

*Productivity Commission
Nursing Home Subsidies - Issues Paper, August 1998*

Submission

September 1998



Australian Nursing Homes
& Extended Care Association - SA Inc

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BACKGROUND

ANHECA SA

The Australian Nursing Homes and Extended Care Association - South Australia Inc., is a State based organisation representing private for profit and charitable aged care providers. The South Australian Association is a member of our Federal counterpart of the same name and we share the same broad objectives, namely that our Association strives for and is committed to excellence in aged care in a commercially viable environment for and on behalf of its members.

TERMS OF REFERENCE

ANHECA SA has familiarised itself with the Terms of Reference and the Productivity Commission's Issues Paper, and our representative have had informal discussions with the Commission's representatives.

ANHECA SA is confining its submission to the issues of structuring the labour related elements of the funding system as time and financial constraints prevent professional comment on the other important elements of the funding system.

KEY ISSUES FOR ANHECA SA

In considering its response, ANHECA SA has given regard to key elements of the Aged Care Reform agenda to the extent that they impact upon the core questions for the Commission, namely:

- Equity of access to residential care services when people are assessed as needing assistance,
- Equity of care standard for people receiving residential aged care services,
- That the Government has sought an administratively simpler system to free up providers to concentrate on competitive provision of improved accommodation and quality assured care services pursuant to the Certification/Accreditation systems.

ESTABLISHING AN EQUITABLE FUNDING SYSTEM

ANHECA SA has accepted that equity of care received is directly linked to the hours and skill mix provided to deliver that care.

We also acknowledge that the incentive to improve should be a part of the system to encourage competition, innovation and reinvestment in both capital and managerial endeavour.

ANHECA SA drew up a roster and costed it according to the awards of a number of States. The roster selected was indicative of a 50 bed nursing home and the States costed were SA, NSW, Victoria and WA.

The objective was to see how the costs varied and how they related to the present funding differentials.

The roster and a summary of our calculations are attached.

Recommendation

We would recommend to the Commission, having regard to equity, that at least two rosters be independently costed across all jurisdictions and suggest that they be 30 bed and 50 bed rosters. It is essential that the rosters be identical in hours and staff mix across jurisdictions

Conclusion

We have made several conclusions from our investigations:

- The total cost of identical rosters in each State under the present funding system was not significantly different, however,
- The number of hours that can presently be afforded in each of the four States under the existing funding system is significantly different,
- The task of properly costing the rosters across the country is complex and requires considerable time and professional expertise.

We understand the difficulty of the task and recommend that if the Commission accepts the premise of equity of care and access as assumed by us, then it will need to arrange for a detailed base to be arrived at under a consultancy that is transparent to all parties.

COALESCENCE

RATIONALE

The key purpose of the review is to determine whether coalescence should proceed and/or if any elements of the system should be State based. If State based systems are to remain, the Commission is to recommend suitable methodology.

There are two issues involved in the question.

The first is that the process of coalescence redistributes the funding and produces uniform national rates.

The second issue that is implicitly asked concerns whether or not coalescence from the existing State based subsidies would produce national rates which are appropriate to funding the required outcomes.

ANHECA SA has considered the influences on wage movements and has concluded that the level of subsidy paid has a significant bearing on wage outcomes, particularly over time. We think that similar relationships exist between State Government funding and wage rates for their qualified nursing staff and this has a significant bearing on wage movement in that market place.

We reflect that the hostel funding system has been operating for around 10 years on a national uniform funding basis and that the system has been retained for low care residents in the current system.

The previous CAM/SAM funding system also contained national uniform elements.

For example, SAM was paid on a national and uniform basis and it amounted to around 35-40% of total revenue and was used in part to fund wages for non nursing staff who were all subject to different awards in each State.

These State awards are the same awards that are used to pay personal carers and reference to the roster will show that expenditure on personal carers comprises the majority of the nursing roster.

COALESCENCE, Contd.

IMPLICATIONS

In an Industry where the price of the service is set by regulation, there will clearly be implications for facilities in States that are funded above the average as they restructure.

We also acknowledge that the industrial relations system in Australia is rigid in its application and it will take some time to free up with the development of Enterprise Bargaining.

