AUSTRALIAN NURSING HOMES AND EXTENDED CARE ASSOCIATION

RESPONSE TO POSITION PAPER PREPARED BY THE PRODUCTIVITY COMMISSION

Contact. **Bill Bourne**
Chief Executive Officer
Phone: (02) 9212.6922
Fax: (02) 9212 3488

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AUSTRALIAN NURSING HOMES AND EXTENDED CARE ASSOCIATION LIMITED

Representing private enterprise, church and community operators of quality residential care facilities

Friday, November 27, 1998

Commissioner Mike Woods
Nursing Homes Subsidies Inquiry
Productivity Commission
PO Box 80
Belconnen ACT 2616
Fax: (02) 6240 3311

ACN 052 998 860
Address all mail to
Federal Office
PO Box 7
Strawberry Hills NSW
Level 8
418A Elizabeth Street
Surry Hills NSW 2010
Phone (02) 9212 6922
Fax (02) 9212 3488

Email:
anheca@amaze.net.au

Dear Commissioner Woods

Further to ANHECA's draft response to the position paper prepared by the Productivity Commission, attached for your information is a copy of ANHECA's final response.

On behalf of the ANHECA Board and all those associated with ANHECA, I would like to take this opportunity to express our appreciation for the input of the Commission. To come to grips with what is a very technical system in such a short timeframe is a credit to you and your staff. ANHECA would also like to thank the Commission for the courtesy and time that was devoted to ANHECA, and others, in researching this extremely difficult system.

Following ANHECA's analysis we continue to support a system of State based subsidies that are calculated on a formula based arrangement that will allow for future review. ANHECA considers that the current arrangements for the payment of statutory costs (payroll tax, workers' compensation and superannuation) are flawed. ANHECA also considers that the indexation methodology proposed by the Commission needs to be implemented on a jurisdictional basis to ensure that the aim of improving parity between the sectors is achieved.

ANHECA also considers that the scope of the review and the time allowed for the review does not extend to wide-sweeping changes to the fabric of the funding base. Accordingly ANHECA considers that any wide-sweeping changes should be the subject of protracted negotiations to allow for consideration of all issues.

Yours sincerely

Bill Bourne
Chief Executive Officer

Queensland Office
Phone (07) 3857 3068
Fax (07) 3857 3134
PO Box 16
Wilston QLD 4051

New South Wales Office
Phone (02) 9212 6922
Fax (02) 9212 3488
Level 8, 418A Elizabeth Street
Surry Hills NSW 2010

Victorian Office
Phone (03) 9885 0388
Fax (03) 9885 0347
2/1949 Malvern Road
Malvern East VIC 3145

Tasmanian Office
Phone (03) 6249 7090
Fax (03) 6249 7092
PO Box 208
Claremont TAS 7011

South Australian Office
Phone (08) 8361 3131
Fax (08) 8361 3101
Suite 11, 71-73 Fullerton Road
Kent Town SA 5067

Western Australian Office
Phone (09) 361 7899
Fax (09) 470 2017
26 Plantagen Drive
Bentley WA 6102

Australian Nursing Homes and Extended Care Association
PO Box 7, Strawberry Hills, NSW 2012
Phone (02) 9212 6922 Fax (02) 9212 3488

RESPONSE TO THE POSITION PAPER PREPARED BY THE PRODUCTIVITY COMMISSION

General Comments

ANHECA supports the majority of the proposals suggested by the Commission. In fact the inquiry was called over the problems related to coalescence and indexation and the Commission has made a significant statement in stating the quality of care must not be a simple balancing of the available funding, ANHECA supports this statement. ANHECA also supports the statement that funding needs to be sufficient to allow facilities to meet accreditation and certification requirements. Those statements are integral to the design of policy for residential aged care funding.

ANHECA supports the statement that coalescence should not proceed in its current form. Moreover. ANHECA could not support coalescence in any form. Movement to a national fee structure within the same funding arrangements is simply a massaging of the current arrangements that will see providers in some jurisdictions advantaged to the detriment of providers in other jurisdictions. ANHECA cannot support an approach that jeopardises any providers ability to attain accreditation and refers the Commission to the statement made in Proposal 2. that the combination of resident charges and Government funding should be sufficient to support the level of care required to meet the accreditation and certification requirements.

ANHECA supports the Commission's statement that the current indexation arrangements are inappropriate. ANHECA has espoused this view since The Government altered the arrangements on 1 April 1996. ANHECA agrees that the indexation arrangements should be linked to inputs but questions a productivity "discount" given the nature of the industry and the parity problem. ANHECA is also concerned at the proposed delay in the implementation of the proposed indexation arrangements. Combined with the parity problems. this issue has the ability to cripple the industry in terms of quality of care and the industry's ability to attract and maintain the quality staff required to meet the requirements of accreditation and certification.

ANHECA does have some major concerns over other proposals espoused by the Commission. The first of these concerns is the issue of parity if wages between the non-Government aged care sector and the Public sector (both acute care and aged care). This variance is a direct result of the Government's policy to move from an inputs based indexation arrangement to a COPOs arrangement from 1 April 1996. The Commission recommends indexation in line with inputs in the aged care sector, which the Commission indicates will provide a vehicle for parity. This does not take, into account the lag time between effective date of the proposed increase and the date of the indexation.

Also the disparity of wages is not uniform and therefore a national indexation arrangement will nor overcome the problem but simply exacerbate the problem in jurisdictions with a large wages disparity between the sectors. The same is true if there were to be a uniform national funding system and is a major reason for ANHECA's insistence in jurisdictional funding at a level sufficient to meet the care levels required to meet and maintain accreditation requirements.

