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26 November 1998

The Commissioners
Nursing Homes Subsidies Inquiry
Productivity Commission
PO Box 80
BELCONNEN ACT 2616

Ladies/Gentlemen

RESPONSE TO POSITION PAPERS OCTOBER and NOVEMBER 1998

We do wish to take issue with your comments at page 54 under heading "Worker's Compensation" to the effect that uniform basic subsidies "are not unreasonable".

Firstly, the fact that all providers must meet worker's compensation costs seems to us be not germane to the argument. Surely the point is the adequacy of funding to meet actual cost needs to be of prime consideration irrespective of the methodology employed i.e. part of the subsidy or as a separate supplement. The recent position in Western Australia of which detail was provided with this company's original submission to you (27/8/98) is a clear expose how this single cost alone, totally independent of work place performance is costing providers 'm this state an additional 90c per bed day because of legislative changes effected 1/7/98. This is referred to in more detail later in this letter.

The problem which all concerned including departmental personnel, seem to have with the adequacy of funding generally is that the combined effect of many erosions since 1110/97 have the ability to destroy the viability of the most well managed facilities.

There is a tendency for people (regardless of their qualifications) to quickly surmise that "90c a day" for example is neither here nor there!. At a conference in Cairns recently, the most senior departmental officer present, during his address referred to the down turn in funding for South Australia as a result of RCS review as "only small just under $2 a day", obviously with little

regard (until it was pointed out to him from the floor) that multiply this by 365 days multiply by say 50 beds and suddenly there no longer is $36500 pa for funding available, even for a small/medium size facility.

Reference to the example of Page 3 of our company's submission of 27th August illustrates the combined effect of just 4 items for which funding has not been placed or never properly revised and surely that has to be cause for concern. Another $2 per day down-turn or perhaps some further convolution of an item like payroll tax would see that exampled 60 bed facility slip out of business or rely on Accommodation Fees/Concessional subsidies to simply stay there. There is no room elsewhere within the overall funding structure to "rob Peter to pay Paul" with both prices and markets "fixed". Reference to the next section of this letter referring to the FUNIWG flat averaging of direct wage on cost over all categories would rather point to the fact that "Peter" is the high care beds "across the Board"!

May we comment on several specific areas where is would appear that funding falls short of the mark.

Superannuation Guarantee Adjustment 1/7/98 (SGL)

Enclosed is a DHFS issued document "Methodology for determining the 1998/99 rates".

At Para. 6, the SGL adjustment is explained. We find it inconsistent and incorrect that the increase has been added on a flat amount to all funding levels which of course loads excessive funding into low care to the detriment of high care funding. Obviously, this will be much enjoyed by hostel facilities whereas nursing home high care beds we calculate are deprived at the rate of an estimated 24cents per bed day. Further, we are at loss as to the reasoning which obtains the figure of $0.52 per bed day by using estimated residential care subsidies and supplements (of all things). What relationship can SGL possibly have to supplements?.

Our own calculation puts wages per bed day - both for care staff and non-nursing staff at $76 per bed day as of September 1997.

We arrived at this as follows:

Care Staff
Average 2.7 hours per resident per day for high care at average standard hourly rate (WA Sept. 1997) $21.15 per hour = $57. 10 average daily cost.

Non-nursing Staff
Per SAM wages component 1/7/97 $18.61

Total Wage = $75.71
(SGC increase at 1% = 76 cents per bed day)

If we refer to Table C7 and D1 (PC position paper November 1998) nationally, to the nearest 1,000 we have;
58,000 low care beds - attract 20% Commonwealth subsidy
76,000 high care beds - attract 80% Commonwealth subsidy

If we apply these measures to the $23.5m funding increase for SGC pro rata, the result would be 1/7/98;
Low care 22c per day increase
High care 68c per day increase
the latter figure being more closely representative of our calculation based on nursing home wage costs of 1997 (75c)

As an example for our own group of 209 nursing home beds in WA, we have lost yet another $18,000 pa in funding for a statutory incurrence.

