

**SUBMISSION TO THE PRODUCTIVITY
COMMISSION**

NURSING HOME SUBSIDIES

BY

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PREPARED WITH THE ASSISTANCE OF

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Executive Summary

- The Commonwealth Government's Aged Care Structural Reform Package, announced in the August 1996 Budget, included a proposal for 'coalescence'. This proposed that the differing nursing home subsidy rates in States and Territories would gradually move to national rates over a period of seven years, commencing from 1 July 1998.
- Coalescence is founded on the proposition that there are no intrinsic (unavoidable) cost differences between the States and Territories and regions of Australia. This is not the case and the policy of coalescence directly contradicts the overriding policy objectives in aged care of ensuring equality of access and a nationally accepted standard of care to all Australians in need irrespective of their personal circumstances or where they live.
- The variations in population, economic and geographic characteristics of the Australian States give rise to variations in cost structures between the States. This fact is widely recognised and taken into account in the distribution of Commonwealth general purpose funding between the States and Territories.
- Tasmanian nursing homes face a number of special cost disabilities, compared with other States. These disabilities act together to make Tasmania a high cost location in which to provide aged care services.
- Tasmanian homes, irrespective of their location, are faced with higher input prices than other jurisdictions because of higher award wage rates, on-costs, food prices and the prices of medical supplies and other inputs.
- In addition to this, there are very significant additional costs faced by nursing homes in regional and rural areas of Tasmania because of diseconomies of small scale. About 50 per cent of Tasmanians live in centres of less than 20,000 persons, which is about the minimum catchment required for optimum-sized nursing homes (in terms of operating efficiency) to be established.
- The current subsidy structure only provides sufficient compensation for the higher input prices faced by Tasmanian homes. Ideally any new system should include an additional allowance for the diseconomies of small scale faced by homes in non-metropolitan areas.
- A systematic analysis of input costs included in this submission shows that the input cost disability faced by Tasmanian facilities compared with other States on average, is of the order of 7 per cent. For homes outside the major urban centres, the input disability increases to 14 per cent. This demonstrates that the

current differential of 7 per cent in nursing homes subsidies is insufficient to ensure a standard (ie average) level of care and access in Tasmania.

This is consistent with evidence suggesting that the profitability of nursing homes in Tasmania compares poorly with those in other States and Territories. The low incidence of private-for-profit homes in Tasmania is a manifestation of the difficulty in establishing profitable operations in the State.

Given these circumstances, coupled with the negative impact of the new RCS instrument for high care residents, proceeding with coalescence would, at the very least, lead to a substantial reduction in care in Tasmania. It would inevitably render a number of homes, particularly in non-metropolitan areas, non-viable.

It is estimated that coalescence, once fully implemented, would result in the loss of 330 jobs in the aged care industry in Tasmania and would result in redundancy payments of more than \$5 million.

There is relatively little scope for Tasmanian nursing homes to mitigate their high cost structure. Most of the disabilities faced are intrinsic; that is they are characteristic of population and economic structure. Other disabilities, such as the award wage structure, are a result of industrial tribunal decisions and are equally difficult to avoid.

The benefits to Tasmanian homes from more widespread adoption of enterprise bargaining are considered to be small. Working arrangements are already flexible, wage structures high, and homes do not have the financial resources under these circumstances where tradeoffs are few, to encourage adoption of enterprise agreements.

The incidence of over award payments in Tasmanian homes is almost non-existent and opportunities for using market disciplines to drive efficiencies are limited compared with other States. This is particularly the case in non-metropolitan areas, as a consequence of Tasmania particular geographic and economic characteristics.

The net benefit from administrative-level amalgamations are likely to be minor unless it is possible to collocate facilities. However, further collocation opportunities are limited.

Tasmanian nursing homes are fully committed to achieving ongoing efficiencies in order to maintain and improve the quality of services and service outcomes for older Tasmanians in the face of funding constraints under the existing system. However, there is no scope in addition to this, to cope with the impact of coalescence.

- Aged Care Tasmania welcomes the opportunity that the Productivity Commission inquiry has provided to put its case on nursing home subsidies and would be pleased to provide the Commission with any further information required to support its case.

Aged Care Tasmania Inc
September 1998

AGED CARE TASMANIA SUBMISSION TO THE PRODUCTIVITY COMMISSION INQUIRY INTO NURSING HOME SUBSIDIES

1 INTRODUCTION

The submission is made by Aged Care Tasmania Incorporated in response to the terms of reference provided to the Productivity Commission by the Commonwealth Treasurer to examine current and alternative nursing home subsidy funding arrangements.

Aged Care Tasmania is the peak body for the not-for-profit facilities and services for aged and disabled persons in Tasmania. It is an association of 42 member organisations comprising 83 licensed facilities and representing 87 per cent of the total number of places in organisations providing nursing home and hostel services for the aged in Tasmania.

The context for this review is that the Aged Care Structural Reform Package, announced in the Commonwealth August 1996 Budget, proposed a process of 'coalescence', under which the differing nursing home subsidy rates in State and Territories would gradually move to national rates over a period of seven years, commencing from 1 July 1998. The Commonwealth Government, has decided to delay the implementation of the coalescence process, pending a review by the Productivity Commission into differential subsidy rates.

The Productivity Commission is required to:

- report whether the proposed coalescence should proceed or whether it should be replaced by an alternative structure;
- examine issues including the current and alternative funding methodology and report on:
 - a relative costs between the States and Territories of providing nursing home care, with emphasis on the relative wage costs of nursing and personal care staff;
 - b trends in wage costs and likely future directions;
 - c the extent to which, if any, subsidies for nursing home care should vary by State and Territory; and
 - d if differential subsidies are considered appropriate, possible methodologies for maintaining appropriate relativities over time.
- Make recommendations on the appropriate funding methodology and take account of the views of the sector.

There is a range of other issues which impinge on the matters within the purview of the Commission's inquiry. However, in this submission, Aged Care Tasmania has sought to directly address only the terms of reference and the issues raised by the Commission in its August 1998 Issues Paper. The main focus of the submission is therefore on cost relativities between Tasmania and the other States, rather than on the quantum of assistance provided by the Commonwealth under its Residential Aged Care Program (RACP).

Aged Care Tasmania views this inquiry very seriously, and as a measure of this concern, has engaged KPMG Management Consulting to assist it in preparing this submission and to provide analytical support. The analysis is based on statistical material sourced from the Tasmanian Chamber of Commerce and Industry, the Commonwealth Department of Health and Family Services, the Australian Institute of Health and Welfare, the Australian Bureau of Statistics, the Tasmanian Department of Treasury and Finance, the Tasmanian Department of Community and Health Services and the Commonwealth Grants Commission.

Nursing home subsidy rates differ across States and Territories, with a large component based on historical variations in wage rates for nursing and personal care staff. Coalescence has the real potential to threaten the very viability of a number of nursing homes in Tasmania, a State which is already under-represented (on the basis of national planning guidelines) by services for the aged, in rural areas. At the least, the policy of coalescence, without an increase in subsidy rates, will substantially reduce the quality of care in this State, as reducing services is the only possible solution for coping with declining real levels of Commonwealth subsidy for Tasmanian nursing homes.

In its Issues Paper, the Commission states that in evaluating alternative funding approaches, it will have regard to the objectives underlying the RACP. These include:

- promoting a high quality of care accommodation;
- ensuring that care is accessible and affordable for all residents;
- ensuring that aged care services and funding are targeted towards people and areas with the greatest needs;
- encouraging diverse, flexible and responsive services; and
- providing funding that takes account of quality, type and level of care.

In its Issues Paper, the Commission seeks views on the criteria against which it should assess alternative funding models. In this context, Age Care Tasmania strongly endorses the three key guiding principles put forward by Aged Care Australia:

- 1 Access - older people assessed as needing care should be able to receive the level of care which is appropriate to their needs on a timely basis, within their local community wherever possible, and irrespective of their financial status.

- 2 Quality - older people should be able to receive the same quality of residential care throughout Australia; and the quality of care provided should be consistent with the standards for accreditation.
- 3 Viability - residential aged care facilities established to achieve these objectives must be able to operate as ongoing viable concerns.

It is the view of Aged Care Tasmania that the Productivity Commission's recommendations should not contradict in any way the achievements of these three outcomes. This does not mean that homes should be rewarded or compensated for costs within their power to control. Rather the nursing home subsidy arrangements should seek to ensure that the above outcomes can be delivered in any State for a given level of care and in recognition of the intrinsic cost differences between State, in providing this level of care.

The Productivity Commission is also required to have regard to its own general policy guidelines, which, amongst other things, require it to recognise the interests of the community generally and to facilitate adjustment to any structural change implied by its findings.

These requirements imply that the model which the Commission develops should address the fundamental requirements of equality of access, equality of outcome and services and funding based on needs, and an arrangement which allows transition to the preferred funding arrangement over time without undue disruption to the care providers or the residents.

This submission seeks to demonstrate that to achieve these fundamental requirements will require a differential subsidy between jurisdictions or between regions; that is, the concept of coalescence is fundamentally flawed in that a uniform subsidy arrangement cannot deliver a uniform level of access and care because of intrinsic differences between the States.

The structure of this submission is as follows.

Chapter 2 examines the logic and principles underpinning the concept of coalescence and compares these with other funding programs; these are aimed at supporting service delivery in the same way as nursing homes subsidies are.

Chapter 3 provides important contextual information on the industry in Tasmania and explains the differences which give rise to unavoidable cost differences between Tasmania and the other States.

Chapter 4 quantifies the extent of Tasmania's cost disabilities by undertaking a systematic comparative examination of the input cost structure of a typical nursing home operation.

Chapter 5 examines the impact of coalescence on Tasmanian nursing homes and identifies the transitional impact issues, which the Productivity Commission would need to take into account in implementing this or any alternative methodology.

It also examines the scope for Tasmanian homes to reduce costs in order to cope with the funding implications of coalescence.

Chapter 6 deals with other issues raised by the Commission in its Issues Paper.

Chapter 7 presents the conclusions of this submission.

Appendix 1 provides responses to the questions posed by the Commission in its Issues Paper. These are cross-referenced to the body of the submission where appropriate.

Appendix 2 provides a description of a standard care model on which the analysis contained in this submission has been based.

Appendix 3 is a list of the member organisations of Aged Care Tasmania.

2 THE CASE FOR DIFFERENTIAL FUNDING

The definition of the word coalescence is to "come together and form one mass". In terms of funding this is interpreted as having one funding pool (mass) and common rate throughout the country.