If the industry. or jurisdictions within the industry. cannot afford that level of care, the funding arrangements will undermine a pivotal process in the aged care reforms.

ANHECA is also concerned that the Commission proposes the continuation of the subsidy arrangements in relation to workers' compensation premiums. The cost of workers' compensation premiums is mostly outside the control of providers. However, 'm the past ' some cases excessive premiums may have been a direct result of poor occupational health and safety practices. An industry dealing with the care of aged people is vastly different from a manufacturing industry and for that matter the acute care sector. Staff members do not always follow policies and procedures implemented by management and this usually centres on the care and safety of the resident. Residents with severe behavioural problems have also caused inquiry to staff. Both these issues cannot be factored into the equation.

Also some State governments have increased workers' compensation premiums following that government's inability to manage the administrative arrangements of the Workcover authority. An example of this is in New South Wales where premiums have been increased simply because Workcover has become insolvent for the second time.

To maintain the current arrangements in respect of these premiums can mean that providers in some States will be adversely affected with no other means of supplementing the income to meet these higher premiums. ANHECA recommends that workers' compensation premiums be funded on a constrained cost reimbursement basis with a State average being funded throughout the financial year and with a reconciliation between upper and lower caps to provide an incentive for providers to promote and maintain safe workplace practices.

ANHECA is also concerned that the issue of superannuation has not been addressed and therefore becomes part of the general subsidy arrangements. The passing on of the latest increase for superannuation was done in a most unsatisfactory manner where the increase for all categories was identical regardless of the staff time spent in caring for the residents. Superannuation is directly related to staff input time and therefore the Government's inclusion of a standard amount across all categories ignores the increased staffing requirement for increased dependency, It is nonsense for the Government to assume that the input time for a Category 7 resident would mirror that for a Category 1 resident. ANHECA considers that superannuation should be funded m a cost reimbursed basis, given that the requirement to meet superannuation payments was a Federal Government initiative.

ANHECA again recommends that statutory costs such as payroll tax and superannuation be cost reimbursed and that workers' compensation be constrained cost reimbursed between upper and lower caps, see ANHECA's original submission.

ANHECA considers that the requirements for education and training need to be included in the base subsidy and not simply on an input basis for indexation. Given the introduction of accreditation, the requirements for education and training will increase, alarmingly in the first two years plateauing in subsequent years to a maintenance level. ANHECA recommended that this be set at a level of 1.5% of estimated wages. This figure has been selected because it corresponds with the previous Training Guarantee Levy and the upper tolerance level of the previous system which could be used for training with complete reimbursement.

In its Position Paper, the Commission suggested that the reason for the variances in ANHECA's costings was because ANHECA's average hourly rates were inclusive of payroll tax. Workers' compensation and superannuation, rather that just the basic award rates. This is not correct. ANHECA's figures include the basic rates (weighted to include the various penalty rates) plus the additional costs involved with annual leave, sick leave, other leave. public holidays and the cost of replacing staff on leave, It is essential that these costs be identified because penalty rates are not uniform across jurisdictions and award conditions also vary across jurisdictions. The Commission's reliance on simple base data is insufficient to reach a reliable conclusion.

ANHECA considers that the Commission has over simplified the data supplied in coming to its proposal that there should be uniform subsidies. The reliance on the 6% variance based on base data. supplied by La Trobe University. to arrive at a negligible variance needs to be re-examined, Rationalisation of the difference is required. ANHECA's variance of 25% (including penalty rates and award conditions indicates and median variance of 12,5%. The national average size for nursing homes is about 54 beds. A nursing home of this size would have a payroll exceeding $2m. Therefore, 12.5% relates to approximately $250000 or in excess of 6 full time registered nurses.

Overall ANHECA agrees with the majority of the proposals put forward by the Commission with the exception of those outlined above and in the body of this response. ANHECA welcomes the opportunity to respond to the, Commissions Position Paper and looks forward to working with the Commission., the Government and other aged care stakeholders to achieve and aged rare funding system that is acceptable to all and that is sustainable well into the next century.

Australian Nursing Homes and Extended Care Association
PO Box 7, Strawberry Hills, NSW 2012
Phone (02) 9212 6922 Fax (02) 9212 3488

Preliminary Proposals

Preliminary Proposal 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.

ANHECA agrees that coalescence should not proceed in its current form or in any other form for that matter. ANHECA agrees that States such as Queensland and South Australia, which have been under-funded for years. should be funded at higher subsidy levels in order to meet the accreditation and certification requirements. However, any extra funding for those States should be new money and not a re-work of the funding basket that will prejudice States such as Victoria and Tasmania. A re-work of the funding basket would simply place Tasmania and Victoria in the same position as South Australia and Queensland were in the past.

The information on the Commission's proposal for movement to a national uniform rate is extremely sketchy and more information on the Commission's proposal is required, ANHECA cannot support any proposal that leads to the reduction of real terms funding for any State. The requirements for accreditation are uniform and funding should reflect the inputs required to achieve and to maintain the required standards. If that means State by State subsidy rates then so be it.

The Commission's reliance on the La Trobe data is dangerous given that there are varying degrees of penalty rates and indirect costs between jurisdictions, ANHECA pointed this out in its submission. The indicated a variance of 6% which The Commission considers that the 6% variance based on the La Trobe data to be negligible, especially when the median variance is considered. It is only negligible if the base is also a minor amount and that the percentage is correct. ANHECA considers that the real variance is 25% after taking into account the penalty rates and award conditions of the various jurisdictions. Based on the median variance of 12.5% and the average payroll for an averaged size nursing home of approximately $2m, the variance equates to approximately $250,000 per annum, certainly not a negligible amount! This represents 6 registered nurses or approximately twice EBIT(D). Achieving accreditation with the loss of 6 registered nurses each day would be an impossible requirement!

