SUBMISSION TO THE

PRODUCTIVITY COMMISSION

NURSING HOMES SUBSIDIES -

POSITION PAPER OCTOBER 1998

COMMENTARY

The National Association of Nursing Homes and Private Hospitals Inc.

Level 2, 154 Elizabeth Street
Sydney NSW 2000

Telephone: 02 9261 3633
Fax: 02 9261 3677
Email: nanhph@ozemail.com.au

Contact: Michael Keats
Chief Executive Officer

Introductory Comment:

1. The Preliminary Proposals introduce a number of complex and critical concepts which require defining and fleshing out to be meaningful.

2. There is insufficient detail provided on a number of the concepts for the Association (and we suspect the industry) to make informed comments.

3. Our interpretation of this commentary is therefore based now that we understand the concepts to be.

4. The Association has not commented on what it regards as straight forward proposals.

5. The Association agrees with proposals 5, 8, 10 and 11.

COMMENTARY ON THE PRODUCTIVITY COMMISSION POSITION PAPER

1 **The coalescence of basic subsidies for high care residents in nursing homes and hostels should not proceed In its current form. Rather, a movement to nationally uniform basic subsidy rates should occur as part of a wider package of changes to address deficiencies In the current subsidy arrangements.**

NANHPH accepts this proposition, dependent on the interpretation of the words "uniform basic subsidy rates". Not only should the basic subsidy rate provide a level of support which meets accreditation and certification requirements, but it should also provide sufficient funds to meet the cost of looking after tile specified percentage of concessional residents and allow the provider to make a reasonable return on investment.

2. **In combination with resident charges, government funding should be sufficient to support the level of care required to meet the accreditation and certification requirements.**

This concept is positive and supported. The Association would argue that Government funding must be sufficient - not should be. Again, the issue of the "basic subsidy rate" becomes a question unless it is intended that resident charges should rise. It should be noted that accreditation is subject to "continuous improvement".

The rate therefore would need to be adjusted annually at least to cover additional costs incurred.

The Association is concerned that the Report in this area is light on detail and contains carefully worded broad statements.

3. **Basic subsidy rates should be linked to the cost of providing the benchmark level of care in an <u>efficient sized facility using an average input mix</u>. Additional funding support for smaller nursing homes in rural and remote areas should come from a special needs funding pool**

The industry cost base should reflect nursing wage rates and conditions applicable in the aged care sector rather than in the acute care sector.

The issue here is what is an "efficient sized facility using an average input mix"? Would the Commission please elaborate on this concept. There is an issue here that consumers are asking for larger areas, personal en-suites and one and two bed wards. Whilst these changes afford capital costs, they also impact on operational costs for heating, cooling, cleaning, lighting etc.

A reading of the report would seem to indicate that this would be a sixty (60) bed facility. The Commission appears to be suggesting small sized nursing homes in metropolitan areas should be phased out in favour of more efficient sized nursing homes (around 60 beds). Is the Commission in possession of data to prove what an "efficient sized facility" is, or is the Commission relying on the submissions which have been made? If so what benchmarking has been undertaken to justify the contention?

If a sixty (60) bed facility is regarded as an "efficient sized facility" then what steps if any will the Commission be recommending to ensure that the number of beds which are currently operated by providers who conduct smaller facilities are not going to be lost to the system.

It is also the case that an "efficient sized, facility" costs in 1998 are going to change over time and based on historical precedent will increase. The Association would argue that there is a difference between an "economic" size and an "efficient" size. An 80 bed facility is possibly more efficient that an 60 bed facility.

The second paragraph of preliminary proposal 3 proposes that the industry cost base should reflect nursing wage rates and conditions applicable in the aged care sector, rather than the acute care sector. The reality is that wages and wages oncosts which are the vast bulk of costs in nursing home care provision are driven by costs in the acute care sector.