Aside from all else, the figures above we think illustrate clearly the error in principal of allocating a direct wages on-cost as a flat rate across all categories as originated by FUNIWG. It seems highly likely that the same anomaly has been built into the payroll tax supplement "engineering" which has resulted in so many disparities across all states and territories (Page 51 PC position paper October), but undoubtedly magnified because of the number of voluntary sector beds (exempt) being included in the payroll tax averaging.

Worker's Compensation

With our submission, 27/8/98 we forwarded material provided by AON Risk Services outlining the reasons for the changes in WA legislation under this heading. We now enclose additional material provided by AON showing the cost increase per bed over 833 beds within their clientele. You will note there is immaterial difference between "Good Record" and "Bad Record" as to claims and those are net of stamp duties and brokers fees. Further material explains formality and legislative backing to the committee deciding the applicable rates.

We are of the opinion this material eliminates any conception that increases of this major item as recently experienced from 1/7/98 have little connection with work-place efficiency and as you will observe increase the cost per bed day including Stamp Duty and charges by 90 cents at least. These are not costs that can be conveniently covered by COPO's indexation arrangements. The estimated annual unfunded increase to our 209 bed group is $69,000.

Payroll Tax

We note your recommendations (Page 53 PC position paper Oct 1998) that "Government should take immediate actions to end this anomaly" has to date been ignored. These misdirected funds must after 13 months be immense. Further we are advised by Budget Management Department of Central Office DHAC via Perth office that no computer generated information as to the quantum of payroll supplement paid to either private or voluntary sectors **is available until July, 1999**.

Elsewhere on this subject there can be no fairer or more equitable system to handle funding for payroll tax other than cost reimbursement. A system was suggested by this company to the previous Minister (copy of letter 19/2/98 enclosed jointly signed by Craigcare and Western Health Care). We believe also if this methodology (Cost Reimbursement) is to be regarded then surely it must also extend to other directly related wages 'On Costs' *viz*; Worker's Compensation premiums, Super Guarantee contribution and Long Service Leave, all of which are statutory by nature. In respect of worker's compensation funding a report for each facility, could be called for say every two years from a Claims consultant at a cost to the facility. (This resource could be provided for expediency by the Aged Care Standards Agency). The report would recommend a discount factor for any poor work-place practice which may bear and this could be deducted over one or more monthly claims advances.

Infrastructure Cost and Viability

Do you think the populace, politicians and Government would be alarmed if the operating costs of various essential public services were simply left at a level pertaining to the year ended 301611985 with only an allowance made each year to cover CPI, ignoring technology advances and the requirements of latter day standards and legislative change. Services such as for example:

Airlines
Air Safety Authority
Ambulance & Fire Services
Acute Public Hospitals
Schools and Universities
Government Welfare Agencies
The Prison system etc

Note:

Aged Care is not on the small list above because in fact that excepting Wages and related On Costs all other costs of aged care facilities as well as Return On Investment are funded on a base established at **30 June 1985!,** totally ignoring since then increasing dependency of the aged, accountability demands, higher standards and major legislative changes in 1987 and 1997.

This was covered fully in a paper written by the undersigned enclosed with this company's submission to your commission 27/8/98.

Perhaps the paper was not clear enough on this subject. It did point out however on Page 4 that the present day funding for "Other Costs" in that component known as SAM is $11.70 per occupied bed day.

Further, a table appeared on Page 3 of the paper providing a mini survey of 350 beds over 4 "economy of scale" facilities in Western Australia. This showed a present day cost of only 9 items at a level of $11.26 per occupied bed day with 25% of costs (in terms of dollars) not yet studied. It made comment that this uncharted 25% would hardly emerge unscathed because of the effect of laundry (for example) which has at least doubled in throughput since 1986 as a result of increased resident dependency. These days, as a further example there are now

prescribed medications & dressings which where appropriate must be supplied to the resident by the facility as part of the service, where the daily cost of such items exceeds the approved level of Return on Investment allowed in the funding per bed!