ANHECA recommends that subsidies remain on a jurisdictional basis because to do otherwise would adversely affect the operations of providers in jurisdictions that are currently above the average. The only way in which ANHECA could agree to a uniform national subsidy level is if extra funds are introduced to ensure that providers in jurisdictions above the average are not affected.

Preliminary Proposal 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.

ANHECA totally agrees with this statement, however, other proposals in the paper contradict the proposal, This proposal should be the basis of all proposals in the Position Paper.

ANHECA recommends that this proposal become integral to any system of funding aged care.

Preliminary Proposal 3

Basic subsidy rates should be linked to the cost of providing the benchmark level of care in an efficient sized facility using an average input mix. 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.

Rather than using Proposal 2 (which ANHECA supports) as a base for the first sentence of this Proposal. it appears to be dependent on generalisation. ANHECA would support the statement in principle.. however. what is the benchmark level of care? What is an efficient sized facility? What is an average input mix? The Commission should provide answers to the above three questions prior to any detailed response can be provided.

ANHECA does, however. support the proposal that additional funding should be provided to support smaller nursing homes in rural areas. This funding should only be allocated in situations where it is clear that the community would be disadvantaged by relocation or restructure. The Commission also needs to define rural and remote.

ANHECA considers the second paragraph of the proposal to be a recipe for doom in nursing homes. Without wages parity for nursing staff between the acute and aged care sectors nursing homes will find it increasingly difficult and eventually impossible to attract and maintain good nursing staff. This will result in a decrease in standards or a further erosion of staffing levels with over award payments being compensated by a decrease in staffing levels.

The Commission. has not. disputed the link between wages for nurses in the acute care and aged care sectors yet states that there are differences in the nature of work in the two sectors. These so-called differences have not been spelt out and ANHECA considers that if the Commission is to make such a generalisation it should also indicate why it has done so. Such a statement flies in the face of Justice Cahill's 1971 watershed decision that "a nurse is a nurse is a nurse".

If the Commission is to accept the link between the acute care and aged care sector, which it has in relation to indexation then it must also accept the link 'm relation to the base level of those wages. The statement that the Commission's indexation proposal would simply lag. the wages level is not absolutely correct when examined in the entirety of the Commission's proposals. If there was a uniform national rate together with an annual national indexation arrangement the process would not be a vehicle towards parity of wages between sectors.

The disparity of wages is not uniform and therefore a national indexation arrangement will not overcome the problem but simply exacerbate the problem in jurisdictions with a large wages disparity between the sectors. The same is true if there were to be a uniform national funding system and is a major reason for ANHECA's insistence in jurisdictional funding at a level sufficient to meet the care levels required to meet and maintain accreditation requirements, If the industry, or jurisdictions within the industry, cannot afford that level of care, the funding arrangements will undermine a pivotal process in the aged care reforms.

ANHECA supports the proposal for additional support funding for facilities in rural and remote areas but calls on the Commission to define "rural and remote". ANHECA considers that parity of wages between the public sector and the non-Government aged sector is paramount to achieving Proposal 2 and that this is impossible in a system of uniform subsidies and national indexation arrangements. ANHECA also suggests that the Commission define the terms "benchmark level of care", "efficient sized facility" and "average input mix".

Preliminary Proposal 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 reviews of the industry's cost base and of the adequacy of subsidies in the light of changes in care requirements.

Whilst ANHECA applauds the proposal to move away from a totally unworkable and unsustainable COPOs arrangement for indexation, once again there is much generalisation involved in the proposal. What is the benchmark level of care? How will productivity be measured in a service industry, which provides care to the elderly, which is required to meet and maintain new accreditation standards, which is requires to constantly improve and which must meet the ever increasing demands of an astute client base? Proposal 2 must be the base and must be costed.

ANHECA considers the word "discount"' is incorrectly used. This is a levy on the industry and simply a discount for Government.

ANHECA agrees that there should be periodic reviews of the industry's base to determine the adequacy of subsidies. This should be done on a formula base as suggested by ANHECA in its original submission and should be have as its base the requirement to meet and maintain accreditation requirements (Proposal 2). ANHECA is concerned that the productivity "discounting" in this exercise will have the effect of a double reduction.

ANHECA recommends that the indexation arrangements be based on industry inputs and that it reverts to a jurisdictional indexation arrangement. Furthermore ANHECA recommends that to overcome any lag time the Government commit to interim indexation arrangements to account for any increases directly related to attaining wages parity. Such interim indexation arrangements should occur, within the particular jurisdiction, at the beginning of the quarter immediately following the date of effect of any such increases.

Preliminary Proposal 5

The pensioner, oxygen, enteral feeding, respite, and hardship supplements should be retained in their current form in the new subsidy regime.

ANHECA agrees that the mentioned supplements should be retained in their current form. However. ANHECA and the total industry would like to see swift payment of the supplements and also closer interaction between the Department and Centrelink to ensure that there are no systems problems that would jeopardise the ongoing payment of the supplements.

Australian Nursing Homes and Extended Care Association
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Phone (02) 9212 6922 Fax (02) 9212 3488

ANHECA recommends that Proposal 5 he accepted as written.

Preliminary Proposal 6

The Commonwealth should take steps to ensure that the payroll tax supplement is only Payable to facilities that are registered to pay payroll tax on their primary payrolls.

ANHECA considers that rather than continue with payroll tax supplements, tiered in relation to facility size, that payroll tax should be cost reimbursed on a facility by facility basis. This should also not be limited to the number of high cue residents that the facility has, but simply whether that facility has a liability to meet payroll tax obligations.