The Association believes the Commission should take into account the special situation of many small providers in Victoria and recommend the Government allocate resources to facilitate aggregation.

The industry is at a loss to understand why the Commission wishes to deny the reality of the wages cost push in this direction. This is even more disappointing given that providers are supposed to encourage staff at all levels to actively participate in the accreditation process. This process implies a dedication and commitment which is unlikely to be found by

paying people less than market price for their labour and this market price may be above the acute care sector level.

4. Increases in basic subsidies under the new regime should be based on annual increases in the cost of the standardised input bundle necessary to deliver the benchmark level of care, less a productivity discount. When it becomes available, the ABS productivity Index for the nursing home sector should be used to determine the discount.

There should also be periodic review of the industry's cost base and of the adequacy of subsidies in the light of changes In care requirements.

In the first paragraph of preliminary proposal 4 there are two concepts introduced which require definition and understanding. The first of these is the "standardised input bundle", the second is a "benchmark level of care".

Is it intended the "standardised input bundle" is based on individual RCS category needs, or is it based on an average mix of RCS category needs in facilities across the Commonwealth, or is it some other measure which includes the full spectrum of costs in operating "an efficient sized facility"?

"The benchmark level of care", presumably is the care required by the accreditation process. A real concern exists that the benchmark level of care required by the accreditation process is not set in concrete, but is rather subject to "continuous improvement" as required by the Aged Care Standards Agency. The industry needs to have a full understanding of what is entailed in these concepts.

A matter of extreme concern is that facilities are going to be saddled with a "productivity discount factor" based on a new index for the nursing home sector.

If anything. the industry needs a productivity increment, rather than a discount. What incentives would such an arrangement have for providers if they were going to get less assistance by being more efficient? The only benefit could possibly be if it is proposed to deregulate the market so that providers can access additional resources and therefore have a business which is flourishing, rather than one which is penalised by punitive measures.

With regard to the second paragraph of preliminary proposal 4 the Association agrees that there should be a comprehensive review of the industry's cost base and of the adequacy of subsidies in light of changes in care requirements.

The inquiry into SAM funding and the subsequent Gregory reviews, both identified the inadequacy and inappropriateness of the funding bases that were used for CAM/SAM/0CRE funding.

The current funding arrangements which are based on those false premises. still prevail and as a result the industry has been underfunded ever since 1987.

The anomaly is that despite the inappropriateness or inadequacy of the funding package that currently prevails, the industry is still enjoying a significant growth in capital investment for new facilities and bed licences are transferring at a premium for providers who wish to aggregate licences in order to build efficient facilities.

The Association would submit that the development of the ARS productivity index should have significant industry input into the process.

7. Commonwealth contributions towards workers-compensation costs should continue to be provided through the basic subsidy regime.

The Association would support his concept provided that the actual cost of worker's compensation premiums is met by the payment of the basic subsidy.

The Association would submit that there is a need for a more specific safety net. The current arrangements are illusory - regardless or organisation size. There needs to be a system which provides instant relief while you restructure your finances if that is necessary.

The Association has noted the advertising of "invitations to claim" is undefined for every injury imaginable.

The Association would link proposals 6 and 7 to the extent that if payroll tax is payable as a cost reimbursement why is not Workers Compensation done the same way?

9. There should be a rebalancing of Commonwealth support for residential aged care towards special needs funding for services in rural and remote areas. To this end, the Commonwealth Government should develop and cost new special needs funding arrangements In consultation with providers, resident groups and State and Territory Governments.

Given the Brief from the Treasury, the Productivity Commission is arguing for a redistribution and rebalancing of Commonwealth support towards more appropriate assistance for rural and remote areas at the expense of urban areas. The Association notes that rural and remote facilities already enjoy additional special funding and. quite clearly this pool of funding needs to be increased. The cost issues are not so much in the staff area but in equipment. For example for the Nursing Home on Thursday Island it is cheaper to buy a new washing machine then it is to transport an existing one for repair or pay for a service.