The logic underpinning coalescence is that the cost of delivering care to those in the high care categories is the same or similar throughout Australia and, consequently, that the funding pool should be based upon an even distribution across the States and Territories. If this premise is correct then the argument for coalescence is able to stand on its merits, and a movement to national rates for funding high care is logical. However, if the premise cannot be proved, then there is no basis on which coalescence can or should take place.

This submission argues that for both practical and theoretical reasons, coalescence is flawed and should not be applied.

It is clear that there must be cost differences between the States and that the current subsidy arrangements reflect these cost differences.

The arrangements which existed prior to October 1997 were based on actual cost structures and provided for a common level of care. Each State (including Queensland) was funded for the same care hours. The differences in the subsidies reflected actual wage cost differentials which accounted for more than 75 per cent of total costs.

Given the pre-existing arrangements, and the fact that the subsidy rates are different between States, then this should reflect the actual cost of providing care between States. As funding has been based on the level of care provided in aged care facilities, and as facilities have been monitored by the Government through CAM funding in the past, and audited for their expenditure of CAM monies, it follows that current subsidies, must to a very large extent, reflect actual cost differences between States.

In past reviews it has been documented that there are different wage rates in each State, and that the difference in funding merely reflects this. Therefore, the premise on which coalescence is based (that the cost of delivering care is equal across the country, no matter where the provider is located) is, *prima facie*, incorrect.

The Department of Health and Family Services might argue that, while actual cost structures currently differ between States, there are no compelling reasons why nursing homes should not be able to adjust their cost structures to a national average over time. On that basis it would follow that the concept of coalescence is rooted in the proposition that there are no intrinsic (ie unavoidable) reasons why costs should differ between the States. However, this proposition stands in direct contradiction to the findings in other reviews, such as those by the Commonwealth Grants Commission (CGC), that there are significant unavoidable cost differences between the States.

The CGC recognises that there are very clear and significant differences between the six States and the two Territories in their social, economic, demographic and geographic make-ups.

These differences give rise to marked cost differentials, a fact widely recognised, and specifically taken into account in Commonwealth-State funding arrangements.

The most fundamental and far reaching of these interstate distributional arrangements is the process for allocating Commonwealth general purpose grants between the States and Territories. These grants which total \$18 billion annually (or about 20 per cent of total Commonwealth budget outlays), are distributed on the horizontal fiscal equalisation principle. This principle is based on a cornerstone of Federation, which is that each State should be given the capacity to provide the same level and standards of services as the other States on average (analogous to the access and care objectives of the RACP). Funding is distributed in such a way as to ensure compensation for the intrinsic cost differences between the States. The fiscal equalisation principle is given effect to by application of the CGC's relativity factors to distribute the Commonwealth grants. In arriving at its relativities, the Commonwealth Grants Commission takes into account the relative cost disabilities between the States and Territories. Disabilities are characteristics which differ between the States and affect the relative demand for services, the relative costs of providing services, and the relative capacity to raise revenue to support service provision.

Furthermore, most Commonwealth specific purpose programs (SPPs) have needs based funding components that ensure that additional funds are provided to the less populous and higher cost jurisdictions (such as Tasmania)¹

The following table compares the CGC's "expenditure" relativities and for those specific purpose areas which are related to aged care service provision, with the relativities implied by the current nursing home subsidy arrangements.

¹ In fact, the Grants Commission's process overrides the distribution of SPPs where they are not based on consideration of relative need and cost differences, to ensure that the overall level of funding provided to any State or Territory Government is fully consistent with equalisation principles.

Table 1: Funding Relativities

	Nursing Home Subsidy (a)	Commonwealth Residential Funding (b)	CGC Expenditure (c)	Home & Community Care (d)	Disabilities (CSDA) (d)	Aged Care Assessment (d)
NSW	1.0102	1.108	0.976	0.956	1.009	0.947
Victoria	1.0485	0.937	0.918	1.109	0.903	1.019
Queensland	0.9112	0.900	0.990	0.896	1.031	0.822
Western Australia	0.9576	0.935	1.094	1.019	0.733	1.091
South Australia	1.0009	0.994	1.024	1.168	1.654	1.236
Tasmania	1.0705	1.099	1.094	1.113	1.601	1.519
ACT	0.9800	0.783	0.961	0.600	0.000	0.587
Northern Territory	1.0390	1.323	2.745	0.570	0.000	2.341
Australia	1.0000	1.000	1.000	1.000	1.000	1.000

(a) weighted average subsidy differences

(b) the overall Commonwealth funding relativities under the residential care program.

(c) CGC standardised expenditure relativities, 1998 Update

(d) Funding relativities reflected in CGC's 1998 update report for these programs

The figures in this table are relativity ratios for funding. For example, the current weighted average nursing home subsidy rate for Tasmania is 7 per cent higher than the national average, and the rate for Queensland homes is 9 per cent below the national average. The CGC's total expenditure relativity refers to the average difference in funding compensation provided to each State compared with the all States and Territories average, across the full range of services provided by State Governments. It is a reflection of the net result of the various disabilities faced by States in providing services compared with a national average situation.

If the CGC's calculations can be taken as broadly representative of differences in costs between States, the subsidy rate differential for Tasmanian nursing homes is certainly not excessive or unjustified. On this basis of comparison, Table 1 suggests that compared with the CG-C's calculation of relative needs, homes in NSW receive well in excess of "need" whereas all other States and Territories receive well below their "needs".

There is a range of other differential funding arrangements, that reflect intrinsic differences between States (eg private schools funding). Consideration of relative needs is therefore an accepted feature of funding arrangements between the States and Territories. All these arrangements accept that costs vary substantially between States and Territories for intrinsic reasons.

3 CHARACTERISTICS OF NURSING HOME SERVICES IN TASMANIA

Tasmania is a high cost location; arguably, aside from the Northern Territory, the highest cost location of any Australian State or Territory. Tasmania has a number of cost disabilities relative to all or most other jurisdictions. The main cost disabilities faced by Tasmania are:

- A small and very dispersed population which impacts on efficiency through inability to achieve economies of scale;
- A very high proportion of business inputs which must be imported (compounded by total reliance on expensive sea and air transport);
- In the health services area, a high labour cost structure;
- A relatively small pool of qualified health professionals and an inability to attract and retain skilled staff in both non-urban and to a lesser extent, urban areas of the State;
- An extremely difficult physical environment (climate and topography) which compounds access and communication problems;
- A comparatively low level of disposable income which severely limits revenue raising opportunities (over 30 per cent of the population is dependent on income security payments, a much higher percentage than in any other State); and
- Very thin, and hence non-competitive, markets in most parts of the State.

The structure of the industry in Tasmania providing nursing home and hostel services varies significantly from the national situation in three main ways which largely reflect Tasmania's particular characteristics:

- The establishments providing the services in question are generally small in size.
- The ratio of organisations to the number of establishments is small.
- The vast majority of organisations are not for profit.
- A relatively large proportion of facilities involves colocated hostels and nursing homes.

Each of these characteristics can be attributed to the difference in the geographic, economic and demographic makeup of Tasmania compared with the other States and Territories.

There are 49 organisations providing nursing home and hostel services in Tasmania. These organisations manage 90 establishments throughout the State. Leaving aside the Tasmanian Department of Community and Health Services, there are 83 establishments run by private-for-profit or charitable organisations. Of the 49 organisations, one is

Government owned, 6 are private-for-profit and 42 are not-for-profit or charitable organisations.

Table 2 provides details on the nursing home and hostel industry structure in Tasmania compared with those of the other jurisdictions.

Table 2: Residential Facilities and Places by State - January 1997

	Nursing Homes			Hostels		
	Facilities	Places	Average Size	Facilities	Places	Average Size
NSW	480	29099	60.6	463	20078	43.4
VIC	443	17351	39.2	369	15847	42.9
QLD	210	12180	58.0	269	2633	47.0
WA	109	5790	53.1	172	5716	33.2
SA	161	7122	44.2	152	6349	41.8
TAS	54	2135	39.5	50	1602	32.0
ACT	6	519	86.5	15	789	52.6
NT	7	210	30.0	7	131	18.7
AUSTRALIA	1470	74406	50.6	1497	63145	42.2

The ownership structure of Tasmanian nursing homes is markedly different from the national average situation (see Tables 3 and 4). Not-for-profit organisations provide a substantially greater proportion of the total services provided in Tasmania.

Table 3: Nursing Home Beds per 1,000 People Aged 70 and Over, by Type of Home by State/Territory, 30 June 1996

Type of home	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Private for-profit	30.8	20.8	18.1	23.5	22.0	8.8	14.5	12.0	23.8
Private not-for-profit	19.9	11.3	22.3	16.2	25.2	32.6	14.8	43.8	18.6
Government and adjusted fees	4.3	12.5	7.8	6.7	2.2	9.7	5.8	7.2	7.2
Total	55.1	44.5	48.1	46.5	49.5	51.1	35.1	62.9	49.6

Table 4: Nursing Home Beds, Type of Home by State/Territory, 30 June 1996

Type of home	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	Per cent								
Private for-profit	55.9	46.6	37.5	50.7	44.4	17.3	41.2	19.0	27.9
Private not-for-profit	36.2	25.3	46.2	34.9	51.0	63.7	42.2	69.5	37.5
Government and adjusted fees	7.9	28.1	16.3	14.4	4.5	19.0	16.6	11.4	14.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

On the whole, Tasmanian facilities are much smaller in size than the national average. Almost 17 per cent of Tasmanian homes are less than 20 bed facilities, compared with only 1.8 per cent in NSW and 6.8 per cent nationally (see Table 5).

Table 5: Nursing Homes, nursing home size by State/Territory, 30 June 1996

Number of beds	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	Number								
1-20	9	69	6	2	2	9	0	3	100
21-40	135	249	83	42	92	24	0	2	627
41-60	158	87	48	40	49	14	2	2	400
61-80	94	18	32	10	9	5	1	0	169
81-100	52	6	17	5	4	1	1	0	86
101-120	22	3	11	4	3	0	1	0	44
120+	17	10	10	5	2	1	1	0	46
Total	487	442	207	108	161	54	6	7	1472
	Per cent								
1-20	1.8	15.6	2.9	1.9	1.2	16.7	0.0	42.9	6.8
21-40	27.7	56.3	40.1	38.9	57.1	44.4	0.0	28.6	42.6
41-60	32.4	19.7	23.2	37.0	30.4	25.9	33.3	28.6	27.2
61-80	19.3	4.1	15.5	9.3	5.6	9.3	16.7	0.0	11.5
81-100	10.7	1.4	8.2	4.6	2.5	1.9	16.7	0.0	5.8
101-120	4.5	0.7	5.3	3.7	1.9	0.0	16.7	0.0	3.0
120+	3.5	2.3	4.8	4.6	1.2	1.9	16.7	0.0	3.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

The average size of homes and hostels combined in Tasmania is 36 places compared with 52 places in NSW. Furthermore, there are very few homes in Tasmania of the size of the larger homes in NSW. Less than 2 per cent of Tasmanian homes have greater than 80 places, compared with more than 10 per cent in NSW.