It is agreed that ANHECA's initial proposal was for the Federal Government to raise with the State Governments the possibility of payroll tax exemption for all aged care facilities in return for the Federal Government increasing the untied grants to the States. The previous Minister initiated those requests and there was a negative response from the Premiers and Chief Ministers. The only viable alternative for aged care providers therefore is a cost reimbursement system.

Statutory costs, such as payroll tax, are totally outside the control of the provider. Whilst it is true that the larger the facility the greater the payroll tax liability, it is not simply a matter of size. Providers owning more than one facility fall under the common ownership rule and therefore receive only one threshold
deduction. Accordingly the more facilities the provider owns, the greater the payroll tax liability per resident.

To overcome this anomaly, the only feasible funding methodology is to fund facilities throughout the year in accordance with estimated costs and to reconcile those costs at year-end m relation to the actual payroll tax costs of operating the facility. Given that the Government assures the industry that all pre 1 October 1997 funds were included in the supplements for payroll tax and that the previous system was a cost reimbursement system, this system will have a negative financial impact on Government in real terms.

ANHECA recommends that all aged care facilities liable to pay payroll tax should he reimbursed throughout the year on an agreed jurisdictional average and that the actual costs be reconciled at year end to enable full cost reimbursement.

Preliminary Proposal 7

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

ANHECA is totally opposed to this proposal. Providers have little control over the level of Workers Compensation premiums. These premiums also vary greatly from State to State. Under the current arrangements workers' compensation premiums are included in the standard subsidy payments at the State average, coalesced to the national average over a period of seven years. This process has no regard for facility based payments and obviously no regard for the variations in State based tariff rates.

State governments levy industry based tariff rates according to a set formula that relies on many benchmarks, outside the control of the provider. The major problem being that State governments increase the tariff rates to ensure the viability of the Workcover Authority or to

shore up major losses in previous years. Nursing home providers cannot pass on these extra costs to consumers in The same manner as the manufacturing or other industries do and are therefore at the whim of state Governments.

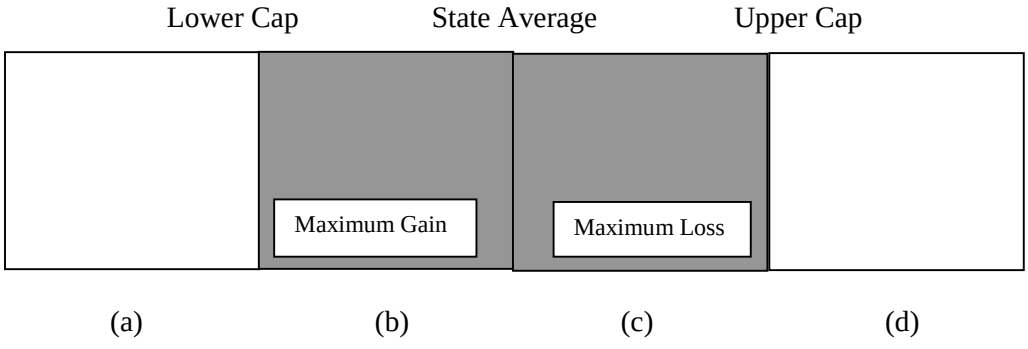
Implementation of good Occupational Health and Safety practice does not in itself reflect lower workers' compensation premiums. Caring for the aged involves a degree of risk in so far that staff may ignore accepted procedures in emergencies to care for the safety of residents. Some residents also have severe behavioural problems that may result in staff injury. These matters cannot be factored into the O H & S equation.

Many providers have introduced sound OH & S practices, including some proprietors accredited under ACHS or ISO only to find that due to soft tissue injury or perceived soft tissue injury. workers' compensation premiums have risen. alarmingly. It is not uncommon to bear anecdotal evidence of increases in excess of $100.000 per annum, per facility, for an injury that is yet to be proven to be factual. The current system of levying workers' compensation premiums does not reimburse providers in instances where the injury has been proven to be fallacious.

ANHECA, in its submission, proposed a system that encourages providers to ensure that workplace practices are implemented to keep workers' compensation premiums to a minimum, and to ensure that providers' viability is not threatened by a spate of injuries. Whilst the Government may say that the onus is on the provider to keep premiums to a minimum via safe workplace practices, it should be kept in mind that staff workers' compensation fraud is the second most common insurance fraud behind the motor vehicle industry.

ANHECA cannot accept the Commission's reasoning that the variation in the movement in long service leave would compensate for higher workers' compensation premiums, (p.20 of the Position Paper). The movement in the LSL provision pales into insignificance in comparison to the annual cost of workers' compensation premiums. Again it becomes a question of what is a relative amount.

ANHECA recommends that the funding for workers' compensation premiums be outside the subsidy arrangements on a constrained cost reimbursed arrangement that sets caps that introduce a maximum loss and a maximum gain that a facility can incur. This process is detailed at item 5.8.2 of the ANHECA submission (pp.38-40). The following graph illustrates how the system works.



The State average is calculated from certified returns provided by the provider. The. upper cap is set at a level that would protect the 5% of providers paying the highest levels of workers' compensation premiums in each State. Once that cap is set the lower cap is set at the corresponding level.

The following explains the payment on reconciliation:

Facilities with workers' compensation premiums falling in (a) are funded at the actual premium paid, plus the difference. between the State average and the lower cap. thereby ensuring that the provider receives only the maximum gain (the difference between the State average and The lower cap);
Facilities with workers' compensation premiums falling in (b) are funded at the State average;
Facilities with workers' compensation premiums falling in (c) are funded at the State average;
Facilities with workers' compensation premiums falling in (d) are funded at the State average plus the difference between the actual payment and the upper cap, thereby ensuring that the provider is penalised only the maximum loss (the difference between the State average and the upper cap.

