could come into play for the initial premium, and then no longer provide protection (to the employer) in respect to the final premium because the final basic tariff premium exceeds $100,000 and vice versa.

The system has created a major problem for small facilities that are part of large Church/Charitable groups. One, thirty six (36) bed Nursing Home which is owned by a large Church organisation has an estimated 1998/99 premium of $136,963, or 10.9% of

estimated Salaries & Wages, or a daily bed day cost of $10.42. This premium will place the facility in serious financial difficulty. This is not an isolated incident and would affect many voluntary sector facilities, which are part of a group.

The reason why the premium is so high is because the estimated total premium for the employer (the whole Church organisation) exceeds $100,000. If this Nursing Home were a stand-alone facility the premium would be approximately half.

When problems in relation to Workers' Compensation Insurance costs are raised the Government invariably raises the old chestnut of having to improve Occupational Health & Safety within residential aged care. As most people in the industry are aware, nursing homes and hostels have generally been at the forefront of developing and instituting sound Occupational Health & Safety programs, which in most facilities have been operating for quite a few years.

Although these programs have been of assistance to operators, it is impossible to prevent injuries because accidents can always happen. When caring for very frail and cognitively impaired people manual handling cannot be avoided. The industry will always be high risk.

State versus Commonwealth

Under the previous funding arrangements where Workers' Compensation Insurance was initially cost reimbursed and then funded essentially on a State Average basis, there were protections for operators resulting from sharp increases in premiums stemming from the system imposed by the State Government. With the change in the indexation arrangements for funding under the new funding scheme, there is no protection for operators from big premium increases.

How are operators supposed to cope with this situation of having to meet requirements imposed by the State Government but receive funding levels from the Federal Government which fail to provide for these increases. Obviously in meeting these costs savings have to be made in other areas which ultimately must result in reduced care standards and in some extreme cases closure of facilities.

Recommendations

New South Wales facilities are already feeling the impact of the significant increases in Workers' Compensation premiums over the past four (4) years, this matter needs to be urgently addressed and ASA recommends:

1. **That Workers'. Compensation Insurance be cost reimbursed to a State average level, with further funding provided for an amount over an unfunded component, similar to the method that operated in 1996 and 1997 for Nursing Homes. The unfunded component could be a percentage of the base tariff premium. A reasonable percentage could be 20%. This would be more equitable than a fixed capped method which disadvantages those facilities in the various States that have a lower than National average premium rate and advantage those States where the base premium rate is higher than the National average rate.**

Under this method providers would be able to estimate the amount that will be funded for Workers' Compensation, whereas under the previous CAM/SAM system it was some months after the end of the financial year before the amount of additional funding was calculated and funded.

The State average would be calculated annually and could be quickly and easily verified by requiring facilities to submit the final premium notice received from their Insurer to the Department.

By way of example, based on this method and using a base tariff rate of say 6% and a State average of say 7.5%, a facility would be funded up to the State average (7.5%), then the next 1.2%, (20% of 6%) would be unfunded. Any amount over 8.7% (7.5% plus 1.2%) would be fully reimbursed.

2. The State average be calculated on two bases, the first for those facilities with a ceiling on their premium, (that is where the base premium does not exceed $100,000), and secondly for those facilities that do not have a ceiling on their premium. This would provide for more equitable funding for both groups.

C. Case studies highlighting the impact of a potential 4% reduction in nursing home subsidies on non metropolitan nursing homes in NSW.

ASA shares the concerns expressed by ACA that the Commission's Position Paper (page 34) seems to imply that there is no evidence to suggest that a 4 -6% variation in costs would be "generally significant in total cost terms. We felt the following case studies would be in interest to the Commission.

NINGANA - ACCOMMODATION FOR THE CONFUSED ELDERLY, ARMIDALE

1. "Loss of approximately $25,700 per year.
2. Increased staff hours approved at last Board meeting for 3.5 extra PCA hours per day to cover meal times (approximately cost $12,500/year) will now not be affordable. This means decreased level of care for high band dementia residents who require constant supervision for most ADLs. It will result in low staff morale, loss of job satisfaction and possibly loss of staff.
3. Ningana is 5.5 years old and requires repainting - this may have to be deferred.
4. Staff education and training will have to be cut thereby reducing the quality of care and necessary education to facilitate the accreditation process.
5. Less funding means less staff hours and no further "qualified" staff, therefore inability to "age in place".

MOUNT WARRIGAL CARE GROUP, ALBION PARK

"The Mount Warrigal Care Group, a charitable, non-profit organisation, receives $10.9 million pa in government subsidies for its nursing home and hostel operations. A reduction of 4% would mean a drop in income of approximately $437,000.

For the year ended 30/6/98 the company's audited financial statements recorded an operating profit before abnormal items of $412,000 which was reduced to $108,000 after abnormal items. Thus it can easily be seen that a reduction in income to the magnitude of $437,000 would completely eliminate that surplus and clearly threaten the company's financial viability and service delivery.