This can be explained by the nature of the population distribution in Tasmania. Tasmania has a highly dispersed population, which is quite the opposite situation to all other States. Only the Northern Territory has a similar level of dispersion. As can be seen from Table 6, at the 1991 Census, almost half of Tasmania's population resided in centres of less than 10,000 people, compared with only 27 per cent of the national population.

Table 6: Population Distribution

Size of Population Centre	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Cumulative population distribution %									
Rural	12	15	16	14	14	23	4	20	14
200-999	15	16	20	17	18	30	5	28	17
1,000-2,499	18	19	24	20	21	35	5	33	20
2,500-4,999	21	21	27	23	24	40	5	38	23
5,000-9,999	24	25	32	26	25	46	5	47	27
10,000-49,999	36	32	44	38	34	58	5	59	37
50,000-99,999	36	35	50	38	34	73	5	100	39
100,000-249,999	43	38	61	38	34	100	5	100	45
>250,000	100	100	100	100	100	100	100	100	100

Source: ABS Cdata91, 1991

Note: Rural is defined as population under 200 in a location/centre.

The rurality of Tasmania's population, the ownership structure and the size of facilities are all closely related. For example, the high percentage of organisations run by not for profit organisations (and the consequently small percentage run by private for profit organisations) can be largely explained by the difficulty in establishing and operating, on a financially profitable or sustainable basis, nursing homes outside the major metropolitan areas in Tasmania.

Population size and dispersion are clearly very important cost factors in providing nursing home services efficiently. Table 7 shows that not for profit and government organisations provide an increasing share of nursing home services as the size of centre becomes smaller or more remote.

There is a very close correlation between the number of private-for-profit organisations and the size and concentration of State/Territory populations.

Table 7: Nursing home beds, nursing home by geographic areas,^(a) 30 June 1996

	Capital cities	Other metropolitan centres	Large rural centres	Small rural centres	Other rural centres	Remote zones	Aust
Private for-profit	56.0	44.2	33.9	23.7	24.9	8.4	47.9
Private not-for-profit	35.0	38.1	36.8	42.4	51.3	64.3	37.5
Government and adjusted fees	9.0	17.6	29.3	33.9	23.9	27.2	14.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

(a) Based on Department of Primary Industries and Energy, and Department of Human Services and Health 1994. Rural, Remote and Metropolitan Areas Classifications 1991 Census Edition, Canberra: AGPS.

Table 8 shows an increasing proportion of nursing home services are provided by small institutions as the size of the metropolitan area declines and/or the location becomes more remote from the capital city or major urban centre.

Table 8: Nursing homes, nursing home size by geographic areas,^(a) 30 June 1996

	Capital cities	Other metropolitan centres	Large rural centres	Small rural centres	Other rural centres	Remote zones	Aust
Number of beds	Per cent						
1-20	2.5	1.1	1.1	29.0	4.4	33.3	6.8
21-40	43.2	38.3	40.7	47.2	31.9	41.7	42.6
41-60	29.0	24.5	33.0	16.4	30.8	25.0	27.2
61-80	11.4	20.2	19.8	4.2	15.4	0.0	11.5
81-100	6.8	8.5	3.3	1.4	7.7	0.0	5.8
101-120	3.3	2.1	1.1	1.4	6.6	0.0	3.0
120+	3.8	5.3	1.1	0.5	3.3	0.0	3.1
Total homes	100.0	100.0	100.0	100.0	100.0	100.0	100.0

(a) Based on Department of Primary Industries and Energy, and Department of Human Services and Health 1994. Rural, Remote and Metropolitan Areas Classifications 1991 Census Edition, Canberra: AGPS.

Research has shown that there is a clear gradient relationship between size of institution and operating efficiency². This relationship is a manifestation of what economists commonly refer to as point of service delivery scale factors. For nursing homes, the calculated gradient shows a 30 per cent difference in staffing resource usage between a nursing home of less than 40 places and a nursing home of 80 places or more. As size declines below 40 places, the gradient increases exponentially.

² See Pearson, Alan et al Optimal Skills Mix for Desired resident Outcomes in Non-Government Nursing Homes, AGPS, Canberra, 1990.

This is fully consistent with evidence that the profitability of nursing homes in Tasmania and the Northern Territory are the lowest in Australia, whereas the profitability of nursing homes in NSW, Victoria, ACT are the highest in Australia.

The above evidence strongly supports the contention that the small and dispersed population of Tasmania means that to provide an appropriate level of access and standard of care, many institutions will inevitably be of less than economic size and certainly unable to reap the economies of scale which are available to nursing homes in the major metropolitan areas of Australia. Dispersed populations mean inability to support facilities of optimum size, with resultant lower levels of efficiency and less likelihood that facilities can be run profitably. The inability to achieve adequate returns results in a greater proportion of homes being operated on a not-for-profit basis.

Table 9 and the accompanying map shows the geographic and size spread of nursing homes in Tasmania and the size of centres in which they are located. To be able to establish and operate an 80-bed nursing home in Tasmania, with an industry average proportion of 70 per cent of residents over the age of 80 would require a population centre of about 20,000. This implies that optimum sized nursing homes (in terms of input efficiency) are possible for only 50 per cent of Tasmania's population compared with more than 70 per cent of the population of other States and Territories. That is, almost half of Tasmania's aged population will potentially be accommodated in facilities of less than economic size.

The spread of nursing homes across the State is presented graphically on the attached map (the blue numbers represent the number of facilities in each location). Hobart and Launceston are the only urban areas with population catchments of greater than 50,000. Together these two centres account for only 42 per cent of Tasmania's population.

Table 9: Size and Location of Tasmanian Nursing Homes - 1998

Location/ Centre (a)	Population of Centre (b)	No. of facilities (c)	No. of Places (d)	Average Size of facility	% of persons in Centre aged over 65 (b)
Hobart	126 118	25	2027	81	14.7
Launceston	67 701	11	374	34	14.1
Devonport	22 299	4	115	29	14.0
Burnie/Somerset	19 134	3	81	27	12.3
Kingston/B. Bay	13 746	4	152	38	11.2
Ulverstone	9 752	4	250	62	17.8
Bridgewater	7 451	1	36	36	3.3
New Norfolk	5 286	2	57	57	13.7
Wynyard	4 509	1	60	60	15.5
Sorell/Midway	3 596	1	44	44	12.8
Smithton	3 313	3	66 (e)	22	13.0
Penguin	3030	1	30	30	11.1
Longford	2 829	1	25	25	14.2
Latrobe	2 745	1	47	52	16.3
Queenstown	2 631	1	5	5	8.7
Deloraine	2 168	2	89	44	19.0
Legana	1 987	2	93	46	6.5
Scottsdale	1 922	2	50	25	18.0
St Helens	1 776	1	52	52	20.8
Zeehan	1132	1	5	5	3.9
Sheffield	1016	1	28	28	14.6
Cygnat	924	1	16	16	16.0
Currie	819	1	14	14	14.0
Oatlands	539	1	18	18	16.7
Swansea	495	1	33	33	25.1
Dover	481	1	32	32	11.9
Low Head	463	2	112 (f)	56	24.4
Franklin	454	1	64 (g)	64	24.2
Nubeena	264	1	28	28	24.6
Ouse	<200	1	5	5	n/a
Whitemark	<200	1	8	8	n/a
Total		83	4011	48	
Metropolitan		25	2027	81	
Regional		11	374	34	
Minor		11	348	32	
Other		36	1262	35	
Total		83	4011	48	

(a) based on ABS urban centre (UCL) definitions.

(b) ABS 1996 Census

(c) facilities providing aged care services; not directly comparable with statistics provided in other tables.

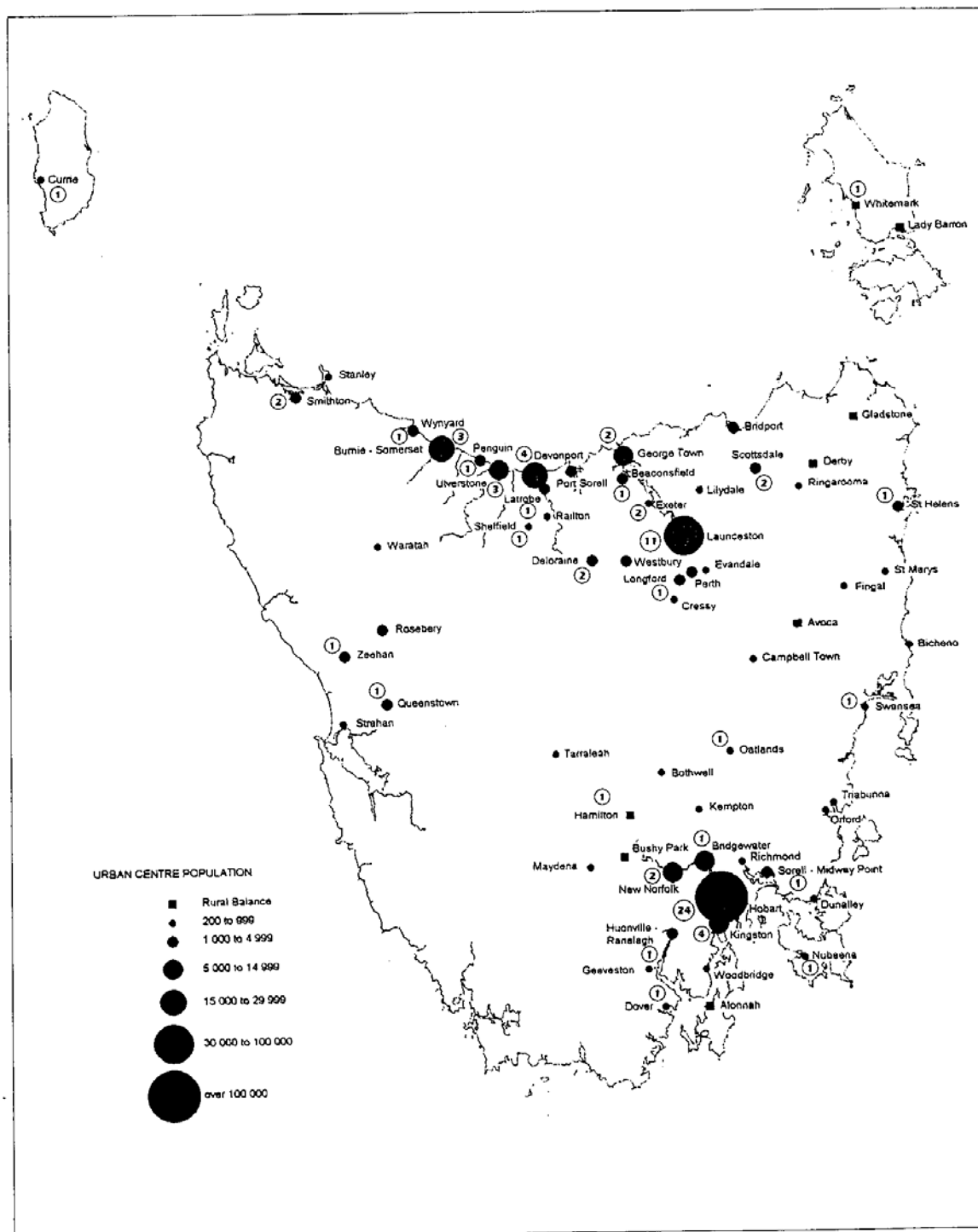
(d) total licensed places as At 1 January 1998