If the nursing home had an annual payroll of 52 million and the State average was 6% with the upper cap being 7% and the lower cap being 5%. the following scenario would take place:

(a) Premiums of $90,000, or 4.5% - this home would be funded at $90,000 + ($120,000 - $100,000) or $110,000.
(b) Premiums of $110, 000, or 5. 5 % - this home would be funded at $120,000, the State average,
(c) Premiums of $130.000, or 6.5% - this home would be funded at $120,000, the State average.
(d) Premiums of $ 15 0, 000, or 7.5 % - this home would be funded at $120,000 + ($ 150.~000 - $ l40,000), $130,000 thus limiting the loss to the maximum level.

Preliminary Proposal 8

Government-run homes and those transferred to the non-government sector should receive the same level of basic subsidy as their private and charitable counterparts.

ANHECA agrees with this proposal.

ANHECA recommends that proposal 8 be accepted as written.

Preliminary Proposal 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.

ANHECA agrees that further support should be provided to assist those facilities in rural and remote areas, however, stipulates that any such support should be in the shape of new funds and not a further contortion of the current "bucket of funding". The extra cost of providing care to residents in rural and remote areas is relative when compared to those facilities in

metropolitan and city areas. Some costs are greater and some costs are less. The major difference is the size of the facility and the catchment area for that facility.

ANHECA recommends that special needs funding he provided for facilities in rural and remote areas and that such funding he in the form of additional funding. ANHECA also recommends that the Commission provide clarity and define what is meant by the term "rural and remote".

Preliminary Proposal 10

There should be no requirement for providers to acquit subsidy payments under the proposed regime.

ANHECA agrees with this proposal.

ANHECA recommends that there should be no requirement for providers to acquit subsidy payments under the proposed regime.

Preliminary Proposal 11

Subsidies should continue to be paid to providers rather than to residents.

ANHECA agrees with this proposal and, in its submission, outlined a number of barriers for providers and government if the opposite was proposed.

ANHECA recommends that Proposal 11 be accepted as outlined by the Commission.

Preliminary Proposal 12

Regulation of extra service provision should be reduced:

ANHECA agrees that regulation for extra service should be reduced. The idea of extra service is to offer the resident a degree of choice, extra services and/or superior accommodation for residents at a greater cost than is payable in general purpose facilities.

This does not extend to the provision of greater care as all residents, whether in extra service facilities or otherwise, receive the same level of care. This does not mean that those residents cannot pay extra for extra care. The current arrangements for providers to receive extra service status are entwined in regulation and any proposal to reduce the level of regulation involved is warmly accepted by ANHECA.

- *The controls on what constitutes an extra service; where in a facility extra service places are provided; and the price charged for such services should be abolished;*

ANHECA agrees that the provider should be able to negotiate with the resident/ relative in relation to the cost of extra services. To do so. the resident must pay a basic fee for general accommodation and services and then agree, via a common agreement to the cost of extra services, accommodation and, if the resident so wishes, care.

- *The current reduction in the basic subsidy for residents receiving extra service should he 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 introduction of income testing has made the calculation of the extra resident fee, together with the actual resident fee, a complicated formula and very difficult to explain to prospective residents. ANHECA supports the incorporation of the extra service fee with the resident fee as well as the abolition of the subsidy reduction. Extra service facilities do not receive the concessional resident supplement because the Department has deemed that residents affording accommodation in an extra service facility would not be concessional residents. This overlooks the fact that in many cases the relatives pay the extra service fee on behalf of the resident and in fact in many cases the resident is a pensioner with little or no assets.

- *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.*

This proposal is a logical add-on to the first two proposals in this section. If the process was to "deregulate" the Government would have an obligation to ensure that concessional residents were not being denied access. The Government would also need to amend legislation to allow the payment of the concessional resident supplement to facilities offering extra services. Having said that, ANHECA would oppose any system that would allow facilities to charge extra service fees without meeting benchmarked criteria as this may limit the choice and access of residents. Also ANHECA would oppose any proposal which allowed facilities built on Government funded grants to gain extra service status without refunding those grants, or a portion of those grants.

ANHECA agrees that the level of regulation involved with extra service facilities should he reduced. However, ANHECA considers that there needs to be pre-set criteria which must be met and maintained and that providers who have utilised government grants to build or upgrade facilities should be required to repay the grant, or a portion thereof, in order to charge the additional extra service fee.

Preliminary Proposal 13

Subject to any recommendation from 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 the closest passage in the whole document that ANHECA can find to the key of the Commission's meaning to "national uniform rates". ANHECA is totally opposed to the redirection of any necessary funding for any State that is necessary for achieving and maintaining accreditation. ANHECA has previously stated that no State should be disadvantaged in the process and that subsidies should reflect the inputs required to meet and maintain accreditation, in line with the Commission's Proposal 2.

If this means that the government is required to introduce extra funding then so be it. After all, it was the Government that introduced the new system of accreditation and standards, coupled with the fact that if accreditation is not attained then funding would cease. It therefore

behooves the Government to ensure that facilities receive adequate funding to support the inputs necessary to meet and maintain accreditation.

The Commission on one hand states that coalescence should not proceed yet proposes an arrangement that would see those facilities 'm states with higher subsidies, because of higher levels of wages, more adversely affected than the Government's original proposal. This proposal simply caters for the States with low levels of subsidy. It is a recipe for disaster in others.

The proposal is simply coalescence massaged into another form with the Stares that would have been adversely affected under the coalescence arrangements being affected more greatly in a shorter period of time! The only way in which this proposal can be accepted is if all States continue to receive indexation and new money is introduced to assist facilities in States with lower subsidies achieve the level required to achieve and maintain accreditation. ANHECA will not support any proposal that advantages one State at the expense of another.