The effective "robbing Peter to pay Paul" could have significant viability consequences for urban facilities. The Association would argue that additional funding is required to satisfy the viability of services in rural and remote areas. Failure to inject more funds could result in nursing home failures in urban areas. There simply is insufficient money to ensure the outcomes of Proposals 2 and 9 simultaneously.

This proposal will put a significant number of small providers out of business. particularly those operating facilities of thirty (30) beds or less who are leaseholders in metropolitan Melbourne.

The Association is not aware of any proposals by the Commonwealth Government to increase the quantum of money available for aged care service provision and even if such money was available, how it would be distributed and for what purposes. It is the Association's perception that additional measures are required on the current evidence. We would expect that this would be confirmed by a thorough study of the industry's cost base (Preliminary Proposal 4) and by Professor Gray's inquiries referenced (Preliminary Proposal 13).

An issue of significant interest is that in talking about a "basic subsidy rate", no indication is given by the Commission as to whether or not this entails a mix of capital and recurrent funding or is purely recurrent funding.

The Association would argue that for the sector to remain viable and to comply with preliminary proposal 2 that it meet accreditation and certification requirements, that the basic subsidy should include a component which at a minimum gives providers the opportunity to recover money to offset depreciation. The issue of a capital funding stream is canvassed elsewhere.

12. Regulation of extra service provision should be reduced:

- **the controls on what constitutes an extra service; where in a facility extra services places are provided; and the price charged for such services should be abolished;**
- **the current reduction in the basic subsidy for residents receiving extra service should be abolished - this defacto income-tested charge should be incorporated in a budget neutral way into an income test applying to the basic subsidy;**
  and
- **the Commonwealth Government should give consideration to replacing the current quota on extra service places with a monitoring system aimed at identifying any cases where extra service provision is reducing access to basic care. It should also look at the scope to simplify the concessional resident ratios.**

The Association supports the thrust of deregulating extra service provision but questions how the monitoring system will work in practice.

13. Subject to any recommendation for the Residential Aged Care Review for an increase in total Commonwealth funding for residential aged care, funds earmarked for Indexing current subsidies should be redirected to Increasing basic rates for the currently low subsidy States.

This is essentially a re-wording of preliminary proposal 9, but provides for consideration of the outcome of the Residential Aged care Review and suggests that the money be spent on the same basis as recommended in preliminary proposal 9.

PRELIMINARY THOUGHTS ON ISSUES RAISED BY THE COMMISSION FOR SPECIFIC COMMENT

Page 46 "whether there are more efficient alternatives to varying payments to homes each time a new resident replaces a previous resident with a different RCS classification;

Comment: Determining subsidies on the basis of RCS profiles at set intervals would be more efficient, but has the potential to be more inequitable given:-

1. The increasing rate of turnover of residents;

2. The wide swings in dependency of incoming residents could create major under and over payments situations which would have to be funded by the facility or later refunded to the Commonwealth;

3. Staff stability could be jeopardised or an increasing number of staff put on a part time or casual basis to accommodate such fluctuations; and

4. Consequential administrative requirements for both recording RCS changes and employing and terminating staff.

5. ACAT's can not recruit the quality people required if they are underfunded. They have also been told to assess -people as low care (anecdotal evidence). It is arguable that ACATs are responsible for many empty beds. The Association believes there should be an inquiry into the whole ACAT process including:-

    - ACAT funding
    - Client waiting lines
    - Assessment delay times
    - The number of high care clients who have not been placed.

6. The current Commonwealth funding process is a debacle from the providers capacity to conduct business. It has no integrity.

7. The current use/abuse of respite care places

The Association agrees with the view put forward by the Commission that the RCS instrument has not had sufficient time to be tested as an efficient mechanism and should remain for the time being. A separate review after say two years is recommended.