Conclusion

ANHECA SA has concluded all States should be in receipt of uniform funding in line with the present hostel funding system that will free up the industry and encourage efficiency.

Ideally this should be achieved by January 2001 which is the time by which all providers must achieve uniform Accreditation. We acknowledge however that the original time frame of seven years may be more appropriate as removal of staffing regulations in some State awards may take time. We recommend that coalescence should be evenly progressed at 16.33% PA over the remaining six years.

We are also of the view that should there be a move to re-regulate the industry that can only be sensibly achieved on a national basis.

Accordingly if particular States want additional regulation that has a cost implication, then it is their responsibility to fund those differences.

There needs to be an examination of law to ensure that State based regulation has no impact on nursing home staffing and to ensure the appropriate superiority of Federal regulation over any award provisions that impact upon staffing.

A UNIFORM NATIONAL FUNDING SYSTEM

ANHECA SA is committed to uniform national subsidy rates in relation to all expenditure elements other than payroll tax and workers compensation for which we believe simple non-acquitted State based systems will work.

We consider that coalescing from the present set of numbers is a flawed process as there is neither accuracy nor transparency in the present system.

Accordingly we believe that coalescence should occur from the current figure to a newly calculated base.

The basis of the new system would be an agreed transparent costed staffing model with possible variation factors for matters relating to size if this proves to be a significant cost variant.

PRICING THE MODEL

Pricing the model is an important issue.

In the qualified nurse area the private sector wage rates are significantly below those of the public sector and it is the public sector that dominates the wage setting market. There are currently significant problems attracting and retaining a sufficient quality and quantity of registered nurse staff due to the current wages gap. Accordingly the model pricing mechanism must reflect the weighted average of appropriate public sector wage rates from each jurisdiction.

The pricing mechanism for personal carers and ancillary staff should be a weighted average of appropriate private sector wage rates from each jurisdiction.

There are two very important disciplines that have to be maintained with such a model:

1. Annual Indexation
2. Tri-Annual System Review.

1. Annual Indexation

The system must be underpinned with an indexation system that transparently works. It is clear to ANHECA SA that the present indexation systems appear to consistently understate the actual cost of movements in expense elements.

This was recently graphically and expensively illustrated in the recent RCS subsidy indexation of 1.4% when the Safety Net Adjustment actually cost around 2.4%. Similarly the increase of 1 % in Superannuation was priced at \$0.52 when it actually cost around \$0.83 per bed day.

ANHECA SA is of the view that an appropriate ABS indexing tool relating to wage movements across the country would be the most suitable method of updating the model for changes in wage rates. In this proposal wage claims would not lead subsidy rates.

2. Tri-Annual System Review

The system must be underpinned with a regular and transparent model review process that takes account of changes in the environment that effects staffing.

Factors that may have an influence include changes in resident frailty, community expectations and changes in accommodation standards. The existence of a regular review process allows this funding system to adapt to the changing environment and provide a system that will serve the industry into the future.

We suggest that the model be reviewed every three years in order to maintain its transparency and integrity.

RATIONALE FOR STATE BASED PAYROLL TAX & WORKERS COMPENSATION FUNDING

Payroll Tax (PRT) - Present System

The system used to fund PRT in the Industry has historically been on a cost recovery basis as the cost is totally outside the control of the provider. In the absence of agreement between State and Federal Governments to exempt the Industry and incorporate the resultant effect into other Federal-State transfers, an alternative system has been introduced.

The current system provides three funding brackets based on the number of beds in each ownership group. Each of the States have separate funding amounts for each of the funding brackets based presumably on the differing State taxation systems.

In South Australia the distribution system seriously disadvantages multiple facility providers who can only claim one site exemption of \$456,000 per annum, and even for stand alone providers at the lower end of the funding brackets, the amount of funding received is insufficient to meet the tax payable.

This means that residents in PRT paying facilities are disadvantaged as taxpaying providers have to subsidise PRT payments.

We believe that the system substantially underfunds the PRT cost and that the distribution system is badly flawed.

