VICTORIAN HEALTH CARE ASSOCIATION

Supplementary submission to Productivity Commission
Inquiry into Nursing Home Subsidies

27 November 1998

VHA supports the general thrust of the Commission's preliminary proposals 1-3, particularly proposal 3:

Basic subsidy rates should be linked to the cost of providing the benchmark levels 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.

It is the Association's view that the efficient size and average input mix would best be determined by expert team, drawn from industry, Consultation with all sectors will be essential to obtain industry support for the system.

Specific issues are addressed below.

1. Access to nursing home care for rural communities

As the Commission is aware, Victoria has;

- the lowest rate of nursing home beds of all states and territories (except ACT) at 43.5 per 1,000 population aged 70 and over
- smaller nursing homes with average size 39 beds per home compared to national average of 51 beds per home
- a larger proportion of smaller homes (20 beds or fewer): 15% compared to 3% in other states
- only 34 homes with more than 61 beds (7,6% of the total)

A large proportion of these small nursing homes are located in small rural towns across Victoria, under the auspice of the local (public) hospital. As such these homes form an integral part of the aged care service network in those communities. Closure would jeopardise the viability of the service networks and would require long term members of those communities to seek residential care in larger regional centres. While distances to these centres may not be great in national terms, the time and travel involved needs to be considered in light of the target population. Older frail or disabled relatives and friends of nursing home residents may no longer drive or may find the journey onerous and may visit less often. Consequently the resident may become isolated from the community in which he or she may have lived for 50 years or more.

VHA is pleased to note the Commission's acknowledgement of the view that closure of nursing homes in small rural communities would be unacceptable on grounds of access and equity, and the compelling case for increased support.

VHA supports the Commission's proposal (9) that there be a rebalancing of Commonwealth support for residential aged care towards special needs funding for services in rural and remote areas, and that new funding arrangements be developed and costed in consultation with providers, consumers and state and territory governments. However, we have some concerns that the "rebalancing" may disadvantage metropolitan nursing homes, if the total

funding for nursing home care remains within current levels. The Association would support special needs funding for rural areas *in combination with* the introduction of new subsidy rates based on input costs, as proposed by the Commission.

2. Award rates in public sector

The Association notes the Commission's proposal that *the industry cost base should reflect nursing wage rates and conditions applicable in the aged care sector rather than in the acute care sector.*

In the Victorian public sector, nursing wage rates are closely and unavoidably linked to those of the acute sector. This is due to the fact that nursing wage rates are negotiated centrally for the state, with the focus of negotiations on the needs of - and availability of state funding for -the acute sector. The Commonwealth who is, in effect, the end purchaser of aged care. nursing services, is not party to these negotiations. With hospitals employing both acute, and residential care nurses, often on the same campus and often the same people, wage rates in the acute sector are applied to the aged care sector. Removals of this link is not possible industrially, particularly when the aged care component may be perceived by staff as comprising the heavier workload.

VHA notes the Commission's statement that the L 10 and 1: 15 nurse/resident ratios are not necessarily universal in Victorian homes (p.59). Advice from our members is that the ratios are observed in the public sector homes, which may be due to public facilities' higher industrial relations profile.

We note the Commission's view that the taxpayer should not be expected to indefinitely underwrite staffing arrangements [in Victoria] which are in excess of accreditation requirements and that subsidies to Victoria should be phased out. VHA supports both the principle of a universal subsidy based on the inputs necessary to achieve a benchmark standard of care, and the need for public sector nursing homes to operate on a level playing field with their private sector counterparts. However, the higher wage rates paid in Victoria are a reality and, to a large extent, outside the control of the public sector homes. Wage levels cannot be reduced, evidenced by the difficulties experienced by our members in recruiting nurses to aged care, and to rural areas. If the Victorian funding rate is pegged at the current level while rates in the other states are increased to the match it, this will threaten the viability of many of the public sector homes in Victoria.

We note the Commission's view that government funds should be used to support a uniform quality of care across Australia. *If the underlying costs of provision vary significantly across regions, this will require higher subsidies for services in high cost locations. The Commission also states that if the dispersion in costs is relatively small, then it may well be more efficient to address the needs of the relatively few high cost services through a special needs supplement.*

It is VHA's view that the higher award rates in the Victorian public sector are not necessarily a reflection of higher levels of care which can be reduced to a uniform national standard, but a reflect-ion of the structure of the residential care sector in this state, the higher proportion of public nursing home beds, and historical industrial arrangements. As such, VHA considers that a special needs supplement to the Victorian public sector nursing homes is justified on these grounds, not only for the smaller rural homes but also those in regional centres and the metropolitan area.