Since capital grants have now been virtually eliminated, it will take a considerable length of time for the nursing home Accommodation Charge to accumulate to sufficient levels to be useful. It is now more crucial than before the elimination of capital grants, that organisations generate sufficient profits to fund the capital improvements required to achieve and maintain certification and accreditation, without which they will cease to exist.

The financial position of NSW facilities has already been eroded by the first stage of national coalescence and this is likely to become exacerbated as increases in workers compensation premiums in this state continue to outstrip that of other states. Aged care facilities throughout the country are facing continually higher expenditure requirements, particularly in areas of occupational health and safety, infection control, continence management, increased numbers of dementia sufferers, etc.

The combination of low wages and heavy workload make aged care an unattractive option for many nurses and filling staff vacancies is becoming increasingly difficult, let alone recruiting quality personnel. Working short staffed or underskilled, places unreasonable loads on those who bear the brunt of such burdens. There is a very real fear that we are reaching a point where quality and safety may be compromised. A better nursing wage and/or increased staffing levels would go a long way towards alleviating these problems. The government is seeking to reduce funding at a time when there are many valid arguments for increasing it.

Further, with the trend towards improved community care, many facilities are experiencing unprecedented occupancy shortfalls. The table below shows the individual impact on three of our facilities based on the results for the four-month period to 31 st October 1998. As can be seen the two hostels are already in a loss making situation and any funding cuts will further increase those losses, to a point where they may not be able to be crossed subsidised. The nursing home is making a small surplus, which would effectively be eliminated by a 4% reduction in income.

	Queen Beatrix NH	J & M Land Hostel	Glades Bay Gardens Hostel
Govt Subsidy to 21/10/98	488,793	174,981	68,775
Surplus as at 31/10/98	19,935	(13,529)	(33,988)
4% reduction in Funding	19,552	6,999	2,751
Surplus with funding cut	383	(20,528)	(36,739)

A 4% funding cut would not only compromise the financial viability of these centres, it would generally further burden and place unnecessary hardship on an industry already stretched to make its resources meet the ever increasing demands placed on it."

UPPER HUNTER VILLAGE ASSOCIATION LTD, SCONE
"I estimate our government subsidies for the year 1998/99 to be $2,610.387. A 4% reduction in those subsidies would be $104,415.

That sum represents about two and half thereafter Registered Nurses.

If I could eliminate those staff members and replace them with enrolled nurses, if they were available, or worse yet replace them with untrained staff at a cost of $57,577 I would still need to reduce costs somewhere else by $46,838.

Given that our income is virtually fixed and our expenses, particularly salaries and wages and Workers' Compensation premiums are open ended, and given that our surplus for 1997/98 was only $67,500, this High Care Facility could quite easily slip into the red.

So far, I have only been talking about monetary problems.
Losing 2.5 Registered Nursing positions in a HCF of 80 beds would place a very heavy burden on those that remain. It also would reduce the quality of care to our residents and obviously reduce staff morale and create uncertainty of 'whose next'."

MAROBA NURSING HOME, WARATAH
A 4% cut in recurrent funding would put our 79 bed nursing home operation into a definite loss situation.

1998/1999 budget surplus	-	$ 93,000
4% cut in recurrent funding	-	$(110,000)
Profit/(Loss)		$ (17,000)

Maroba has already reduced operational expenses through reduction in working hours. Our 98199 budget has reduced nursing and domestic hours compared to last financial year. Already this can be seen in hours worked between November 1997 and October 1998 as an example:

> November 1997 Nursing hours worked - 7767 hrs Domestic - 2655 hrs
> October 1998 Nursing hours worked - 7243 hrs Domestic - 2393 hrs

Any further reduction in recurrent funding would see reduction in less critical areas (debatable whether considered less critical) eg:

> Elimination of activity/diversional therapy hours and relevant staff
> Big reductions in fresh fruit
> Maintenance of buildings and grounds (hardly appropriate when trying to score well with Certification)."

ANGLICARE CHESALON
"Cheslaon has looked at three of its nursing homes of varying size, taken the 1999 budget figure for nursing salaries and taken 4% of that figure.

We then looked at how many AINs the 4% would "buy".

For each of the three homes (40 beds, 48 beds and 52 beds) the result was about the equivalent of two full time third year AINs.

To pay the additional 4% just on salaries alone would require us to reduce our care staff by 80 hours a week.

Currently the Summer Hill home (40 beds) uses 430 AIN hours per week. To reduce that by 80 would have a significant impact on the care given.

The Harris Park home (48 beds) currently uses 520 AIN hours per week, while the Jannali home (52 beds) uses 740 AIN hours a week.

We suppose the economies of scale show that the larger home could have more chance of absorbing such a significant reduction in staffing levels without compromising care.

However, a 4% reduction would significantly impact on this organisation and how we were able to provide the quality care our residents have a right to receive. When added to the already significant impact of preparing for accreditation 1 do not believe we could do it."

OUR LADY OF CONSOLATION, ROOTY HILL

	N/H	Hostel
"Projected results for 98/99 (after depreciation)	$96,378	$90.423
Projected result if Govt subsidies were reduced by 4%*	($89,999)	$16,063

*To maintain surplus of $96,378 after a 4% reduction in subsidies we would have to reduce staff by approximately 168 hours per week (4.4 FT employees)."