Payroll Tax (PRT) - Proposed System

Payroll tax funding should be calculated by determining the notional payroll of the individual facilities of an organisation from the standard priced roster model and then the individual State PRT calculation formula would be applied.

This would then provide the amount of PRT supplement per bed day for the individual organisation.

Given the integrity of the model that determines notional payroll, the balance of the system is simple and easily automated.

Workers Compensation (WC) - Present System

Historically WC premium funding was on an individual cost recovery basis. In recent years the system was modified to reward good premium performance, penalise poor performance and protect individual facilities from the serious consequences of large premium increases.

Within most WC systems there is only a limited direct effect that the providers management systems can make, especially because of the nature of manual handling in the Industry and the extent of "gradual onset" claims that have little or no correlation with safety procedure. The current system includes the WC element of funding in the RCS subsidy and there is no identification of quantum or transparency as to any State based variations.

In most States WC benefits, premium calculation and system financial integrity have been significant and controversial political problems for incumbent Governments. This has meant that over recent years there has been considerable variation in the WC systems within and between State jurisdictions.

The initial attempts to have some national consistency have stalled and progress in this area is unlikely due to the political sensitivity of the topic within the politics of individual jurisdictions.

Workers Compensation (WC) - Proposed System

The basis of the system for Workers Compensation is the same as for PRT.

The notional Workcover premium of each organisation would be calculated.

The Workcover authority or insurer advises the provider organisations of their premium percentage in the month prior to the start of the financial year.

These premium notifications would be advised to the Department together with authority for confirmation by the Workcover authority.

The Department would then be able to calculate the average notional premium per bed day for each State.

This would then form the basis of funding each provider.

Individual State differences for uninsurable costs such as the first week or two of wages for each claim are minor in terms of total claim costs and a small loading could be researched and used to equalise interstate differences from the lowest common feature of uninsurable cost.

The system that was used to protect individual providers against catastrophic premiums could easily be overlaid onto this system based on analysis of the premium percentages on a State basis.

Again the system is simple and can be easily automated.

The key issue is the integrity of the base model.

SUMMARY OF 50 BED ROSTER & CALCULATIONS

| Classification | Weekly Hours |
|--------------------------------|--------------|
| Director of Nursing | 38.0 |
| Clinical Nurse Consultant | 38.0 |
| Charge Nurse | 113.5 |
| Registered Nurse | 128.0 |
| Personal Carer/Nurse Assistant | 676.0 |
| Physiotherapist | 8.0 |
| Podiatrist | 2.0 |
| Cook | 35.0 |
| Cooks Assistant | 93.5 |
| Kitchen Domestic | 30.0 |
| Laundry | 38.0 |
| Maintenance | 38.0 |
| Cleaning | 58.0 |
| Clerk | 15.0 |
| CEO | 38.0 |

| Direct Labour Costs | \$ | % of SA |
|-------------------------------|-------|---------|
| SA | 22067 | 100 |
| Victoria - no enrolled nurses | 21921 | 99.34 |
| - 50% enrolled nurses | 22337 | 101.22 |
| WA | 21953 | 99.48 |
| NSW | 22468 | 101.82 |

| Registered Nurse only costs | \$ | % of SA |
|-----------------------------|------|---------|
| SA | 7505 | 100 |
| Victoria | 7353 | 98.0 |
| WA | 7233 | 96.38 |
| NSW | 8464 | 112.78 |

| Personal Carer/Nurse Ass Cost | \$ | % of SA |
|-------------------------------|-------|---------|
| SA | 9485 | 100 |
| Victoria - no enrolled nurses | 10069 | 106.16 |
| - 50% enrolled nurses | 9654 | 101.78 |
| WA | 9443 | 99.56 |
| NSW | 8914 | 94.0 |

| Direct Labour Costs plus Including AI, SL, PH etc (not LSL) | \$ | % of SA |
|---|-----------|----------------|
| SA | 25754 | 100 |
| Victoria | NA | NA |
| WA | NA | NA |
| NSW | 26815 | 104.12 |
| <i>Note: LSL in SA is 150% of NSW and this would narrow the gap significantly</i> | | |