Page 50: "whether the current two-tier concessional resident supplement is appropriate, and on the implications of any changes In the structure of the supplement for the assisted resident and transitional supplements;"

Comment: The Association supports a flat rate payment for each and every place.

The Association would also argue that the supplement should be increased to provide a more realistic flow of funds for capital works.

The quantum of money involved will possibly be identified as one of the outcomes of the Residential Aged Care Review conducted by Professor Len Gray.

If it can be demonstrate that there are no potential concessional residents available, then the supplement should be paid regardless.

Page 51: "the impact of input taxes, other than payroll tax, on private providers' costs and whether these should be recognised in the subsidy arrangements;"

Comment: The Association supports such a process on the grounds of equity and consistency.

There would seem to be no real justified reasons for maintaining the difference between those so called for-profit and not-for-profit sectors into the future.

The changes to the tax regime through the introduction of a GST will see many of the differences removed and tax supplements to neutralise Fringe Benefits Tax and Land Tax should be considered so that R is possible to benchmark all providers against a common base regardless of their former status as either for-profit or not-for-profit enterprises. Such an approach would provide a transparent and open mechanism to assess the performance of all facilities.

Page 53:. "whether there are strong arguments against move to a cost reimbursement system for payroll tax payments;"

Comment: The Association supports the cost reimbursement of payroll tax and workers compensation payments. again on the grounds of consistency and equity.

The Association believes it would be preferable to pay each of the States an amount to cover the cost of payroll tax and make all aged care facilities (including hostels) payroll tax exempt. The Commonwealth Government should be fully aware of the amounts paid in full to each State for the payroll tax supplement and should be able to negotiate with the State Governments to provide the supplement direct to the States in exchange for exemption of aged care facilities.

The Association also supports the cost reimbursement of payroll tax universally to all facilities/services regardless of the dependency status of the residents/clients.

Page 65: "whether, in moving to a new subsidy regime, another round of changes to income and asset tested resident charges should be contemplated;"

Comment: The Association is cognisant that this is politically sensitive territory.

The Association agrees with the Commission's identified four areas where resident charging arrangements are seen as deficient against equity criteria:-

- Income tested daily fees only apply to residents entering facilities after March 1998. Hence, those in residential care prior to this date, no matter how wealthy, pay only the standard fee applying to concessional residents
- There is a ceiling on the maximum income tested daily fee. Thus, once a resident's income exceeds $57,500 a year, he/she faces no further increase in the fee.
- Providers can collect accommodation bonds from low care residents and from high care residents receiving extra services, but no from high care residents receiving basic care.
- The asset tested accommodation charge of up to $12 a day for high care residents receiving basic care does not apply to those in nursing homes as at October 1997 (unless they have subsequently changed facilities).

The reality is that nursing homes need to access an ongoing stream of revenue to provide care which meets both certification and accreditation criteria (capital and recurrent funding). The quantum of money from the tax take which the Commonwealth Government can allocate to the nursing home industry is limited and should be used to ensure that assistance is provided for services delivered to concessional residents. Outside of this, all consumers should make contributions in line with their capacity to pay.

The use of redeemable bonds with minimal capital drawdown should be supported. Consistency arguments dictate that accommodation bonds (entry contributions) should apply across the spectrum. There is no valid reason why they should not apply to all non-concessional residents in aged care facilities.

In supporting the above arguments, the Association is aware of a number of factors which characterise the delivery of high care, namely:

1. Entry by residents to residential care at much older ages;

2. The shortening average length of stay of residents;

3. Entry to high care with more deficits in ability to perform activities of daily living than ever before.

As a result, there is greater turnover and therefore more administration costs involved. on balance, the Association would support the right to access additional resources.

The Association would argue that it should not be a revenue collector for the Commonwealth. The Government contract with a provider is one of a fee for service. That service does not include acting as a debt collector. Why should providers have to shoulder this responsibility when their role is that of care provider?