ANHECA recommends that coalescence in any form should be abolished as unworkable.

ADDITIONAL MATTERS FOR COMMENT

1. *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;*

ANHECA considers that the current method for payment does not jeopardise the facility. however. the RCS classification system can do so. The problem created by the RCS system in relation to funding apply mainly to nursing homes. Facilities are finding that some pre-1 October 1997 residents are re-appraised as low care after RCS assessment and also some residents are appraised as low care after admission where the ACAT has assessed them as High Care. This creates problems for both the provider and the resident.

The provider loses funding in both cases, and in both cases the provider has admitted the resident based on the advice of the ACAT, whether it be under the old or new system. Therefore the problem is systemic. Not only does the provider loses subsidy, which in some case and in a small way can be overcome by roster variations, he/she also loses the payroll tax supplements for those residents. This is something that cannot be varied, In the case of pre-1 October 1997 residents, it is a systemic change that has caused this loss of funding and in relation to admissions post that date it is a lack of understanding of the funding system on behalf of the ACAT.

For the resident the problem arises that providers are wary of the ACAT assessment and some providers are using respite care for a short period so that they can "try before they buy" to ensure that the resident is in fact high care. This can lead to access problems for some residents. Also residents will not move to a low care facility because they may be charged with accommodation bonds.

Overall the magnitude of this occurrence is not great however, the financial effect on the facilities is great. Not only arc some facilities utilising respite care in the short term, some are refusing to admit residents who are considered to be borderline cases.

ANHECA recommends that to overcome this problem pre-1 October 1997 residents, re-appraised as low care, should have a default Category 4 categorisation because the problem is systemic. ANHECA also recommends that if these residents wish to seek accommodation in a hostel that they be granted concessional resident status.

In relation to residents admitted as high care after 1 October 1997 but are initially appraised as low care on the RCS, ANHECA recommends that ACATs be given continuing education to understand the funding variances and that funding be paid at the Category 4 rate for a period of 6 months.

Of course in relation to payroll tax ANHECA recommends that this should be cost reimbursed.

2. *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;*

The current two tier concessional resident supplement has created artificial barriers to admission for some residents. Some providers have what is called concessional and non-concessional beds to ensure that the concessional resident ratio remains at greater than 40% thus maximising income. This creates access problems for some residents, however, is understandable given directors fiduciary duty to maximise income, This anomaly is a direct result of the introduction of accommodation charges in nursing homes after the Government's backdown on accommodation bonds.

It could be argued that directors of the companies operating facilities have a fiduciary duty to implement a greater than 40% concessional resident policy in order to maximise income for the business.

ANHECA recommends a flat concessional resident supplement set at 512, indexed from 1 October 1997 together with an increase in the accommodation charge commensurate with the average accommodation bond. The accommodation charge should be set at $16.

The calculation of the $16 accommodation is as follows:

Average Accommodation Bond	-	$54,000
Retention on average Bond	-	$ 2,600
Interest on Bond @ 6%	-	$ 3,240
Annual Income Required	-	$ 5,840
Income per day	-	$ 16

ANHECA also recommends that the accommodation charge be indexed annually in relation to the average bond.

3. *the impact of input taxes, other than payroll tax, on private providers' costs and whether these should be recognised in the subsidy arrangements;*

ANHECA considers that the only way that this could be done would be by the introduction of extra funding. However, perhaps rather than recognition of the input taxes in the subsidy arrangements, it would be more appropriate to exempt all aged care facilities from the input taxes.

ANHECA recommends that the only identifiable taxes etc. that should be separately identified are the statutory costs such as workers' compensation, payroll tax and superannuation.

4. whether there are strong arguments against moving to a cost reimbursement system for payroll tax payments,

ANHECA considers that the only equitable method of funding payroll tax is to move to a cost reimbursed system.

ANHECA also considers that workers, compensation should be "constrained cost reimbursed" within upper and lower caps. This would provide an incentive for the provider to introduce and maintain occupational health and safety practices. Such a system would constrain the losses and also the gains that providers may make as a result of not fully cost-reimbursing workers' compensation. This position is fully detailed in ANHECA's original submission.

The Commission has not addressed the issue of superannuation in the position paper. In its submission ANHECA stated that the funding for superannuation is not commensurate with the level of wages required to care for residents. Wages is the yardstick used to measure a provider's liability to meet superannuation payments and it is considered ridiculous that the subsidy increase for a Category 7 resident should be identical to the increase for a Category 7 resident. ANHECA's original submission sets out the mathematical formula for calculating the superannuation component based on the same component of the subsidy set aside for wages in the indexation arrangements.

ANHECA recommends that all statutory costs should be cost reimbursed including workers' compensation and superannuation.

5. whether, in moving to a new subsidy regime, another round of changes to income and asset tested resident charges should be contemplated;

ANHECA believes that the income-tested arrangements should be abolished in favour of a recoupment via the taxation system, The vast majority of residents required to pay income-tested fees will be required to submit an income tax assessment form. Each person in this group is entitled to a taxation rebate of $0.20 in the dollar for each dollar spent on nursing home and personal care fees in excess of $1250 per annum. This rebate is claimable on:

- the basic fee to nursing homes and hostels for residents in Categories 1 to 7 inclusive;
- the income tested fees, for all residents who are liable for income testing;
- the accommodation charge currently up to $12 per day; and/or
- the amount of money retained each year from an accommodation bond.

ANHECA considers that the administration on both the provider and the Government would decrease if income testing was abolished and in return the rebatable amount for nursing home and personal care fees was excluded from the medical rebate. This would also decrease the burden on residents and take away one of the barriers to access for the resident and family.