In calculating the cost of the roster we have used the highest years of service rate applicable to RNs and the second highest applicable to personal carers/nurse assistants.

| Director of Nursing Rates | \$/hr | % of SA |
|----------------------------------|--------------|----------------|
| SA Level 1 | 22,8961 | 100 |
| Victoria - 13-50 beds | 22,6368 | 87.41 |
| - Level 6, 200-3 00s | 24,8474 | 95.61 |
| WA Level 2 | 26.0602 | 100.63 |
| NSW 50 to 75 | 29.2053 | 112.78 |

| | | |
|----------------------------|----------------|--|
| Assistant DON - NSW | 24,7684 | |
|----------------------------|----------------|--|

| Clinical Nurse Consultant | \$/hr | % of SA |
|----------------------------------|--------------|----------------|
| SA - 3.4 | 23.1605 | 100 |
| Victoria - 4A 2nd | 21.5737 | 93.15 |
| - 3A 2nd | 19.5737 | 84.51 |
| WA | 21.9447 | 94.75 |
| NSW | 25.5132 | 110.16 |

| Registered Nurse | \$/hr | % of SA |
|-------------------------|--------------|----------------|
| SA 1.8 | 18.7145 | 100 |
| Victoria - Gr 2 6th | 17.5632 | 93.85 |
| WA 1.8 | 17.9632 | 95.99 |
| NSW 1.9 | 20.7526 | 110.89 |

| Personal Carer/Nurse Assistant | \$/hr | % of SA |
|---------------------------------------|--------------|----------------|
| SA 3.2 | 12.1053 | 100 |
| Victoria - pers care Gr 1, 3rd | 12.1132 | 100.07 |
| - Enrolled nurse pp3 | 13.0566 | 107.86 |
| WA Nurse Assistant 3rd & T/A | 11.75 | 97.07 |
| NSW | 11.6553 | 96.28 |

In assessing rates of pay we note the following:

- Registered staff in SA have not had a safety net adjustment and we think other jurisdictions have.
- We think NSW may be one EB round ahead of SA and possibly other States in the Registered staff areas.
- We believe that the ancillary worker awards are on a similar "landing" in relation to the wage increase cycle.
- We note that while we have drawn conclusions from the data we have been able to collect and assess, we remind readers we were not able to access all information and in some instances we are not fully confident that we have information of the highest accuracy and quality. We make the appropriate recommendation in the submission regarding obtaining high quality data.

Weighted Average of RCS fee with SA @ base 100

| Category | 1 | 2 | 3 | 4 |
|----------------------|---------------|---------------|---------------|---------------|
| NSW .392 | | | | |
| \$ | 103.59 | 93.59 | 80.58 | 57.31 |
| % of base | 106.7 | 106.5 | 106.2 | 105.27 |
| VIC .228 | | | | |
| \$ | 108.5 | 97.95 | 84.28 | 59.79 |
| % of base | 111.8 | 111.4 | 111.1 | 109.8 |
| QLD .163 | | | | |
| \$ | 89.74 | 81 | 69.65 | 49.34 |
| % of base | 92.4 | 92.2 | 91.8 | 90.6 |
| WA .082 | | | | |
| \$ | 100.38 | 90.63 | 77.97 | 55.28 |
| % of base | 103.4 | 103.1 | 102.7 | 101.54 |
| SA .096 | | | | |
| \$ | 97.08 | 87.9 | 75.89 | 54.44 |
| % of base | 100 | 100 | 100 | 100 |
| TAS .029 | | | | |
| \$ | 109.99 | 99.55 | 85.98 | 61.65 |
| % of base | 113.3 | 113.3 | 113.3 | 113.3 |
| ACT .007 | | | | |
| \$ | 100.19 | 90.72 | 78.48 | 56.46 |
| % of base | 103.2 | 102.7 | 103.41 | 103.7 |
| NT .003 | | | | |
| \$ | 105.49 | 95.38 | 82.07 | 58.24 |
| % of base | 108.8 | 108.38 | 108.1 | 107.0 |
| National 1.00 | | | | |
| % of base | 104.9 | 104.56 | 104.27 | 103.32 |