It should be noted that this subsidy is not sought simply to prop up the status quo. The public nursing home sector is undergoing significant restructuring. As the Commission will be aware, the Victorian Department of Human Services proposed to privatise many Of the public sector nursing homes, leaving a core of approx. 3,000 beds in the public sector. These core beds will comprise those in

- specialist psychogeriatric nursing homes (which receive additional state funds)
- specialist residential units for high needs residents (e.g. younger disabled residents with conditions such as acquired brain injury) which attract additional state subsidies
- smaller rural homes which are financially unattractive to the private sector.

3. Timing of proposed reforms

The Association supports based implementation of the proposed revised system. with transitional subsidy rates. The phase-in period should be of the same duration as the proposed coalescence implementation.

VHA supports the need for short term relief for the low-funded states and rural areas, and the Commission's view that the new funding arrangements be developed quickly (and with extensive consultation with providers, consumers, and state governments).

VHA is concerned that any freezing of indexation in Victoria would jeopardise the financial viability of Victorian homes, whose additional costs are based on real rather than discretionary costs.

4. Proposed funding arrangements

4.1 Indexation

While the Association supports annual indexation of the standardised input bundle (proposal 4), it does not support the proposed *automatic* annual productivity discount, on the grounds that with a funding and quality accreditation system which compels providers to operate. at benchmark standard, there is no rational justification for imposing further "across the board" productivity cuts. Rather, it would prefer productivity discounts to be factored into subsidy rates only when productivity gains can be demonstrated, In the same way, subsidy rates should be increased to reflect demonstrated additional imposts or requirements of aged residential care facilities (e.g. additional requirements arising from changes to outcome standards, certification requirements etc).

4.2 Reliability of cashflow

The Association supports the Commission's suggestion that alternatives be explored to enable homes to receive a regular cash flow, which allows variations in funding resulting from changes in resident RCS mix to be averaged over a time period (e.g. six or twelve months).

The system as it stands demands a higher level of flexibility from nursing homes than is often operationally possible, particularly in smaller homes (30 beds and less). If a resident who was RCS2 leaves the home, and is replaced by an RCS4, the home-in theory-should respond immediately by reducing staffing by several hours a day. This is often not possible both industrially and in terms of staff morale, (The smaller rural

homes, serving a smaller population pool, are also less likely to be able to select a 'replacement resident from a waiting list of the required RCS classification).

4.3 Funding supplements

VHA supports the retention of existing pensioner, oxygen, enteral feeding, respite and hardship supplements (proposal 5). However VHA considers that (current) funding of respite care at RCS3 provides a disincentive to its provision for the following reasons:

- short term admissions require additional staff input and higher care costs (assessing and orienting the resident, responding to a disoriented resident with cognitive impairment);

- the accommodation charge is not paid by respite clients.

The cost of respite care to clients when a spouse/carer must continue to run the family home on a significantly reduced pension may also be prohibitive.

VHA suggests increased rates for respite care to provide incentives for homes to respond to community need, and to provide more flexibility within the residential care system overall.

4.4 Regulation of extra services to be reduced.

VHA has reservations about the proposed reduction in regulation of homes' charges, on the grounds that what may be considered "extra" services (e.g. single rooms, ensuite bathrooms) may in fact be the standard at other homes with no additional fees. Selection of nursing homes and the associated paperwork is already complicated for frail elderly people and their families and often occurs at a time of stress. The market is imperfect in terms of the consumers' level of information and ability to assess nursing homes' standards of care. The disadvantages of adding an additional factor (having to assess "value for money" for extra services), we believe, would outweigh the advantages. If the majority of homes in a region charged for extra services, this may also have the detrimental effect of restricting access to standard beds in a region.

If restrictions on charging for extra services are relaxed, fees and extra services will need to be monitored and accompanied by extensive community and consumer education about the provision of standard and additional services.

4.5 Two-tier concessional resident supplement

VHA supports the aim of the two tier concessional supplement system which is to compensate homes for loss of access to capital from residents who are unable to afford all or part of the accommodation charge. However VHA believes the system has some unintended and undesirable outcomes. The needs to maintain the level of concessional residents above 40% may encourage some homes to discriminate against residents able to afford the accommodation charge. The addition of a further category of potential resident (concessional/non-concessional) adds another complexity to maintenance of the waiting list. Again, smaller homes be more vulnerable to consequent changes in funding levels. The issue of selecting residents on the basis of the funding system, rather than individual need, is also at odds with the aim of public sector nursing homes, as community based services, to serve the needs of their local communities.

4.6 Further changes to income and asset testing resident charges

The Association advises against further changes to income and asset testing and resident charges, pending the Outcome of the two-year review of aged care reforms. VHA considers further changes would be unacceptable to the community and impose unwarranted administrative burdens on staff responsible for assessing and advising elderly people on their options regarding residential care.

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