Response to Productivity Commission Inquiry into Nursing Home Subsidies Preliminary Position Paper

VICTORIAN DEPARTMENT OF HUMAN SERVICES

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1. Introduction

The Victorian Department of Human Services has a strong interest in the outcome of the Productivity Commission's Inquiry into Nursing Home Subsidies and is pleased to be given the opportunity to comment on the preliminary proposals.

As funder and purchaser of sub-acute and community services for older Victorians and as a significant provider of aged residential care, the Department plays a leading role in the provision of services for older Victorians. The Productivity Commission should note that the service system for older people is broader than residential care and is highly interrelated. Therefore changes to one sector will have impacts in other sectors.

This submission includes:

- a summary of the overall Victorian response to the Productivity Commission's preliminary position paper;
- responses to each of the thirteen preliminary proposals; and
- comment on issues where feedback was specifically sought by the Commission.

Interim Draft - Victorian Response to Productivity Commission Position Paper

2. Summary of Victorian response

While Victoria supports much of the thrust of the paper, we have significant concerns with a number of the preliminary proposals.

Most important among these concerns are:

- Victoria considers that rates should only coalesce to the extent that State-by-State cost differences are not beyond the scope of providers to address. In particular, where additional State-based input costs result from industrial awards, those costs should be recognised in the standardised input bundle. Costs such as these are not the result of State Government requirements. If the Commonwealth considers that these costs should not be recognised in the funding formula, we recommend that the Commonwealth take active responsibility for their removal. Where unavoidable additional costs such as these are not recognised in the funding formula there is a significant risk of a real reduction in the quantum of funding for care provision and/or an impact on financial viability.

- If the Commission recommends that coalescence should proceed, this should not occur at a faster rate than originally proposed. The original reasoning behind a seven year phased introduction of national rates was to minimise adverse impact on industry. The Commission's preliminary proposal number thirteen carries the risk of coalescence occurring at a faster rate. This is unacceptable.

While there are some preliminary proposals which are supported by Victoria, many are given only conditional support due to the lack of detail available.

In addition, Victoria considers that stakeholders must be actively involved in the further development of that detail. State and Territory Governments must be acknowledged as key stakeholders and be actively involved.

Further, the lead time for development of this detail needs to be taken into account for the time tabling of any implementation.

3. Response to Productivity Commission's Preliminary Proposals

Comment has been made on each of the Productivity Commission's preliminary proposals. The State's response to each proposal has also been summarised in the table at Appendix 1.

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 arrangement.

RESPONSE: Conditional support

Victoria agrees with the Commission's recommendation that coalescence should not proceed in the form initially proposed.

The preferred Victorian funding model was outlined in a previous submission and includes introduction of a funds entitlement to individuals who are then able to purchase residential care in the location of their choice (eg residential care facility, home etc).

Rather than see the introduction of modified arrangements for national subsidy rates, Victoria would prefer the retention of state-based funding to take account of cost differentials between States for delivery of the Commonwealth residential care program where factors leading to higher costs are beyond the control of providers.

Support from Victoria for the modified funding system proposed by the Commission will require further details to be provided on the various elements of the revised package followed by analysis of how these changes would impact on the residential care sector in Victoria and the impact on aged Victorians seeking residential care.

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.

RESPONSE: Support

This recommendation supports Victoria's position that the Commonwealth funding stream should be sufficient to meet the full cost of providing high quality residential care.

However, the Commission should note Victoria's concern that certification and accreditation instruments are not prescriptive about how to achieve standards therefore the Commission will need to further consider how subsidies can be clearly linked to these requirements.

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 inpatient 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.

RESPONSE: Conditional Support

The general principle of funding based on a benchmark level of care which is adjusted annually based on an increase in input costs which underpins this recommendation is supported by the State however, greater detail needs to be provided.

Further definition of what is considered to constitute a benchmark level of care, an efficient sized facility and an average inpatient mix is required before the implications of the proposal can be analysed.

In particular, the following points must be considered:

- In determining the benchmark level of care, assumptions will need to be made about the resident mix in a facility. It is important that the benchmark developed is a true reflection of the care required by residents in each RCS category. This is particularly important as there will always be a range of resident care needs within each RCS category which will be managed by each agency.