Accreditation Cost

Aside from this sorry story, historically there is no provision nor seemingly is there any proposed to cover the cost of accreditation which typically will include for example:

	Cost
A specialist trainer, systems manager and implementor.	$30-40,000 pa
Audit fees via Aged Care Standards Agency	$12-20,000 pa
Staff training time arbitrary estimate l hour per bed per mth @ $20hr	$240 per bed p.a.
Stationery, Library, Training Aids, Storage	$5,000 pa
Consultant and external trainer involvement	$5,000 pa

National Survey

Reference was made 'm the aforementioned paper that a national survey carried out for the year ended 30/6/96 showed that only 36% of 92 facilities surveyed over all states made a profit! Some "scraped over the line" by a few cents per day. There was a range of voluntary sector homes and private for profit.

The average result for all homes surveyed nationally was a **loss** of $1.35 per bed day at a level of 99% occupancy. Surely that as a wide spectrum result speaks volumes and we would respectfully suggest that the study be read by commission members if that has not already occurred. The source is Bentley's Chartered accountants GPO Box 740 Brisbane 4001.

We would suggest that it simply is not possible to operate within the infrastructure cost perimeters of an up-to-date technically efficient facility to contemporary acceptable standards at $40 per occupied bed day which includes (hypothetically) a return of investment factor of $8.93 per occupied bed day ($3,260 pa at 100% occupancy).

Your reader may care to think: of his/her last trip to the country where probably $55-$60 was paid for bed only for one night's accommodation in a hotel/motel!. But for $40 per bed day nursing homes have to provide accommodation (not including the cost of nursing and personal care) in some cases in a single room with en-suite attached, plus -

• All meals including morning/afternoon tea, supper and special dietary requirements.
• All non-prescription medical & incontinent items * (see footnote)
• Personal laundry
• Social activities and recreational therapy
• Concerts, outings and bus trips
• Mobility aids such as wheel-chairs, walking frames, hoists
• Numerous other "prescribed services" per Commonwealth Government legislation but exclusive of the wages cost of Nursing & Personal Staff.

*Note re Medical/Incontinence items:

Presently at a cost estimated to be 360% more (because of increased dependency) than the bed day cost funded 11 years ago and which has been indexed at only 40% in total for the 11 years since then.
Viz;
• Original Funding 28 cents per bed day 1/7/87
• Indexed funding 1/7/97 39 cents per day
• Actual cost sampled over 350 beds in WA for 97/98 was $1.30 per bed day
• National Average Cost for Bentley Survey 1995/96 was $1.21 per bed day

It is very clear from the above that the element of funding which provides for hotel services the cost of occupation and return on investment has simply not kept pace **since 1985** with modem standards and increased resident dependency. The **ROI** factor, albeit that it is totally inadequate in relation to present day capital values **even at its best**, has all but frittered away. That too was instigated in original SAM 1/7/87 and simply CPI indexed since then.

For those who will highlight the thrust of accommodation fees and concessional subsidies please bear in mind that the inadequacies of infrastructure funding will intrude on these. (Refer Page 3 of submission from this company 27/8/98).

Income tax will also lessen the effect of this type of income having regard to its quarantined purpose under Section 57 2N of the Aged Care Act and the minimal type tax deductibility attached to capital and debt reduction disbursements.

Conclusion

We conclude by reiterating our disagreement with the Commission's statement that uniform basic subsidies are "not unreasonable" and urge the Commission to undertake a study of contemporary infrastructure or at the very least seek contemporary data from the national survey previously mentioned. Further if present methodology is maintained for future wage related adjustments e.g. SGC increases, low care subsidies will continue to swell comfortably to the great detriment of funding for high care beds.

Yours sincerely

L.W. BRAY
Executive Director

Enclosures:

- Methodology for determining the 1998/98 rates
- AON Risk Services letter 13/7/98
- Craigcare letter 19/2/98
- AON Risk Services letter 28/5/98

Methodology for Determining the 1998-99 Rates

All residential case subsidy and supplement rates are first indexed using the standard COPOs indexation arrangements which apply to all Commonwealth programs with significant wage costs. Supplementation for the 1 % rise in the Superannuation Guarantee Charge is then added to each of the Residential Classification Scale (RCS) rates- The first year coalescence adjustment is then applied to the RCS category 1-4 rates.