ANHECA considers that the accommodation charge should be increased to $16 per day commensurate with the return from the average accommodation bond, with interest calculated at 6%.

The Government should also consider allowing taxation concessions for private providers who are required to pay income tax on the receipt of accommodation charges. These concessions could be in the form of accelerated depreciation of the buildings, over a shorter life of the asset, and exemption from sales tax for all aged care providers.

ANHECA recommends that the income testing arrangements should be dropped and instead that the Government exclude nursing home and personal care fees from the taxation rebate for Medical Expenses. ANHECA also recommends that:

- **The accommodation charge should be increased to $16 per day;**
- **Taxation concessions in the form of accelerated depreciation and sales tax exemption should be granted for the aged care industry; and**
- **Private room premium could he introduced to allow residents the choice of the more private accommodation for a higher resident fee.**

6. the merits of, and scope to, combine the resident daily fee and the accommodation charge;

ANHECA considers that the accommodation charge should remain identifiably separate because of the requirements of the Act to advise on the level of accommodation charges and their use. A combination of the two payments would tend to "muddy the waters".

ANHECA recommends that the accommodation charge remain separate from the daily resident fee.

7. the likely effects of the Commission's preliminary subsidy proposals; and

The likely effect of the Commission's preliminary proposals are outline above, however, in brief:

- The proposal to move to a uniform subsidy will cause hardship on those facilities in States with a greater liability for wages and lead to a decrease in the standards of care, as funds will be insufficient to meet the requirements of accreditation and certification;
- ANHECA supports the proposal that the combination of resident charges and government should be at a level to support the level of care required to meet the accreditation and certification requirements. This will ensure that the Government underwrites its requirement for quality care in quality buildings;
- ANHECA agrees that subsidies should reflect nursing wages rates disagrees that a parity arrangement with the acute sector should not be maintained. ANHECA considers that the government should guarantee to meet the cost of parity between sectors in all States. The effect of non-parity will be that the aged care sector will be the poor cousins in the wider health arena as care will be negatively affected;
- ANHECA agrees that the current indexation arrangements should be replaced by an arrangement that more appropriately reflects the cost of the increased wages, but does not agree with a productivity discount- ANHECA agrees that there should be periodic reviews.
- ANHECA agrees that the stated supplements should remain. An indexation system linked with the cost of wages in the * sector will allow parity to be maintained (provided the initial shortfall is addressed) and ensure that standards are maintained;

- ANHECA commends the Commission on its payroll tax proposal and considers that the Commission should have gone further and recommended that payroll tax be cost reimbursed. This will mean that subsidies for payroll tax are distributed in accordance with the liability to pay and a cost reimbursement system will allow those subsidies to be distributed in accordance with each factitious liability;
- ANHECA cannot agree that workers' compensation premiums should remain as part of the general subsidy arrangements and considers that they should be reimbursed via the constrained cost reimbursement system outlined above and in ANHECA's original submission. Failure to recognise this problem my lead to insolvency's at the hands of State Governments for an imposed cost outside the control of providers;
- ANHECA agrees that all facilities including those transferred for the government sector should receive the same level of basic subsidy and it is considered that such a change to legislation will allow a better quality of care to be provided;
- ANHECA agrees that rural and remote facilities should be further supported, however, considers that this should be in the form of new money. This will enable facilities in those areas to address the anomalies imposed on facilities in rural and remote areas such as inability to attract the same number of staff as can be attracted in metropolitan areas;
- ANHECA agrees that there should be no acquittal of subsidy as this would be simply another regulatory control with no resulting effect on quality;
- ANHECA agrees that the subsidies should continue to be paid to providers rather than to residents as to do otherwise would create mammoth administration requirements that would also increase the propensity for bad debts. It would also require major legislative change as all legislation revolves around the "partnership" between the Government and the provider. This partnership would no longer be valid under the alternate arrangement;
- ANHECA agrees that the controls and regulation placed on extra service provision should be abolished. This would open the market to supply and demand and the Government would simply subsidise the facility for the basic level of care. Having said that, ANHECA considers that facilities considering extra service status must repay any Commonwealth grants over the period detailed in the Act, as to ignore this would advantage some providers over others. ANHECA agrees that there should be a monitoring system aimed at identifying instances where extra service provision reduces access to basic level care.
- ANHECA cannot agree with Proposal 13 as this is simply coalescence in another form. This would severely affect the ability of facilities in high subsidy States to meet the accreditation and certification requirements, the basis of the Commission's Proposal 2!

8. 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.

ANHECA believes the introduction of the proposals should be staggered, to allow full consultation and debate by the industry. However, ANHECA further believes that a policy for parity with the acute sector should be introduced immediately and that the proposed changes to the indexation arrangements should be introduced from 1 July 1999.

In its original submission ANHECA recommended the immediate inclusion of extra funds to create parity between the aged care and public sectors. This problem is a direct result of the Government's policy not to meet the full cost of nurses' wage increases from 1 April 1996, ANHECA suggested that this would cost in excess of $100 million. To ignore the problem and to dismiss it with comments such as:

> "... there are differences between the two sectors in the nature of the work and the work environment. Thus, to try to encourage uniformity in wage and condition outcomes through the subsidy regime would, in the Commission's view. be inappropriate."

is counterproductive to the achievement of quality through the accreditation process and detrimental to the industry.

ANHECA recommends that the changed indexation arrangements should commence from 1 July 1999 with the introduction of other proposals staggered to allow full consultation. ANHECA also recommends that the Government guarantee parity arrangements with the corresponding funding adjustments flowing once agreement through the industrial relations commission has been reached. This flow-on could commence from the start of the quarter immediately following the effective date of the wage increase.