If providers are to take on this role then there should be compensation for the administrative time involved and the risk exposure.

The Government has created enormous creditability problems for the industry by its lack of understanding of business and the interface of business and funding institutions.

A classic case is the ARF debacle. Providers in good faith went to their financiers and said - look here is my strategic plan, here is the Government Guarantee for funding and then providers have to go cap in hand and say the guarantee has been withdrawn now.

Next time when the provider goes to raise money, the reaction will be "how long is this going to last for? When is it going to be withdrawn?"

Page 66: "the merits of, and scope to, combine the resident daily fee and the accommodation charge;"

Comment: The Association is opposed to this proposition. The Association does not agree with combining the resident daily fee and the accommodation charge as the accommodation charge is similar to the accommodation bond and should be seen as a payment in lieu of the bond. To combine the two would mean residents paying an accommodation bond would appear to be paying a lower fee to those who are paying the accommodation charge, It would also complicate matters if a resident paying a bond in a low care facility transferred with the bond into a high care facility owned by the same provider. However, we do consider the transitional supplement should be added to the Government subsidy and not shown as a separate $2.00 charge.

Page 71: "the likely effects of the Commission's preliminary subsidy proposals;"

Comment: In the dot points that the Commission identifies in its Position Paper on pages 70 and 71, it says"-

- *"supporting a uniform quality of care across Australia at the level required to meet the accreditation and certification requirements;"*

This is true providing the proposed basic payment fee covers all of the costs including the costs of achieving and sustaining accreditation.

- *establishing an explicit and transparent link between funding and the cost of providing care to meet those standards;*

This is fine providing there is recognition of the actual costs incurred of and "efficient sized facility" using an "average input mix". The industry would like to see a universal understanding of what is implied by an "efficient sized facility" and also what proposals are to be advanced to ensure that facilities which are a small number of beds short of being an "efficient sized facility‘ can obtain approval to acquire those bed licences and assistance to create them either as physical bed places and/or CACPs.

- *addressing current funding anomalies across jurisdictions;*
- *improving the quality of care in rural and remote regions;*

The Association is concerned that in addressing the current funding anomalies across jurisdictions and in rural and remote regions, further anomalies and difficulties could be created for facilities in urban areas (see comment on preliminary proposal 9).

- *enhancing the scope for providers in all parts of Australia to maintain the quality of their care over time;*

The Association reads this item as implying the need to "aggregate and integrate", otherwise get out of the industry.

- *providing incentives for improvements in the efficiency of service provision;*

The Association reads this item as implying aggregation and integration, as indicated in the previous item.

- *encouraging the development of services which are more responsive to the needs* of *residents; and*

The Association reads this item as the need for providers to be market aware and to continuously review their activities in line with community needs.

- *integrating funding for the nursing home and hostel sectors.*

The Association agrees with this item, but would argue that it is only the beginning of providing "seamless" aged care. Seamless aged care should allow for vertical and horizontal integration beyond nursing homes and hostels to include primary care at one end and community aged care packages and similar services at the other.

The Association would argue that given the requirement of the Aged Care Standards Agency for all facilities to practice continuous improvement, that resources should be made available to providers on an incentive basis, whereby the more creative solutions and market sensitive developments attract an increasing subsidy from the Commonwealth over time, to reinforce the rewarding of innovative providers.

Page 73: "an appropriate timeframe for implementation of the full proposals, the Inter-relationships with the Residential Aged Care review, and whether new arrangements should be phased-in or simply introduced after a grace period."

Comment: The Association proffers the view that the phase-in arrangements should be discussed in detail with the industry as a whole including a careful analysis of the long term impact to minimise disruption of services and resident care delivery.

A lot of these discussions will of necessity take place at State level to ensure that minimal disruption occurs.

The Association would also suggest that there is merit in knowing the broad outcome of the Residential Aged care Review and knowing whether more resources are likely to be committed by the Government to ensure quality aged care delivery.