The COPOs index used for residential care subsidies and supplements, except the oxygen and enteral feeding, supplements, payable under the Aged Care Act 1997 is a 75/25 weighted cocktail index of the Safety Net Adjustment (SNA) and the Treasury Measurement of Underlying Inflation (TMUI) to the March quarter. The Australian Industrial Relations Commission's SNA is used as a proxy for non-productivity wage growth. The TMUI is used as a measure of change in non-wage costs.

The 75/25 index is known as Wage Cost Index 9 (WCI9). Currently, the SNA is 1.4%, the TMUI is 1. 5% and, therefore, the indexation factor WCI9 is 1. 4%.

The amounts of the oxygen and enteral feeding supplements are indexed using the TMUI.

Hostel rates were previously indexed on 1 November each year using a 60/40 weighted cocktail index. Low level care subsidies will now be indexed on 1 My each year using the 75/25 weighted cocktail index used for high level care subsidies. This index better reflects the cost structures of the aged care industry. In 1998-99 this change will provide an additional $3.7m in funding.

The 1998-99 RCS rates have then been adjusted to fund the 1% increase in the Superannuation Guarantee Charge. When FUNIWG considered the issue of how to handle SGC supplementation (along with indexation) on 24 February 1997, they decided that a flat amount should be added to all funding levels for SGC. As a consequence, all rates have been increased by $0.52 per bed day. This figure was obtained by dividing the total estimated expenditure on residential care subsidies and supplements in 1998-99 by the average number of occupied RCS 1-7 places.

An additional $23.5m of funding will be provided to residential care providers through this supplementation in 1998-99.

Each State rate for RCS categories 1-4 is then adjusted by adding/subtracting 2% of the difference of the rate from the national average rate for that RCS category. After making this minor first year adjustment, coalescence has been halted pending, a review by the Productivity Commission.

Worked Examples

In Queensland, the RCS category 1 rate in 1997-99 was $87.74. Indexation adds $1.23 to this rate. SGC supplementation adds a further $0.52 cents to this rate. First year coalescence adds a further $0.25 to this rate. Overall the 1998-99 rate is increased by $2.00 to $89.74.

In New South Wales, the RCS category 1 rate in 1997-98 was $101.69. Indexation adds $1.42 to this rate. SGC supplementation adds a further $0.52 cents to this rate. First year coalescence then reduces the rate by $0.04.. Overall the 1998-99 rate is increased by $1.80 to $103-59.

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13 July 1998

Mr J Sharpe
Department of Health & Family Services
GPO Box 9848
PERTH WA 6000

Dear John

WORKERS COMPENSATION INSURANCE - NURSING HOMES

I have been requested by Lyn Bray to forward to you insurance premium comparison figures I recently provided to him.

In my letter of 19th May to Mark Saunders of your office I confirmed the increase in the Workers' Compensation Industry Rate for Nursing Homes for the 1998/9 period from 3.68% to 5.15%.

To assist Lyn in his discussion with your Department we. Compiled comparison premiums for a number of our Nursing Home clients who's policies were due for renewal on 30th June 1998.

The following is a comparison between the premium paid for the 1997/98 period and the premium due for the 1998/9 period and broken down to Homes with a good claims record and those with a bad record (also showing the total number of beds).

	1997/98	1998/99	No. of Beds	Cost/Bed
Good Claims Record	$395,316	$558,545	511	$1,093
Bad Claims Record	$276,792	$375,340	322	$1,166

The above figures are pure premium only and subject to the imposition of Government Stamp Duty and Brokers Fees. We estimate an additional 5-6% should be added to cover these.

If any additional information is required please do not hesitate to contact me on 9429 4474.
Regards

Tony Pinnegar
Senior Account Executive

Craigcare
25 YEARS ON 25 YEARS STRONG
For information and enquiries
Tel (08)9367 8122 Fax (08)9367 7706

19 February 1998

COPY

Hon. Warwick Smith
Minister for Family Services
Parliament House
CANBERRA ACT 2600

Dear Minister,

We wish to confirm. points made in discussion with you and Mr Edwards at a break on the ACA Conference in Melbourne on Monday 16th February.