(e) includes facilities in Circular Head catchment

(f) includes East Tamar catchment

(g) includes Huon Valley catchment

TASMANIA - LOCATIONS OF NURSING HOMES



4 COST DISABILITIES FACED BY SERVICE PROVIDERS IN TASMANIA

It is entirely logical to expect that cost structures will vary significantly across Australia, given the quite marked differences between the States in their geographic and economic characteristics.

In order to demonstrate the cost disabilities faced by Tasmanian homes, a standard care model has been developed. A detailed description of this model is included in Appendix 2.

The input structure of this care model has been systematically evaluated in relation to the differences between Tasmania and the average situation of the other jurisdictions. A comparison against average has not been undertaken, because time limitations have prevented this approach being extended to all jurisdictions individually. However, the analysis, while time-consuming, is a straightforward forward mechanical exercise if the Commission is interested in extending its application to all jurisdictions.

The standard care model is based on a 45 bed nursing home which is the median size of homes throughout Australia. The analysis assumes that per patient revenue would be the same in each jurisdiction and that any differences in complexity (ie need for care) would be reflected in the RCS differentials. It therefore assumes that the aged care assessment process is uniform across Australia.

Two types of adjustment are made to the inputs in this standard model to quantify Tasmania's overall relative cost disability.

The first type of adjustment relates to the higher input prices faced in Tasmania. This adjustment reflects differences between Tasmania's cost structure and that of the other States on average on the assumption that the mix of resource inputs across all jurisdictions is uniform.

The second type of adjustment allows for the fact that a less efficient resource mix will occur in a typical Tasmanian home than in a typical home elsewhere in Australia. The key determinant of this is the inability to establish a facility of optimum size outside the major urban centres of the State, because of lack of population concentration.

Each of the adjustments made to the standard care model is discussed in turn below.

4.1 Adjustment for Input Prices

An adjustment has been made for each input category based on estimates of the extent to which Tasmanian input prices are higher or lower than the other States on average.

Labour costs

Under the standard care model labour costs (including on-costs) account for 80 per cent of total input costs.

Accompanying this submission is a study by the Tasmanian Chamber of Commerce and Industry (TCCI) which compares award rates, penalty rates and on-costs for Tasmania and all other States. The information contained in the TCCI report has been confirmed with each of the chambers in the other States and forms the basis on which the following calculations have been made.

The award rates for the main categories of employees utilised in nursing homes are summarised in the following table. As the award structure varies between States, the highest rate for each employee category for each State has been used to calculate an index of Tasmania's direct labour costs compared with the national average. The results are provided in the following table:

Table 10: Hourly Award Rates of Pay (\$ per hour)

	NSW	Vic	Qld	SA	WA	Tas	Average	Tasmania Disability
Enrolled Nurse	14.18	13.55	13.61	13.79	13.27	14.04	13.74	1.022
Registered Nurse	20.75	17.25	18.39	18.71	17.96	18.98	18.67	1.016
Extended Care Assistant	11.42	11.65	10.54		11.72	12.52	11.57	1.082
Service employee	12.00	11.65	10.54	11.50	11.22	11.07	11.33	0.977
Cook (qualified)	12.24	13.00	11.84	13.34	13.44	13.83	12.95	1.068
Trades	12.96	13.32	11.41		13.44	14.43	13.11	1.101
Clerical	15.09	14.75	14.93	15.48	14.23	15.57	15.01	1.037
Total Staff	98.64	95.17	91.26	72.82	95.28	100.44	96.382	1.042

To summarise this information:

- Award rates for extended care assistants (the highest labour input category) in Tasmania are higher than in all other States and the average differential is estimated to be 8.2 per cent.
- Award rates for enrolled and registered nurses in Tasmania are the second highest of all States (NSW has the highest award rates). The average differential between Tasmania and the other States average award rates is about 2.0 per cent.
- Award rates for service employees are about the mid point of the States, and the average differential is minus 2.2 per cent for Tasmania.
- Award rates for cooks in Tasmania are the highest in Australia and the average differential is 6.8 per cent.
- Award rates for trades in Tasmania are the highest of any State. The average differential is 10.0 per cent.
- Award rates for clerical staff in Tasmania are 3.7 per cent higher than the all States average.

Penalty rates and over-award payments

The TCCI submission compares penalty rates between the States. As the rates are fairly similar (with the notable exception of Victoria), the analysis in this section assumes there is no differential between States - that is penalty rates are assumed to have a neutral effect on cost structure relativities.

The incidence of over award payments is believed to be very small across Australia. Also it could be argued that payment of over award payments represent a policy choice by nursing homes and should not be taken into account in any calculation of cost differentials. For these reasons, no allowance is made for differences in over award payments.

Labour on-costs

Based on the TCCI information, there are significant differences between the States in labour on-costs.

Sick leave provisions in Tasmania are much more generous than in other States. Tasmania's provision is 20 days compared with the national standard of 10 days. Based on an average utilisation rate of 12.5 days a year in Tasmania, a 25 per cent cost differential has been assumed (ie it has been assumed that the utilisation rate for sick leave in other States is the full 10 days per annum).

Average premium rates for workers compensation, as a percentage of wages and salaries, are published in the TCCI submission. Tasmania has the highest average premium rate of all States for nursing homes (29 per cent above the national average).

Annual and long service leave differences are assumed to have no impact on cost differentials in this analysis.

Food, hygiene and cleaning material prices

Along with the Northern Territory, retail prices in Tasmania are the highest in Australia. The comparative price article in the July 1998 edition of *Choice* placed Launceston and Hobart as the two most expensive centres in Australia for both the "Brand-name basket and the "Cheapest available basket" comparisons of grocery prices.

To quote from this article:

"With many of the big national manufacturers based in Sydney or Melbourne, much of this cost difference comes from transportation costs. A price is paid for crossing Bass Strait, the Nullarbor Plain or the dry ocean of outback between Darwin and any other capital - "the diseconomies of distance", as Ken Henrick, Assistant Director of the Australian Supermarket Institute, puts it.

In addition to vast distances, these areas suffer from a lack of two-way trade. Because these destinations are not themselves major national producers or distributors, containers go there full of cargo, but return empty or only partly full. The transportation costs reflect the imbalance.

To some extent these high prices are also the result of a lack of competition. Subha Narayanan, Marketing and Research Editor of 'Retail World', says, "the biggest single factor is that these markets are largely a committed, dedicated discounter of the kind found in the eastern states and SA. There are some independent stores that position themselves as discounters, but they simply don't have the economies of scale or buying power to be as aggressive as the discount supermarkets in other capitals".

The size of the markets in the NT and Tasmania makes it hard to expect the same level of competition you would find in, say, Sydney. According to 'Retail World' the total food revenue from Australian supermarkets and grocery stores amounted to over \$36 billion in 1997. NSW accounted for about 31 % of this sum, completely eclipsing Tasmania's 2.6% share and the NT's 1.6%."

The factors mentioned in this article as giving rise to higher costs in Tasmania apply equally to most non-labour input costs, such as medical supplies and cleaning products and materials.

While it is clear that non-labour input prices in Tasmania are likely to be the highest or close to the highest in Australia, there are very few comparative studies on which to base quantification of the disability faced by Tasmania. For the purposes of this submission, cost comparison has been based on an index created from analysis of retail prices published by the Australian Bureau of Statistics (ABS). The ABS Average Retail Prices of Selected Items relates to capital cities only but, based on the *Choice* survey, is likely to be indicative of Tasmania's relativity to Australia as a whole. The statistics for June 1998 (the latest information available) show the following:

- For all dairy products, except processed cheese, Hobart prices are well above the national average and in several cases the highest in the country.
- The same applies for all cereal products except for bread and flour.
- Meat and seafood prices in Hobart are about average overall (fresh products tend to be cheaper but processed products are more expensive).
- Fresh fruit and vegetable prices in Hobart relatively low.
- Prices for processed fruit and vegetables are the highest in Australia.
- Confectionery product prices are the highest in Australia.
- Other food prices (eggs, sugar, sauces, margarine, jam, tea, coffee etc) are the highest in the country with the exception of Darwin for some items.
- Laundry and washing detergent, and paper products (tissues, toilet paper etc) prices are by far the highest in the country.
- Soap and toothpaste prices are the second highest (behind Darwin).
- Petrol prices are also the highest with the exception of Darwin.

Table 11 uses the June 1998 publication to develop an index of Tasmania's relative disadvantage for three categories of products which are representative of inputs to nursing home operations - food, hygiene, and petrol.