- Given Victoria's settlement patterns, most rural facilities provide services with less than 45 beds. This is primarily due to the Commonwealth planning benchmarks which mean that many rural towns need less than 45 places. Any special needs funding pool must support Victorian rural services with less than the number of beds in the deemed "efficient" sized service. Any system which did not recognise the need to support smaller services in Victorian rural areas would not be acceptable as viability would be severely compromised which could lead to the withdrawal of services. We note that the current viability funding framework is focussed on more remote services from a national perspective. This does not recognise the need to provide appropriate services in Victorian rural areas that do not meet the definition of remote even though these communities are isolated.

- Until recently, the Commonwealth approved many new services in packages of 30 beds. If the Commonwealth is now suggesting that 45 or 60 beds is the benchmark for an efficient service, it needs to consider the implications for existing organisations which have recently invested in 30 bed facilities.

- Work by the Department of Human Services indicates that properly configured services with bed numbers of between 45 and 60 are viable. Further work needs to be done to demonstrate the validity of any benchmark size of service nominated by the Commonwealth.

- Concern that basing definition of "efficient size" of 60 or more beds will encourage a return to larger facilities which could lead to a more institutional model of care.

- Funding for the proposed special needs pool must come from additional funding rather than redistribution of the currently inadequate funds available for viability supplements or a reduction in existing care subsidies.

- State and Territory governments must be closely involved in the development of a special needs pool.

- Many Victorian rural services are auspiced by the local hospital. If the residential care component was forced to close, this could jeopardise the viability of acute services.

- Victoria considers that residential care and acute facilities require different rosters and some differing specialist skills. However in many services that provide both acute and residential care, particularly in rural areas where these may be co-located, efficient staffing relies on the capacity to interchange staff between aged and acute settings. The existence of significant pay differentials for the same work will impact on retention and attraction of staff in the aged care component and management flexibility

- Funding rates for Multi-Purpose Services (MPS) need to be examined in the context of this proposal. One of the aims of the MPS program is to shift the balance of care from bed based to community based services to ensure that isolated rural communities are able to access a viable and responsive range of health, aged and community services. With the pooling of funding for residential care places cashed out at RCS 3 and RCS 7 levels for high and low care places respectively, this disadvantages many facilities who have an average resident profile higher than these levels. In addition, there are no concessional resident components payable or supplementary payments (eg oxygen, enteral feeding) that are available to non-MPS agencies to meet the full care needs of residents. It should also be noted that with dependency levels increasing over time the situation will get worse.

- The impact of MPS approval on existing viability supplements also need to be reviewed. For example, once an agency is gazetted as an MPS, any pre-existing Commonwealth viability funding ceases. This occurs irrespective of the fact this may occur before a new integrated facility is built and operational and the agency is positioned to benefit from any increased efficiency. A phased withdrawal would be more appropriate.

- Should a special needs pool be developed under this proposal, the MPS's should be able to access this pool.

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

RESPONSE: Conditional support

The Commission needs to note the following points:

- Further definition of standardised input bundle (which will be different between high and low care) and also of benchmark level of care is required. Benchmark level of care has implications for provision of every aspect of service from meals to nursing and personal care. In setting the benchmark, the Commission needs to ensure that the benchmark is a true reflection of care needs.

- The capacity of the industry to absorb indefinite productivity discounts needs to be examined. As the RCS review indicated, some facilities (of particular size and location) are struggling under the current funding regime. An ongoing productivity discount may place further pressure on facilities.

- Unlike acute care, residential care is not likely to achieve greater productivity through advances in technology or pharmacology nor through increasing throughput. Inclusion of an automatic productivity discount is inconsistent with the Commission's notion of basing funding on a standard model of operation.

- The application of a formula-driven cost reduction approach should only be applied if there is also an opportunity to review service quality benchmarks. Thus, if an annual productivity discount were to be applied, it would also be appropriate to have an annual review of the benchmark level of care. Just as the Victorian Government expects its operations to be efficient, improvement in service quality is also one of its policy goals.

- Also, as ageing in place occurs and the longitudinal trend of people entering care at higher levels of dependency continues, residents will move towards the higher care needs end of the scale. It is difficult to see the scope for productivity gain if subsidies are linked to care needs and care needs are becoming higher and more intensive.