Payroll Tax

Western Healthcare is a member of both ANHECA and NANHPH. We were advised by both associations that both sought a fourth element in the three tier groupings (1-30, 31-60, 61 + beds) to cover groups such as our own who in each state or territory are penalised under the various payroll formulae. In other words the structure and quantum of payroll is such that the separate facilities are "grouped" so that the daily exemption only applies once (as distinct from say 3 facilities having separate owners whereby the daily exemption is applied three times).

Both associations, we understand sort the fourth element to cover this but that was rejected by your Department. If that is true then it is riot correct that the associations agreed in all matters.

That is the reason why 3 groups in Western Australia (for example) of around 900 beds in total have an estimated combined deficit in the previously cost reimbursed

item of some $250,000 per annum. Western Healthcare and Craigcare expects to lose over $16,000 per month.

As explained to you, up to 30 September 1997 under CAM/OCRE funding arrangements such facilities which are exempt from pay roll tax in respect of their own "in house" payrolls were permitted to claim on their NH20's for payroll tax paid as part of contract labour disbursements for casual employment provided that the external agency (which of course is not exempt) noted this on invoice.

Such amounts would be comparatively immaterial in most cases compared to amounts of payroll tax paid by the non exempt private sector. As stated to you we are suggesting that in arriving at the state averages for the new payroll tax supplement implemented in November, your department simply may have averaged all beds (including those exempt from tax on their own payrolls).

Given total cost reimbursed amounts for a given state or territory, the execution of the calculations in this fashion would of course have resulted in a much lower average per bed. It would then follow that if the new supplement were paid to the private (non exempt) and voluntary (exempt) beds which is legal, albeit totally inequitable, based on the present wording of principal 21.25 (1) then there is going to be no material departure 'm total from the for-ward estimates of this previously cost. reimbursed item.

We suggest to you that the system should revert to cost reimbursement but not validated to the extent of previous validatory checks. The logic is that if the Department is prepared to accept without question the filed documented status of concessional residents in a claim for concessional subsidy then surely the amount claimed for payroll tax actually incurred in a given month could be dealt with similarly.

- If necessary it should be possible to incorporate into the printed claim form a formal declaration by the authorised signatory that the amount claimed by the facility for payroll tax relates only to that facility and is not in respect of any other form of business activity. Where a facility is a member of a group it would simply apply a pro rata portion of the group incurrence of pay roll tax to its own beds.

- If considered necessary it would provide on the claim a simple statement of incurrence by the group as a whole and the allocation of portion of the total to this particular facility claim.

I acknowledge that administratively, in some cases eg. where there is other business activity or there is a group of facilities involved, these procedures may seem to add a small time factor but such cases would be very much in minority.

The advantage surely is an equitable distribution of this item across the board of exempt and non exempt facilities and eliminating the unfair and unbalanced position which currently exists in the context of exempt versus non exempt and the demarcation difficulties of bed size groups.

Resident Classification Scale

As discussed at our meeting, the current Departmental guidelines provide that where the Department reviews an RCS, tile reassessment can be backdated effective from the date six months before the date of review.

This punitive action would have serious financial implications on the operation of a nursing home.

It would seem more appropriate that in the early stages of the aged care reforms that RCS reviews should be a two way education process between the providers and the Department.

Minster, we therefore recommend that any reclassification resulting from a RCS audit should be effective from the date of audit and **not** retrospective up to a period of six months.

RCS Screen Dump Sheets

At our meeting with you we raised concerns that the Department has ceased providing nursing homes with RCS Screen Dump Sheets.

The dump sheets provided the nursing home with an acknowledgement that the RCS had been received by the Department and confirmed the RCS classification level to the Director of Nursing.

Directors of Nursing now have to wait until the claim form (NH3) is received and this could be a period of up to 2 months.

To assist in the effective management of RCS profiles in nursing homes it would be appreciated if the Department could be instructed to provide Directors of Nursing with screen dump sheets.

Concessional Residents Ratios

We appreciate that you are aware that with the removal of accommodation bonds in nursing homes the need for concessional ratios to be maintained is of very little relevance as the system now encourages Nursing Home providers to admit concessional residents.