Table 11: Consumables Retail Price Comparison

Item	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Average	Tasmanian Relativity
Dairy Products	283.25	292.25	286.75	278.00	283.50	320.00	290.63	110.11
Cereal Products	239.80	233.40	224.60	197.40	232.20	231.00	226.40	102.03
Meat & Seafood	511.55	494.82	492.74	511.15	537.58	517.75	510.93	101.33
Fresh Fruit & Veg.	206.00	163.33	167.83	175.17	193.67	157.00	177.17	88.62
Processed Fruit & Veg	139.67	146.00	148.67	132.67	160.00	158.67	147.61	107.49
Confectionery	307.00	283.00	291.00	264.00	298.00	310.00	292.17	106.10
Other Food	234.11	227.33	242.33	214.67	241.33	258.00	236.30	109.18
Total Food	1921.38	1840.13	1853.93	1773.05	1946.28	1952.42	1881.20	103.79
Laundry goods	470.00	486.00	502.00	448.00	467.00	521.00	482.33	108.02
Dishwashing goods	318.00	309.00	326.00	312.00	328.00	358.00	325.17	110.10
Facial Tissue	174.00	179.00	197.00	179.00	183.00	203.00	185.83	109.24
Toilet paper	332.00	331.00	355.00	320.00	323.00	352.00	335.50	104.92
Toilet soap	296.00	286.00	308.00	274.00	291.00	328.00	297.17	110.38
Toothpaste	250.00	247.00	260.00	237.00	265.00	267.00	254.33	104.98
Total Cleaning and Hygiene	1840.00	1838.00	1948.00	1770.00	1857.00	2029.00	1880.33	107.91
Petrol - Super	73.50	70.90	64.40	73.10	74.50	77.50	72.32	107.17
Petrol - Unleaded	71.30	68.70	62.10	70.70	72.40	75.50	70.12	107.68
Total petrol	72.40	69.80	63.25	71.90	73.45	76.50	71.22	107.42
Total Products	3833.78	3747.93	3865.18	3614.95	3876.73	4057.92	3832.75	105.87

Source: ABS Cat. No. 6403.0, June 1998

The index constructed from this information implies that, compared with all States and Territories on average, input prices in Tasmania for food; cleaning and personal hygiene products; and petroleum products are 3.8, 7.9 and 7.4 per cent higher, respectively.

Medical inputs

While there do not appear to be any comprehensive studies of the cost of medicines and medical supplies in Tasmania relative to the other States and Territories, advice has been received from the Departments of Treasury and Finance and Community and Health Services in Tasmania, that the cost of medical inputs is likely to be substantially higher than in the other States and Territories on average because of:

- Diseconomies of small scale in purchasing (lack of purchasing power);
- Low utilisation of specialised supplies (non-optimum usage patterns);
- Lack of a competitive local distribution market (small size of market); and
- The need to source all supplies from other States (freight costs).

It is estimated that the cost disability faced by Tasmania is of the order of 10 to 15 per cent. This study has adopted a rate of 12.5 per cent; the assumption is plausible given that hygiene and cleaning products are 8 per cent more expensive and there are additional compounding disabilities in the case of medical supplies.

Laundry and bed/linen/personal care non-labour

Based on the retail price comparison, it has been assumed that the price of Tasmanian inputs of these items are 8 per cent higher than nationally.

Energy (light and power etc)

Nursing homes in most States would appear to be supplied under commercial tariffs less discounts (which vary between States). Commercial electricity tariffs in Tasmania are at the high end compared with the other States and Territories on average. Furthermore, Tasmanian facilities do not have access to cheap natural gas for heating and laundry purposes. Moreover, the consumption of energy in Tasmania is likely to be, on the whole, greater than in other States because of heating requirements. It is assumed for the purpose of this submission that light and power costs in Tasmanian nursing homes are 5 per cent higher than the Australian average.

4.2 Service delivery scale disability

Service Delivery Scale is an established concept, and has a clearly understood effect on costs. It is one of the disabilities accepted by the Commonwealth Grants Commission and reflected in their assessments. The service delivery scale disability manifests itself in the following ways:

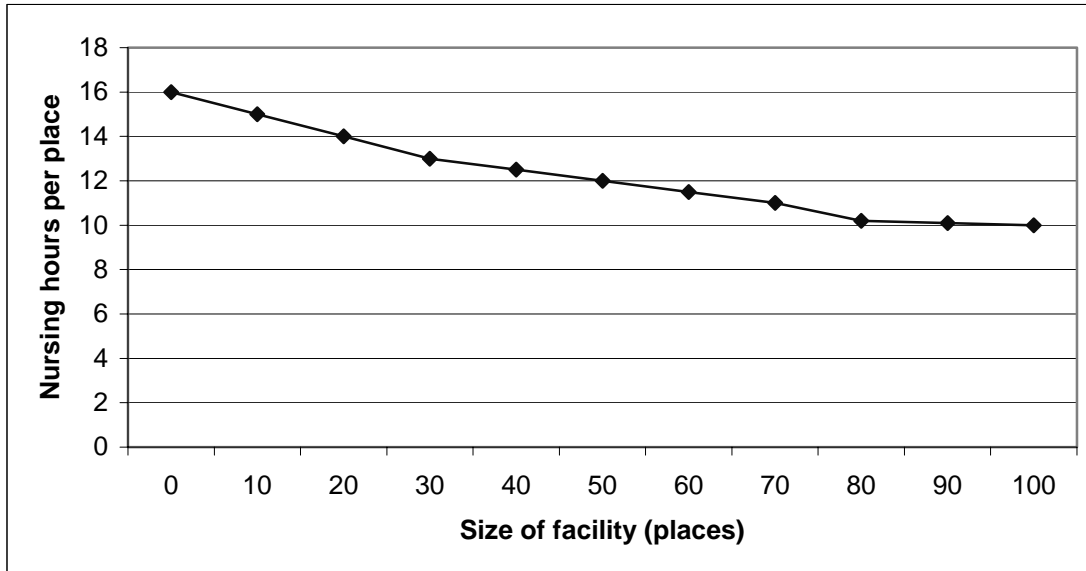
- the inability to purchase inputs in sufficient quantity to ensure minimum cost (such as unavailability of discounts, relatively high discard rates for drugs because of time limitations etc); and
- the inability to use and mix the inputs in such a way to ensure optimum efficiency (eg staffing rosters, economies of scale in meal preparation etc).

It is very important to distinguish this concept from the notion of dispersion-related disabilities. Dispersion related disabilities include such things as communication, freight and travel costs incurred because a nursing home is located remotely from a capital city or a major regional centre (to which travel or communication is required or from where inputs are sourced). In the following analysis it has been assumed that Tasmanian nursing homes have no dispersion-related disabilities relative to the other jurisdictions on average. It is considered that dispersion-related disabilities are relatively small compared with service delivery scale disabilities for nursing homes.

The point of delivery scale factor has been derived from a comparison of typical staffing rosters provided by 41 nursing homes throughout Australia which show a marked and clear gradation in the relationship between facility size and average hours of qualified

nursing staff per week³. This work suggests that the point of delivery scale curve is of the following form.

Chart 1 - Relationship between resource use efficiency and size of home



The calculated gradient shows a 30 per cent difference in efficiency in weekly nursing staffing resource usage per resident between a nursing home of less than 40 places and a nursing home of 80 places or more.

The analysis underpinning the results presented in this section is based on a notional size distribution of homes in Tasmania, given its population settlement pattern, compared with a notional size distribution for Australia as a whole given its population settlement pattern.

The pattern and cost structure assumed is as follows:

³ See Pearson, Alan et al Optimal Skills Mix for Desired resident Outcomes in Non-Government Nursing Homes, AGPS, Canberra, 1990.

Table 12: Assumed Delivery Scale Disabilities

Population Catchment (persons)	Average size of Home (places)	Assumed Cost Disability Factor	Notional Size Distribution Tasmania %	Notional Size Distribution Australia %	Notional Tasmanian Cost Structure	Notional Australian Cost Structure
<10,000	15	1.6	17	10	27.2	16.0
10,000 to 20,000	25	1.4	35	24	49.0	33.6
20,000 to 50,000	45	1.2	25	16	30.0	19.2
>50,000	80	1.0	23	50	23.0	50.0
Total			100	100	129.2	118.8
Implied Cost Disability						1.088

(a) Implied cost disability calculated as notional Tasmanian cost structure divided by notional Australian cost structure

4.3 Calculation of Tasmania's relative cost disability

Table 13 presents the results of the analysis described above. It shows that once the two types of adjustments have been made, Tasmania's total disability relative to the all-States average is 14 per cent, compared with the difference in current subsidy rates of 7 per cent.

The first adjustment (for higher than average input prices) shows that Tasmania's relative cost disadvantage compared with the national average is 6.5 per cent. After the second adjustment (for delivery scale effects), Tasmania's relative cost disadvantage, compared with the national average, increases to 14.1 per cent.

It is important to emphasise that this analysis constitutes an assessment of relative intrinsic cost differences. The calculated disabilities for Tasmania represent the additional unavoidable cost that would be faced by the nursing home sector in this State relative to the sectors in the other States, if the same policies and operating practices are implemented.

**TABLE 13 - STANDARD CARE MODEL NURSING HOME
INPUT STRUCTURE ADJUSTED FOR TASMANIAN DISABILITIES**

Cost Component	Standard Cost	Input Coefficient	Tasmanian Adjustment Factor	Adjusted Standard Cost	Delivery Scale Adjustment	Adjusted Cost for Scale	Total Tasmanian Adjustment
	\$000s			\$000s		\$000s	\$000s
Labour	1,588	0.7652		1,679		1,721	1,811
Nurses	385	0.1855	1.0200	393	1.0880	419	427
Personal care	640	0.3084	1.0820	692	1.0880	696	749
Housekeeping/food	354	0.1706	1.0680	378	A.0880	385	409
Social	53	0.0255	0.9770	52	1.0880	58	56
Property	27	0.0130	1.1010	30	1.0440	28	31
Administration	129	0.0622	1.0370	134	1.0440	135	139
Labour on-costs	218	0.1051		243		233	257
Annual & LS leave	127	0.0612	1.0000	127	1.0660	135	135
Sick Leave	44	0.0210	1.2500	54	1.0660	46	57
Workers Compensation	48	0.0230	1.2900	61	1.0660	51	65
Non-labour costs	269	0.1296		288		281	299
Medical supplies & aids	31	0.0149	1.1250	35	1.0440	32	36
Bedding/linen/paper products	12	0.0058	1.0790	13	1.0440	13	13
Food	61	0.0294	1.0380	63	1.0440	64	66
Laundry materials	48	0.0231	1.0790	52	1.0440	50	54
Cleaning & protective	20	0.0096	1.0790	22	1.0440	21	22
Light, Power, Heating	28	0.0135	1.0500	29	1.0440	29	31
Rates & taxes	7	0.0034	1.0000	7	1.0440	7	7
Maintenance	24	0.0116	1.1010	26	1.0440	25	27
Insurance	12	0.0058	1.0590	13	1.0440	13	13
Office consumables	15	0.0072	1.0590	16	1.0440	16	17
Communications	8	0.0039	1.0590	8	1.0440	8	9
Other	3	0.0014	1.0590	3	1.0440	3	3
Total Cost	2,075			2,209		2,234	2,368
Tasmanian disability				1.0645		1.0767	1.1412

- the input cost structure is derived from the standard care model.
- input coefficients represent the proportionate contribution that each input makes to total nursing home costs.
- the adjustment for labour costs is based on the award wage rate relativities calculated above; the adjustment for on-costs is based on the comparisons in the TCCI submission; the adjustments for medical, bedding, food, laundry and cleaning are based on the price comparisons above derived from the ABS selected retail prices collection. The adjustment for maintenance is based on the labour cost differential for tradesmen, and the adjustments for other items are based on the most closely related item in retail price comparison (the default is the general price index (1.059) relativity).
- the delivery scale adjustment is derived from the calculations above and assumes 100% of the calculated disability for direct labour input for all categories, other than property and administration (for which the assumed resource usage disability is 50 per cent). It is assumed that the non-labour input usage disability is also 50 per cent of the total direct labour disability for nurses and personal care staff.