Australian Nursing Homes and Extended Care Association
PO Box 7, Strawberry Hills, NSW 2012
Phone (02) 9212 6922 Fax (02) 9212 3488

Recommendations

Recommendation - Proposal 1

ANHECA recommends that subsidies remain on a jurisdictional basis because to do otherwise would adversely affect the operations of providers in jurisdictions that are currently above the average. The only way in which ANHECA could agree to a uniform national subsidy level is if extra funds are introduced to ensure that providers in jurisdictions above the average are not affected.

Recommendation - Proposal 2

ANHECA recommends that this proposal become integral to any. system of funding aged care.

Recommendation - Proposal 3

ANHECA supports the proposal for additional support funding for facilities in rural and remote areas but calls on the Commission to define "rural and remote". ANHECA considers that parity of wages between the public sector and the non-Government aged sector is paramount to achieving Proposal 2 and that this is impossible in a system of uniform subsidies and national indexation arrangements. ANHECA also suggests that the Commission define the terms "benchmark level of care", "efficient sized facility" and "average input mix".

Recommendation - Proposal 4

ANHECA recommends that the indexation arrangements be based on industry inputs and that it reverts to a jurisdictional indexation arrangement. Furthermore ANHECA recommends that to overcome any lag time the Government commit to interim indexation arrangements to account for any increases directly related to attaining wages parity. Such interim indexation arrangements should occur, within the particular jurisdiction, at the beginning of the quarter immediately following the date of effect of any such increases.

Recommendation - Proposal 5

ANHECA recommends that Proposal 5 be accepted as written.

Recommendation - Proposal 6

ANHECA recommends that all aged care facilities liable to pay payroll tax should be reimbursed throughout the year on an agreed jurisdictional average and that the actual costs be reconciled at year end to enable full cost reimbursement.

Recommendation - Proposal 7

ANHECA recommends that the funding for workers' compensation premiums be outside the subsidy arrangements on a constrained cost reimbursed arrangement that sets caps that introduce a maximum loss and a maximum gain that a facility can incur. This process is detailed at item 5.8.2 of the ANHECA submission (pp.38-40).

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Recommendation - Proposal 8

ANHECA recommends that proposal 8 be accepted as written.

Recommendation - Proposal 9

ANHECA recommends that special needs funding be provided for facilities in rural and remote areas and that such funding be in the form of additional funding. ANHECA also recommends that the Commission provide clarity and define what is meant by the term "rural and remote".

Recommendation - Proposal 10

ANHECA recommends that there should be no requirement for providers to acquit subsidy payments under the proposed regime.

Recommendation -Proposal 11

ANHECA recommends that Proposal 11 be accepted as outlined by the Commission.

Recommendation -Proposal 12

ANHECA agrees that the level of regulation involved with extra service facilities should be reduced. However, ANHECA considers that there needs to be pre-set criteria which must be met and maintained and that providers who have utilised government grants to build or upgrade facilities should be required to repay the grant, or a portion thereof, in order to charge the additional extra service fee.

Recommendation - Proposal 13

ANHECA recommends that coalescence in any form should be abolished as unworkable.

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Other Recommendations

Other Recommendation - 1

ANHECA recommends that to overcome this problem pre-1 October 1997 residents, reappraised as low care, should have a default Category 4 categorisation because the problem is systemic. ANHECA also recommends that if these residents wish to seek accommodation in a hostel that they be granted concessional resident status.

In relation to residents admitted as high care after 1 October 1997 but are initially appraised as low care on the RCS, ANHECA recommends that ACATs he given continuing education to understand the funding variances and that funding be paid at the Category 4 rate for a period of 6 months.

Of course in relation to payroll tax ANHECA recommends that this should be cost reimbursed.

Other Recommendation - 2

ANHECA recommends a flat concessional resident supplement set at $12, indexed from 1 October 1997 together with an increase in the accommodation charge commensurate with the average accommodation bond. The accommodation charge should be set at $16.

ANHECA also recommends that the accommodation charge be indexed annually in relation to the average bond.

Other Recommendation - 3

ANHECA recommends that the only identifiable taxes etc. that should be separately identified are the statutory costs such as workers' compensation, payroll tax and superannuation.

Other- Recommendation - 4

ANHECA recommends that all statutory costs should be cost reimbursed including workers' compensation and superannuation.

Other Recommendation - 5

ANHECA recommends that the income testing arrangements should be dropped and instead that the Government exclude nursing home and personal rare fees from the taxation rebate for Medical Expenses. ANHECA also recommends that:

- **The accommodation charge should be increased to $16 per day;**
- **Taxation concessions in the form of accelerated depreciation and sales tax exemption should be granted for the aged care industry; and**
- **Private room premium could be introduced to allow residents the choice of the more private accommodation for a higher resident fee.**

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Other Recommendation - 6

ANHECA recommends that the accommodation charge remain separate from the daily resident fee.

Other Recommendation - 7

ANHECA recommends that the changed indexation arrangements should commence from 1 July 1999 with the introduction of other proposals staggered to allow full consultation. ANHECA also recommends that the Government guarantee parity arrangements with the corresponding funding adjustments flowing once agreement through the industrial relations commission has been reached. This flow-on could commence from the start of the quarter immediately following the effective date of the wage increase.

Other Recommendation - 8

ANHECA recommends that the subsidy include an extra component for education and training given the extra requirement for accreditation. It is recommended that this be set at a level of 1.5% of estimated wages. This figure has been selected because it corresponds with the previous Training Guarantee Levy and the upper tolerance level of the previous system, which could be used for training with complete reimbursement.