With the severe penalty which is applied when ratios are not met it would be appreciated if the Department could review the requirements for concessional resident ratios.

Minister, we appreciate the time you and Mr Simon Edwards made available to meet with us to discuss these important matters and we look forward to working with Government on the aged care reforms.

Yours sincerely,

JOHN ALLANSON,
Chief Executive Manager
Craigcare.

LYN BRAY,
Executive Director
Western Healthcare Group Pty Ltd.

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To: Lyn Bray
Co: Western Healthcare
9389 7044

From: Tony Pinnegar
Senior Account Executive
Date: 28 May 1998
Pages: 2

WORKERS' COMPENSATION INSURANCE

Lyn,
Further to our discussion the other day, I have made a few enquires and advise the following.

1. The composition of the Workers' Compensation premium rates Committee is designated in the Act and an extract of which follows.
2. The three other members referred to are usually recruited from:-
    1. Chamber of Commerce
    2. Trades & Labour Council
    3. Insurance Council of Australia
    4.

There is no provision in the Act for an industry to appeal the rate which has been declared for that industry.

The only appeal provision is for an individual Employer to appeal against the classification which Insurers have imposed on that particular Employer, or premium loadings which may be applied by Insurers which the Employer considers to be excessive.

With regard to the possibility of an industry or a segment of an industry self funding their Workers' Compensation Insurance Liability, there is provision in the Act for this, however it would need to be approached from an Association aspect with it being compulsory for all members of that Association to participate.

It is a rather involved and complicated process, however we would be more than happy to meet with you to discuss the implications and requirements of this course of action.

If you and your Association are interested in pursuing this aspect further, please let me know and we will arrange a meeting to provide preliminary information.

With regard to Eastern States' rates, I have had further response and advise the following:-

• New South Wales - 5.57%
• Victoria
- Nursing & Convalescent Homes providing nursing and medical care - 3.95%
- Hospitals & Nursing Homes excluding psychiatric dental and private sector Hospitals - 1.84%
- South Australia - 6.6%

These rates are all for the current period and are all subject to change as at 1st July 1998.

If I can be of further assistance please contact me.

Kind regards

TONY PINNEGAR
SENIOR ACCOUNT EXECUTIVE

PART VIII - PREMIUM RATES COMMITTEE

Premium Rates Committee

147. (1) For the purposes of this Act there is established a committee by the name of Premium Rates Committee.

(2) The Committee is to consist of -

(a) the Auditor General as a member and Chairman;

(b) the managing director of the State Government Insurance Commission as a member.

(c) the Executive Director as a member;

(d) 3 other members appointed by the Governor, on the recommendation of the Minister, and referred to as nominee members of whom-

(i) one shall be a person experienced in management affairs in commerce or industry, or both;

(ii) one shall be a person experienced in trade union affairs; and

(iii) one shall be a person experienced in insurance business but not employed in the State Government Insurance Commission or the State Government Insurance Corporation.

(3) Before making recommendations for the purposes for subsection (2) (d) (i), (ii), and (iii) respectively the Minister may, in writing, request the bodies known as -

(a) The Confederation of Western Australian Industry (Incorporated)[22];

(b) the Trades and Labor Council of Western Australia; and

(c) the Western Australian Regional Advisory Board of the Insurance Council of Australia Limited,

respectively, to submit the name of a person, or the names of such number of persons as is specified in the request, who, or each of whom, has the required qualification and is willing to act as a nominee member.

(4) The Governor may, on the recommendation of the minister,-

(a) appoint a person as deputy of an *ex officio* member; and

(b) appoint as deputy of a nominee member a person qualified for appointment to the office, of that nominee member, and subsection (3) applies in respect of such a recommendation with such modifications as are necessary.

(5) In the absence, for any reason, of a member from a meeting of the Committee his appointed deputy may attend the meeting and while so attending has all the powers, authorities, functions, and duties of a member.

[Section 147 amended by No. 51 of 1986 s.46 (2); No. 86 of 1986 s.5.]

Term of appointment

148. Subject to this Act, a nominee member is entitled to hold office for such period not exceeding 3 years as is specified in the instrument of his appointment but is eligible for reappointment.