5 THE IMPACT OF COALESCENCE

5.1 The outcome of coalescence

Aged Care Tasmania regards the movement to coalesced rates for care as inequitable and unreasonable because:

- It will not reflect the actual cost differences between operations in each State.
- It will lead to a reduction in the level of care in some States (given that direct care wages costs and other input costs are higher).

In States in which rates will be reduced, the only option will be to reduce staff, or staff hours, or reduce actual wages. Given that wages are underwritten by the awards system and have been left inflexible by the new Work Place Relations Act, then the only alternative will be to cut staff numbers. The consequences of this will be:

- Redundancy costs to providers.
- A lower level of care, due to reduced staff or hours, and thereby an inability to reach accreditation by the year 2001.

The overall effect on Tasmanian providers is shown in Table 14. These figures are based on the percentage movement towards the national average over the next 7 years.

Table 14 - Funding reductions under coalescence

Year:	Reduction in overall State Funding	Average loss per Facility
1998/99	\$108,251	\$1,021 - \$2,500
1999/2000	\$324,753	\$3,064 - \$6,000
2000/01	\$757,757	\$7,149 - \$15,000
2001/02	\$1,515,514	\$14,297 - \$30,000
2002/03	\$2,814,527	\$26,552 - \$60,000
2003/04	\$4,113,539	\$38,807 - \$80,000
2004/05	\$5,412,552	\$51,062 - \$100,000

In nominal terms, the subsidy for an RCS category 1 in Tasmania would move from \$108.13 in 1997-98 to \$113.77 in 2004-05. Based on an assumed indexation rate of 1.7% over this period, to maintain the real value of the subsidy for a Tasmanian home for an RCS category 1 would require the subsidy to increase from \$108.13 to \$121.78. Therefore, coalescence would result in a real revenue decrease of \$8.01 per day per bed from \$121.78 to \$113.77 (ie a decline of 6.6 per cent). Note that this is based on an optimistic view of inflation, Clearly the higher the inflation rate, the greater the absolute differential between what the rate should have been and the rate that would be paid under coalescence.

For Tasmanian providers this will mean costs would need to be reduced by 6.6 per cent over this period to maintain viability. Since staff costs are around 80 per cent of total cost, staff costs would need to be reduced by 8.8 per cent.

This would result in a reduction in of about 330 jobs in Tasmanian nursing homes over the next seven years. Under this scenario the level of care would fall to an unacceptable level in most homes. For small rural based homes, it would simply not be possible to maintain a viable operation.

It is not possible for Tasmanian homes to reduce costs by the magnitude required without forced and targeted redundancies, because of very low staff turnover rates in the Tasmanian aged care industry. Furthermore, Tasmania has a relatively high proportion of long serving employees in the industry. Based on known redundancy cases within the industry, the total cost of -redundancies is estimated to be at least \$5 million.

5.2 Opportunities for cost mitigation

Coalescence would represent an additional (and severe) financial impact on the Tasmanian aged care industry at a time when there are already very significant financial pressures.

These financial pressures include:

- Implementation of the new RCS instrument.
- Inadequate cost indexation arrangements (see section 6. 1).
- Reduction in the financial flexibility of hostel providers due to changes in fee setting policy.
- Accreditation.

Coalescence would also occur against a background where significant rationalisation and restructuring in the industry has already occurred. Since 1992, there has been a reduction nationally in the number of small facilities (<25 places) of 41 per cent, and in Tasmania of 40 per cent. To an extent, many of the opportunities for cost reduction have already been taken.

It has been argued that nursing homes can reduce costs through:

- Increases in labour productivity.
- Administrative amalgamations.
- Additional revenue raising.
- Contracting out.,

It is important to appreciate that while these opportunities will continue to be pursued with vigour by Tasmanian operators, the potential savings are not significant when compared with the impact of coalescence and the other factors listed above.

Productivity improvements

The limited scope for labour productivity gains in the industry compared with other industries has been well documented. The opportunities in Tasmania are no easier, and probably more difficult to achieve, than elsewhere in Australia. The main reasons why the scope for productivity gain is limited are:

- The scope for substitution of labour input for capital input is small, given the nature of services provided;
- Productivity of staff is already much higher than in related sectors such as in the public health sector.
- The lack of opportunities for productivity trade-offs provides limited opportunity for gains from enterprise bargaining.

There is no evidence to suggest that Tasmanian nursing homes are overstaffed in terms of the resource input needed to deliver a "standard" level of care. Over-award payments in Tasmanian nursing homes are almost non-existent. Legislative and industrial system constraints will ensure that any attempts to wind back wage costs through shedding staff with an attendant reduction in care will be a very difficult and problematic exercise. The potential benefits from more wide-spread adoption of enterprise bargaining are very constrained because of the existing high award rates and the absence of tradeoffs, given the flexible operating practices already in place in the State. Furthermore, Tasmanian homes do not have the financial capacity to offer the inducements necessary to secure enterprise bargaining agreements with staff.

Amalgamation of facilities

Physical amalgamation opportunities are very limited, and where opportunities do exist there would be obvious and significant capital investment decisions required. In any event, physical amalgamation would be limited to major metropolitan areas, whereas more than 50 per cent of Tasmanian homes are located in non-metropolitan areas.

Administrative-level amalgamations, which involve placing management of one or more physically separated facilities under one management structure, may deliver some cost savings, but the net effect is estimated to be marginal (perhaps amounting to 1 to 2 per cent of total costs). To deliver these benefits, administrative level amalgamation would require a significant investment in accounting and management systems in homes.

Contracting out

There are several case studies that show that contracting out does not provide significant benefits in many areas of Tasmania because of the small population base, the existence of thin markets and lack of competition.

In many small centres there is not a single viable private supplier of services which nursing homes could utilise. By way of example, a facility in Melbourne or Sydney could achieve significant cost savings through contracting for the provision of cook-chill meals. Given the size of the Tasmanian market, such opportunities either do not exist or will not provide significant cost savings over in-house preparation.

Revenue capacity/extra service places

At the current time, the industry is heavily regulated. This reduces entrepreneurial activity. Until 1 July 1999, there is little flexibility to change licenses. Extra service places have to be approved by the Department. The extent of regulation severely constrains revenue raising opportunities and imposes significant fixed costs on Tasmanian operators.

Nevertheless, even with deregulation, the opportunities in Tasmania will be lower than elsewhere. The state of the Tasmanian economy is such that income from sponsorship or bequests is much smaller than the national average. There is also a very small number, compared with the other States, of full fee paying residents in Tasmania or those that would be prepared to pay more for extra services, because of high pension dependence and very low disposable incomes more generally.

In summary, Tasmanian nursing homes have little flexibility to reduce staff costs and in any other areas of operations. Income and mode of operation are controlled by Government regulation. In these circumstances, coalescence would necessitate a reduction in the level of care provided.

6 OTHER ISSUES

6.1 Indexation provisions

Nursing homes subsidies are currently indexed for each State by the use of the formulae developed by the Department of Finance in 1996 for indexing Commonwealth own purpose outlays (COPO).

Since 1 July 1997, the rates have been indexed by one of four cocktail indices. The formulae differ depending on the share of total costs contributed by the labour component.

In the case of nursing home subsidies, to reflect the high labour cost component, an index has been used which is a cocktail of 75% weighting for Safety Net Adjustment (SNA) increases (to reflect wage cost increases) and 25% weighting for the Treasury measure of underlying inflation (to reflect non-wage cost increases)

The COPO indexation arrangements have been strongly criticised in a number of quarters (particularly by the States) on the basis that rather than ensuring that indexation adequately reflects actual changes in costs over time, the arrangements are designed to minimise any increases in Commonwealth outlays.

The Department of Finance's theoretical basis for the indexation formula is that wage increases should be based entirely on productivity increases, the only exception to this rule being SNAs which are designed to provide a floor for low income employees.

The practical effect of the indexation arrangements for nursing homes is that indexation has significantly under-compensated for actual cost increases as there has been virtually no change in the labour cost component of the index and, under current arrangements, this will continue into the future. As labour costs are 75 per cent to 80 per cent of total costs in nursing homes, this is contributing to the financial pressures faced by nursing homes.

Nursing homes have faced a number of additional pressures in recent years as a result of increased regulation compliance costs, the introduction of the new RSC instrument, other policy changes, and lack of adequate indexation. For some States, the prospect of significant real terms funding reductions as a consequence of any move to coalescence will severely compound these difficulties.

The theoretical basis of the COPO indexation arrangements can not be justified at a practical level for nursing homes. Firstly, there is very little capacity to improve the productivity of labour in nursing homes. The reasons for this are that there are few opportunities for replacing labour input with non-labour input (such as increasing use of technology), the utilisation of labour is very flexible compared with most other industries, and there is little desire on the part of employees in most States to move to enterprise agreements, which would be the main vehicle for achieving any productivity gains over time.

Significant financial inducements would be required to achieve this change, for reasons identified earlier in this submission.