Conclusion

In light of the above, we request the Commission provide a clearer rationale for the implied statement that a 4-6% variation would not have significant impact on the quality of care and viability of nursing homes in NSW. We support the ACA recommendation that the extent of movement towards uniform basic subsidy rates be determined having regard to objective and transparent information on the actual average of costs of providing a standard level of quality care to all residents in each jurisdiction.

The Aged Services Association of NSW & ACT acknowledges the contribution of Wallace Mackinnon and Associates for their assistance in preparing this submission.

Attachment 1

CALCULATION OF 1998/99 SUBSIDY RATES

NEW SOUTH WALES

OLD

Category	Total	SAM	OCRE	Towards CAM
1	101.69	39.13	6.59	55.97
2	91.82	39.13	6.59	46.10
3	78.98	39.13	6.59	33.26
4	56.03	39.13	6.59	10.31

NEW

Category	Total	SAM	OCRE	Towards CAM	Super-annuation Supple-ment	Average Coal-escence	Total	Indexation Amount	Average Coal-escence	No. of Residents *	Coalescence per Category 7 Year Period
	$	$	$	$	$	$	$	$	$		$
1	103.59	39.68	6.68	57.23	0.52	(0.04366)	103.59	1.42	(2.18)	3,541	(7,730)
2	93.59	39.68	6.68	47.23	0.52	(0.03548)	93.59	1.29	(1.77)	11,882	(21,079)
3	80.58	39.68	6.68	34.22	0.52	(0.02572)	80.58	1.11	(1.29)	10.260	(13,194)
4	57.31	39.68	6.68	10.95	0.52	(0.02442)	57.31	0.78	(1.22)	2,814	(3,436)
										28,497	(45,439)

TOTAL COALESCENCE (16,585,208)

* Based on Resident Mix as per Final RCS Review.

Attachment 2

1996/97 OCRE ACTUAL COSTS AND FUNDED COSTS

Included in the 1997/98 RCS Funding rates is an OCRE component of $6.59 per day.

Compares Actual and Funded OCRE Components. A sample of thirty six (36) Nursing Homes compares the Actual & Funded Components (excluding Payroll Tax).

No. of Beds	Actual OCRE 1996/97	Funded OCRE 1996/97
72	17.49	15.77
65	12.45	10.66
115	12.06	10.25
36	11.08	9.49
60	10.68	8.96
87	10.49	9.21
80	10.44	9.85
120	10.31	9.01
50	10.26	9.50
45	10.22	9.42
40	10.09	8.66
50	10.06	8.99
53	9.56	8.13
53	8.86	8.46
102	8.82	8.54
60	8.56	9.16
40	8.55	10.32
36	8.54	10.53
104	8.37	9.24
50	8.16	9.40
60	7.85	8.62
38	7.73	9.17
45	7.72	9.10
45	7.72	9.10
48	7.54	9.42
34	7.53	9.42
52	7.30	8.73
36	7.29	8.42
40	7.16	8.94
24	7.12	8.28
49	6.84	7.86
34	6.74	8.43
47	6.60	8.24
43	6.50	8.21
52	6.49	8.15
52	6.27	8.08
Total 2017	**$ 18,671.40**	**$ 18,800.92**
Weighted Average	**$ 9.26**	**$ 9.32**

Attachment 3

1997/98
WORKERS' COMPENSATION STATISTICS
NURSING HOMES

	No. of Beds	Workers' Compensation Premiums $	Total Salaries & Wages $	% of Salaries & Wages $	Per Bed Day Costs $
1	31	44,248	1,142,565	3.87	3.91
2	32	42,070	873,160	4.82	3.60
3	40	55,093	1,247,765	4.42	3.77
4	74	226,000	3,400,000	6.65	8.37
5	50	102,200	873,160	11.70	5.60
6	28	36,008	811,971	4.43	3.52
7	96	123,370	2,809,222	4.39	3.52
8	130	297,305	3,923,635	7.58	6.27
9	24	33,519	691,292	4.85	3.83
10	65	204,152	1,969,961	10.36	8.60
11	24	65,857	808,344	8.15	7.52
12	30	49,966	883,518	5.66	4.56
13	47	72,718	1,465,009	4.96	4.24
14	46	170,695	1,405,693	12.14	10.17
15	50	100,893	1,563,589	6.45	5.53
16	38	51,071	1,243,630	4.11	3.68
17	36	85,054	1,245,959	6.83	6.47
18	50	130,680	1,550,000	8.43	7.16
19	72	418,172	1,908,415	21.91	15.91
20	115	490,571	3200,000	15.33	11.69
21	79	108,480	2,420,000	4.48	3.76
22	60	145,773	1,731,229	8.42	6.66
23	38	51,071	1,243,630	4.11	3.68
24	53	61,468	1,129,300	5.44	3.18
	1,308	**3,166,434**	**39,541,047**	**8.01%**	**6.63**