PROPOSALS:

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

RESPONSE: Support

However the Department considers that the Commission should consider developing supplements for additional categories of high needs clients whose full care needs are not able to be met by the RCS.

Clients in these groups include older people with a mental illness or Acquired Brain Injury, with or without challenging behaviour, and residents who require a palliative care service. As the final report of the RCS Review indicates, the care needs of some client groups are not adequately addressed by the RCS.

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.

RESPONSE: Support

As long as the public and voluntary sectors are exempt from payroll tax arrangements, there is no need for them to receive a payroll tax supplement.

PROPOSAL 7:

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

RESPONSE: Support

Victoria is supportive of continuing the current funding arrangements.

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.

RESPONSE: **Support**

Government-run homes need to meet the same certification and accreditation standards as the private and voluntary sectors and therefore should receive the same level of subsidy from the Commonwealth. Under the existing system, the Victorian Government is required to supplement the inadequate funding level provided by the Commonwealth in order to meet care needs in public sector facilities. These funds could be better utilised expanding aged care programs for which the State has sole or joint responsibility.

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.

RESPONSE: Conditional Support

See comments under proposal 3

PROPOSAL 10:

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

RESPONSE: **Conditional Support**

Support for the proposal is conditional on the development of an accreditation strategy which requires regular audit of expenditure to ensure that funds are applied to care provision and high care standards are maintained by providers for residents.

PROPOSAL 11:

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

RESPONSE: Conditional support

Victorian support for this proposal is conditional on the basis that the issues raised relate to the need to streamline the payment system. However, Victoria considers that these goals can be met by a system where individuals have a funding entitlement. Providers will then be required to compete in a market where common standards are developed. Program growth or industry restructuring provides the capacity to deliver a more open market with greater choice for consumers. Where the consumer chooses to spend the funding entitlement in a residential care service, the funding entitlement should them flow directly to the provider of the consumers choice.

The basis for this system was outlined in Victoria's previous submission to this inquiry.

PROPOSAL 12:

Regulation of extra service provision should be reduced:

- *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;*
- *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.*

RESPONSE: Conditional Support

Support for this proposal is limited and requires that the following conditions are met:

- definition of what constitutes an extra service and what constitutes the standard range of services and accommodation;
- acceptance of the principle that no resident can be refused entry to a service because of inability to pay;
- that safeguards are developed to minimise the risk of a geographic monopoly for extra service provision or an over concentration of extra service provision in particular geographic areas; and
- decisions on the deregulation of extra service places be deferred until the results of the National Two Year Review are known.

To reinforce this position, the Commission should note:

- The introduction of the Aged Care Act has provided scope for a significant increase in the number of residential care beds that can achieve extra service status (a doubling of the quota from 6% to 12% within a larger total number of beds due to the capacity for low care beds to obtain extra service status).

- Victoria considers that the impact of a major increase in the take-up of this option on the service system as a whole and local access needs to be examined over a reasonable period of time before a relaxation of the current provisions should be considered. This has not occurred and consequently consideration of further relaxation of any aspect of extra service provision should be deferred.

- Details of any Commonwealth monitoring process still need to be developed. Victoria also questions the practicality of the Commission's proposal for monitoring of any access impact after extra service status is granted.

- Given that residential care operates in an imperfect market, consumers also need to be clear about what precisely they can expect from standard or basic services and what additional services they can expect from an extra service provider. This is vital for consumers to make an informed judgement about whether they wish to purchase these additional services. Experience indicates that many services advertised by existing extra service providers are what residents already receive in facilities without extra service status. However, the capacity for many extremely frail and vulnerable older people to monitor whether they in fact receive the extra services they are paying for must be open to question. For example, how can a severely demented, bed-bound older person that needs to be assisted with feeding, benefit from extra services such as a glass of wine with a meal.

- The basic level of accommodation should also refer to the standard of places that are currently being built and not an "average" or basic level that is highly influenced by the large quantity of multiple bed rooms and wards which is a result of historic under investment in redeveloping high care places.

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.