Secondly, any productivity gains that can be made are required to cover the additional costs of compliance with Commonwealth regulation and policy change such as accreditation. This also needs to be considered against the background of the very limited financial flexibility that homes have because of the impact of regulation on both the revenue and expenditure sides of their budgets.

Age Care Tasmania considers that indexation arrangements should be changed in order to:

- Substantially improve the adequacy of the labour cost component. The new Labour Cost Index (LCI) being prepared by ABS provides an opportunity to do this. Pending completion of this work, Average Weekly Earnings (AWE) or the ABS Wage Cost Index (Health and Community Services) should replace the SNA component of the indexation formula; and
- Ensure that any significant cost divergences over time between the States are appropriately recognised.

6.2 Viability supplement

The viability supplement is intended to support the operation of homes which might otherwise be financially non-viable.

The supplement is intended to benefit small services operating in remote and isolated parts of the country or caring for groups with special needs.

The payment of the supplement is based on a points system, where the points are assigned on the basis of criteria such as "remoteness", inability to collocate, and extent of special needs of residents.

In theory, a service in a small rural area with a relatively high proportion of concessional and assisted residents (such as commonly exist in Tasmania) should receive sufficient points under this system to be eligible for the viability supplement. However, surprisingly, Tasmanian homes receive little assistance through this mechanism.

The current rates for the viability supplement are as follows:

Table 15: Viability Supplement - Rate per Resident Occupied Place per Day (\$) from 1.7.98

Isolated remote area ^(a)	15 places or less	\$16.48
	15 to 29 places	\$10.14
Remote centre	15 places or less	\$7.86
	16 to 29 places	\$5.58
Rural outside large centres	15 places or less	\$3.30
	16 to 29 places	\$1.01

^(a) Defined as 'other remote area' in the 'remote zone'

Note: Services in other locations may be eligible for viability subsidy because their residents may be particularly disadvantaged or because they cannot collocate with other services. They will be paid at the same rates as small, rural service outside large centres.

There is an obvious and substantial disparity in the funding for remote small centres and rural small centres. This appears to be the result of a misconception of the relative significance of dispersion-related disabilities compared with service delivery scale disabilities.

The viability supplement if redesigned, could provide the vehicle to adequately reflect cost differences between regions, which is one of the major issues to be addressed by the Productivity Commission inquiry. A strengthened viability supplement provides the opportunity for a two-tier system of nursing home subsidies - the first tier would reflect the intrinsic direct cost differentials between the States (as the existing system is currently designed to do) - with the second tier providing additional assistance to homes in non-metropolitan areas. However, the existing viability supplement would need to be redesigned and the funding levels increased in order to provide adequate assistance for delivery scale and dispersion related costs, at an additional cost to current arrangements. Such a system might more effectively reflect regional differences in costs of service provision (and provide a more adequate funding package for Tasmanian homes).

6.3 Subsidies for low care residents

Tasmanian homes are significantly disadvantaged by the uniform subsidy rates which apply to low care residents and the removal, from 1 October 1997, of the funding distinction between nursing homes and hostels. This change removed the opportunity for hostels to charge variable fees to those residents with financial capacity to pay, as the subsidy reduces in accordance with the income-testing scale.

Prior to these changes, the Tasmanian industry (which involves a substantial degree of hostel-home collocation) was able to cope with the uniform hostel rates by the ability to charge variable fees, to pay lower wage costs (due to the differences in the required nursing input), and to an extent through cross-subsidisation. These changes, coupled with Tasmania's cost disabilities, the lack of adequate indexation, and other changes

referred to above has placed facilities providing low level care under substantial pressure.

Aged Care Tasmania believes that, given Tasmania's cost disabilities, there is a compelling case for extending the differential subsidy arrangements to low care residents.

7 CONCLUSIONS

The analysis underpinning this submission has demonstrated that coalescence is a flawed concept because there are intrinsic cost differences between the States.

These cost variations arise from differences in location, population size and settlement patterns as well as differences in wages and other costs resulting from differences in State Government policy and Industrial Tribunal decisions on employee remuneration and employment practices.

The analysis also shows that Tasmania is a high cost location in which to provide nursing home services and that the current funding differentials between Tasmania and the average of other States, of 7 per cent, is the minimum required in order to compensate Tasmanian homes for the additional costs they face.

By way of example, the following table compares the current subsidy structure with the structure implied by the calculations included in this submission.

RCS Scale							
	1	2	3	4	5	6	7
Current Subsidy	109.99	99.55	85.98	61.65	34.29	28.41	21.81
Recommended subsidy - Input prices adjustment	109.44	99.05	85.55	61.34	36.50	30.24	23.22
Recommended subsidy - Total costs of operation adjustment	117.14	106.02	91.57	65.66	39.12	32.42	24.91

The "input prices adjustment" reflects the higher costs faced as a result of higher than average input prices in Tasmania and the "total costs of operation adjustment" reflects the overall higher cost structure after taking into account delivery scale diseconomies. As can be seen, the current funding structure does not fully compensate Tasmanian homes in non-metropolitan areas for the unavoidable costs they face as a result of being unable to attain optimum size. This inability is a direct result of the highly dispersed nature of Tasmania's population and the necessity to provide services of a reasonable standard and with a reasonable level of accessibility in Tasmanian communities.

As a result of these cost disabilities, and because of the very limited financial flexibility experienced by Tasmania homes, implementing coalescence would result in significant employment loss in the industry with a commensurate reduction in care.

It is estimated that funding to Tasmanian homes would fall by over \$5 million a year and up to 330 employees would need to be retrenched. The total cost of redundancy

packages (given the long period of service and very low turnover rates for Tasmanian homes on average) is estimated to be at least \$5 million.

In view of these findings, Aged Care Tasmania recommends that:

- 1 Coalescence be abandoned because it is erroneously based on the proposition that homes in all States can achieve the same levels of efficiency.
- 2 The current subsidy differential in favour of high care residents in Tasmanian homes be maintained at least at the current levels, as these provide the minimum assistance required to ensure that care and access to facilities in Tasmania can be maintained at close to national standards.
- 3 That the same principles inherent in the subsidy arrangements for high care residents also be applied to low care residents of homes and hostels to reflect intrinsic cost differences between Tasmania and other jurisdictions.
- 4 That the current indexation arrangements (particularly the labour costs component) be reviewed to ensure that unavoidable cost increases in nursing homes and hostels are adequately reflected.
- 5 That the viability supplement be reviewed to more correctly reflect the additional costs of providing services from small homes in non-metropolitan areas.

In light of the analysis contained in this submission, Aged Care Tasmania believes that it is imperative that the Commission holds public hearings in Tasmania, to explore in more detail the cost disabilities faced by service providers in this State.

APPENDIX 1

RESPONSES TO PRODUCTIVITY COMMISSION QUESTIONS

A. Cost information required

1. *Typical profiles of the costs of providing services to high care residents.*
 - Included in standard care model appended to this submission.
2. *The extent of differences in the costs of services across and within States and reasons for those differences*
 - Chapter 4 provides an analysis of the cost differentials between Tasmania and the other States and Territories.
3. *The impact on service provision costs in any particular location of factors such as the size of a facility, its ownership and integration with other facilities*
 - See Chapter 4.
4. *Is the commonly espoused 72/25 ratio of wage to non-wage costs reasonable? In delivering services, what is the scope for substitution between labour inputs and equipment?*
 - Depending on the size of home, labour costs (including on-costs) can vary from 70 to 80 per cent.
 - Given the nature of nursing home services, there is very limited opportunity for substitution of labour and equipment.
5. *What proportion of total wage costs are accounted for by the differing types of employees? What is the scope to vary the proportions of different types of employees or to employ people to do more than one job? How significant are labour on-costs such as superannuation, payroll tax and workers compensation premiums?*
 - Chapter 4 provides details on the relative usage of different types of employees (based on a standard care model).
 - The deployment of labour in nursing homes is already relatively flexible, compared with the situation in other industries.
 - The cost of indirect labour related expenses is covered in Chapter 4 and in the accompanying TCCI submission.

B. Industrial scene in Tasmania

6. *How significant are current variations across States in award rates for nursing staff and personal carers ? Are there similar variations in award rates for other categories of employee and in labour on-costs?*
 - See the TCCI submission - the differences are significant.
7. *Are over-award payments common in the sector and what are the reasons for them? Are people paid over the award to attract them to remote areas?*
 - The incidence of over-award payments in Tasmania is rare.
8. *Does the experience vary across jurisdictions and different types of employee?*
 - It is understood that the situation in other jurisdictions is similar to the situation in Tasmania.
9. *Are enterprise bargains or certified agreements becoming more common? Is the small size of many providers an impediment to enterprise bargaining? Have pay rises under enterprise bargains or certified agreements been at least partially matched by cost savings for providers?*
 - These questions are dealt with in the submission.
10. *Do differences in staffing profiles contribute significantly to differences in wage costs across and within jurisdictions? To what extent do differences in staffing profiles result from licensing, regulatory and award requirements as distinct from managerial prerogative?*
 - The industry is highly regulated by the Commonwealth as well as by State Governments in a number of jurisdictions.
 - The TCCI submission details examples of implications of Tasmania's award system. The Tasmanian awards do not enforce a particular staffing profile or prescriptive staffing ratios. However, Tasmanian State licensing requirements do require 24 hour RN coverage in nursing homes and the Tasmanian Poisons Act requires special treatment for the administration of medicines, which impacts on Tasmanian staffing profiles. Differences in staffing profiles may also occur because of differences between States in population characteristics, which are quite significant. Resource input mix in small nursing homes is intrinsically less efficient than in large homes. This may lead to differences in staffing profile between States.
11. *Are there other factors leading to jurisdictional differences in wage costs? For example, how have wage outcomes for nurses in the hospital sector affected wage rates in nursing homes and consequent relativities between jurisdictions?*

- Given the a very limited pool of skilled employees and the difficulty in attracting and retaining skilled and qualified employees, it is very important in Tasmania (and to regional Australia more generally) for homes to maintain wages and conditions parity with public and private hospital awards.

12. How well correlated are current subsidy rates to jurisdictional wage costs? Could changes to the indexation formulas produce a better match in the future? Will access to more flexible labour market arrangements and possibly greater reliance on enterprise-based wage deals make it more difficult to link subsidy rates to wage costs in the future?