RESPONSE: Opposed

This proposal is inconsistent with the notion of funding to a benchmark level of care and Victoria is concerned that implementation of this arrangement will encourage coalescence to national rates at a quicker pace than was originally planned in the Commonwealth proposals. This proposal is contrary to the intent of the arrangements initially proposed by the Commonwealth which gave providers time to adjust to the subsidy arrangements and undertake appropriate planning.

Instead, Victoria proposes that indexation applies nationally with States that are current receiving lower subsidies given real funding increases from funds that would otherwise be allocated for program growth.

4. Other areas where comment was sought

COMMENT 1:

Comment invited on 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.

This issue is possibly of most relevance to rural services with less capacity to manage their resident mix when beds become vacant. For example, in a small rural town, there may be only two potential lower care residents which attract lower subsidy rates and therefore impact on service cash flow. In metropolitan areas services generally have longer waiting lists with a mix of potential residents at different care levels and therefore greater capacity to manage cash flow as new residents arrive. A mechanism to smooth out these factors for rural services could be included in the design of the special needs pool.

COMMENT 2:

Comment invited on 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.

Victoria considers that consumers and industry have already experienced numerous changes over the last eighteen months and that additional change should be minimised. We also consider that significant change to concessional, assisted or transitional supplements should await the outcome of the two year review of the impact of the Aged Care Act.

COMMENT 3:

Comments sought on whether, in moving to a new subsidy regime, another round of changes to income and asset tested resident charges should be contemplated. Comment also sought on the merits of, *and scope to, combine the resident daily fee and the accommodation charge.*

Given the high level of community anxiety about the approach of the Commonwealth's changes to the residential care sector, Victoria would not advocate a further round of changes, particularly significant changes to resident fee arrangements.

Victoria is opposed to combining the resident daily fee and the accommodation charge based on the following:

- This proposal requires the combining of two variable fees. Administration of this system would be difficult for providers and confusing for consumers, particularly given the constant revision required for the resident income tested component of the fees.

- Under the proposed arrangements, it would be difficult to monitor whether funds paid as the accommodation charge are being earmarked for future capital upgrade or whether they were being used for daily operations by providers with higher costs or inefficient services.

The preferred Victoria model proposes a further separation of care charges from fees for accommodation.

COMMENT 4:

Comment sought on:

- *likely effects of the Commission's preliminary subsidy proposal; and*

- *an appropriate timeframe for implementation of the full proposals, the interrelationships with the Residential Aged Care Review, and whether new arrangements should be phased-in or simply introduced after a grace period.*

The likely effects of the Commission's preliminary proposals have been addressed in the discussion on individual proposals.

An appropriate timeframe for implementation of the proposals will depend on the lead time to develop the additional elements (eg design of the special needs pool, costing of the standardised input bundle) and the need to ensure that appropriate time is allowed for consultation with key stakeholders.

If introduction of a national funding rate proceeds, it should not occur on a timetable which is faster than the initial phased timetable proposed.

Appendix 1

SUMMARY OF VICTORIAN RESPONSE TO PRELIMINARY PROPOSALS

PRODUCTIVITY COMMISSION INQUIRY INTO NURSING HOME SUBSIDIES - POSITION PAPER

	Support	Conditional Support	Oppose
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 arrangement.		✓	
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	✓		
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 inpatient 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.		✓	
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.		✓	

	Support	Conditional Support	Oppose
5. The pensioner, oxygen, enteral feeding, respite and hardship supplements should be retained in their current form in the new subsidy regime.	✓		
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. Comments invited on the impact of input taxes, other than payroll tax, on private providers' costs and whether these should be recognised in the subsidy arrangements. Also invites comments on whether there are strong arguments against moving to a cost reimbursement system for payroll tax payments.	✓		
7. Commonwealth contributions towards workers compensation costs should continue to be provided through the basic subsidy regime.	✓		
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.	✓		
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.		✓	
10. There should be no requirement for providers to acquit subsidy payments under the proposed regime.		✓	
11. Subsidies should continue to be paid to providers rather than to residents.		✓	

	Support	Conditional Support	Oppose
12. Regulation of extra service provision should be reduced: - the controls on what constitutes and extra service; where in a facility extra service 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.		✓	
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.			✓