- The current subsidy rates have been based on a basket of indices including a substantial component for increases in wage awards. Therefore there is still a strong correlation between subsidies and wage costs.
- A review of indexation formulae could delivery a better match.
- An enterprise based wage deal will not make it more difficult to link subsidy rates to wage costs as a prerequisite to any agreement is that the employees situation cannot be diminished. Therefore employees will seek efficiency offsets to accommodate any wage increases under an enterprise agreement. The relativity to the local award will still be constant and as a result the relationship of the award to the subsidy will be maintained.

13. Do such considerations suggest that the information requirements and administrative costs of the state-based subsidy regime will increase in the future? Are there other administrative considerations impinging on the use of subsidies, or cost-based subsidies more generally?

- A subsidy system which compensates for intrinsic differences and movements between States in intrinsic cost differences should be able to be designed by the Commonwealth Department. Once designed and implemented the ongoing administrative cost would be relatively minor, particularly compared with the cost of implementing and monitoring the regulatory requirements on nursing homes.

14. Are current disparities in wage costs across and within jurisdictions likely to widen, narrow or remain the same? What factors will contribute to this outcome?

- Wage costs differences arise because of a number of factors such as decisions of State Industrial Tribunals and relative ability to reduce costs through contracting out and the use of enterprise bargaining agreements. Disparities in wage costs are likely to widen due to issues like employer capacity to pay; access to and competition for skilled staff being tied to the financial health of the local economy and the unavoidable need for

smaller sized homes in Tasmania. Inevitably, the opportunities for achieving cost reductions in Tasmania must be lower than in other jurisdictions. As a consequence, cost differentials between Tasmania and the other States would be expected to increase over time, other factors being equal.

C. Costs of living

15. Do non-wage costs vary significantly within or across jurisdictions? Do such variations mainly relate to land and building costs or are variations in non wage recurrent costs-also significant?

- This submission demonstrates that the cost of all the main inputs for the provision of nursing home services in Tasmania are significantly higher than the average situation faced by other jurisdictions. In Tasmania's case the cost differences lies mainly in recurrent inputs. Previous studies on capital costs suggests that while Tasmania faces higher capital costs overall, the differences between Tasmania and the average situation in other States is marginal. In Tasmania, higher construction costs tend to be offset by lower land prices.

16. How much control do providers have over their non-wage costs? To what extent are they dictated by the various building and health regulations? What impact will the new accreditation and requirements have on future costs?

This submission demonstrates that for intrinsic reasons, the non-wage costs incurred by Tasmanian homes are significantly greater than in the other States. The impact of changes such as accreditation is to increase the fixed costs of operation relative to variable costs. As institutions increase in size, fixed costs become a significantly smaller cost component. Because of the small size of Tasmanian institutions on average, accreditation and increases in administrative compliance effort will be a significant cost imposition.

D. Comparison of State-based funding

17. Are subsidy arrangements that recognise differences in costs are jurisdictions an effective way of promoting equitable access to quad residential aged care services? Would this rationale also extend differentiating subsidies within States and Territories as well as between them? Are there other rationales for such subsidy arrangements?

- These issues are dealt with extensively in the submission.

18. Would the objective of equitable access be better served by taking into account differences in total costs, rather than primarily differences in wages costs nursing and personal care staff? Alternatively, should state-based subsidies only reflect cost differences beyond the control of providers?

- The subsidy arrangements should reflect all intrinsic cost differences not just labour costs. States and/or regions should not be compensated for cost differentials to the extent to which there is an ability to reduce the differential. This submission deals only with intrinsic differentials.

19. *Does a state-based regime necessarily promote equitable access over time? Should indexation arrangements take account of changing relativities between and within jurisdictions? Does a state-based regime tend to lock in the quality relativities across jurisdictions that prevailed prior to commencement?*

- In the case of Tasmania a State-based regime is necessary to ensure equitable access and levels of care. There is no reason why, if properly constructed to reflect only intrinsic cost differences, this will lead to any differences in access or remove incentive to be efficient (in that any benefits from increased efficiency would be retained by the organisation in question; the subsidy arrangements presumably being based on some concept of average efficiency adjusted for intrinsic differences).

E. Taxation issues

20. *Should a differentiated subsidy regime also take account of differences are government, charitable and private providers in liability for sales tax, fringe benefits, benefits tax, payroll tax and the like? Are there other ways of addressing related cost differences? For example, should governments apply competitive neutrality principles to eliminate any tax-related cost advantage for government-run homes?*

- This issue was dealt with extensively in the Commission's inquiry into charitable institutions. Any changes to ensure cost neutrality (such as removing PB1 status) should not be at the cost of individual homes as this will reduce the level of care for each dollar received from the Commonwealth. Currently a high proportion of nursing home services in non-metropolitan areas are run by charitable institutions as these operations are intrinsically less profitable. Consequently, a change in tax exemption status for charitable institutions should be accompanied by an increase in assistance to homes, particularly in rural and remote areas.

F. Efficiencies in aged care

21. *Has the state-based subsidy regime reduced incentives for cost effective service delivery? If so, is this a function of the form of subsidy, or of the previous acquittal system which required nursing home operators to return some 'unspent' funding to the Commonwealth? Have constraints on the overall level of Commonwealth support offset any such disincentives for efficient provisions? Has the state-based subsidy regime had other efficiency impacts?*

- The issue of incentives turns on proper construction of the subsidy regime - see answers provided above. There will always be incentive for

efficient provision of services given the cost and demand pressures faced by nursing homes and the likelihood that funding assistance will tend to lag behind cost and demand increases on the ground.

G. Quality of access-care & equity

22. *What impacts would coalescence to national average subsidy rates have on access to, and the quality of, residential aged care services across Australia? Would there be significant differences in impact between regions within States?*

- Dealt with in the submission

23. *What impact would coalescence have on the wages and conditions of employees in nursing homes and hostels? What impact would it have on the market value of bed licences?*

- The submission deals with the expected impact of coalescence in Tasmania.

24. *Would the proposed introduction of nationally uniform subsidies improve the incentives for cost-effective provision and, if so, how? Would there be other efficiency benefits or savings in administrative costs?*

- As indicated there is already incentive for efficient provision. Given the intrinsic cost differences between Tasmania and other jurisdictions, and the compounding effect of very limited revenue flexibility, the end consequences of coalescence in Tasmania must be reductions in care and access.

25. *Would coalescence simply speed up or slow down expected structural changes in the residential aged care sector, or would it substantially alter the shape of the sector in years to come?*

- It would slow down structural improvements in the residential aged care sector in Tasmania because of the cost and the resource implications of coping with the consequences of coalescence in this State. It would substantially alter the shape of the sector in Tasmania in years to come but not for the better when one considers the importance of equity and access issues.

H. Alternative funding issues

26. *Are there alternatives to the current and proposed subsidy which would promote more equitable access to nursing home services, a greater range of choice for residents, and/or more efficient service provision? Are there other criteria which are relevant in comparing alternatives? What weighting should be given to the various criteria? Would any proposed alternatives be consistent with the current resident charging arrangements?*

- Subsidy arrangements which reflect costs differences for all levels of care would better promote equity and accessibility. This submission states the criteria that Aged Care Tasmania considers should apply to any funding model.

27. *Would a 'pure' percentage-based subsidy be sensible, or should there be some maximum dollar caps to avoid taxpayers subsidising necessary embellishments to services? With residents meeting a percentage of total costs, would there be a greater incentive for providers to deliver services cost effectively? Under a percentage-based scheme, would some additional 'special needs' funding be required to keep services affordable in high cost locations?*

- There will always be a need for special funding to reflect intrinsic cost differences as a result of location and/or the mix of fee-paying residents.

28. *Would paying subsidies direct to residents rather than homes increase the pressure on providers to deliver the right service at the right price? Or would it simply involve an additional administrative cost, with little or no offsetting efficiency gain?*

- Given their age and frailty, residents in nursing homes are unlikely to be able to exert consumer choice in the way economists normally assume. As a consequence, efficiency gains from this type of effect will be small.

29. *How important is resolution of the funding methodology issue for providers their residents? Will its significance increase or diminish over time?*

- As indicated by this submission, the issue is of great importance for Tasmanian homes.

APPENDIX 2

STANDARD AGE CARE MODEL

Introduction

This "standard care" model has been based on the operation of a 45 bed Nursing Home. The 45 bed size represents 5.1 % of the Nursing Home sizes in Australia (range of 25 to 49 beds, as at 30 June 1997, Department of Health & Family Services, August 1998).

It is designed to reflect a "real world" situation in terms of the functions performed to deliver a standard level of care to a standard mix of residents.

The model applies equally to both not for profit Nursing Homes and private for profit Nursing Homes.

It is important to note that:

- The level of care delivered is regarded as being adequate. This model does not deliver either the desired or optimum level of care to the residents.
- The care delivered is at a level sufficient to maintain the functions of life.

Service delivery features

A Nursing Home provides:

- A 24 hour, 7 day a week, care facility for the frail aged and disabled.
- A permanent Home for a majority of residents.
- Around the clock access to medical care.
- Care for the long term ill and incapacitated.
- Care for those who have behavioural problems, including dementia.
- Personal assistance to residents for all areas of daily living.
- Support to families in helping to maintain the resident's individuality.
- Security for the frail aged and disabled.
- All requirements for the resident of daily living, ie. food, warmth, shelter, laundry, etc.
- Companionship and a community within the larger community.

In order to develop a model that encompasses these features, and at the same time reflect the real situation, the care model must represent the different aspects of the Nursing Home, for without a complete "home" operation then the demands of the residents would not be able to be met.

Financial features

The model has been developed in six parts, which reflect the different components of a Nursing Home operation. The six parts are:

- Nursing & Medical Costs
- Personal Care Costs
- House Keeping & Food Costs
- Other Staffing/ Social Costs
- Direct Property Costs
- Cost of Operating a Business

The Model has been developed along three streams:

- The level and type of Care given to Residents.
- The time taken to deliver Care to the Residents.
- The Cost of delivering that Care.

The cost of delivering care is as follows:

Nursing & Medical Costs:	\$ 415,698 per annum
Personal Care Costs:	\$ 651,634 per annum
House Keeping & Food Costs:	\$ 497,962 per annum,
Other Staffing/ Social Costs:	\$ 66,835 per annum
Direct Property Costs:	\$ 69,634 per annum
Other:	\$ 154,349 per annum
Total:	\$1,856,112 per annum

The assumed level of funding provided for this 45 Bed Nursing Home is as follows:

RCS Category 1:	4 Residents\$ 199,742 per annum
RCS Category 2:	16 Residents\$ 738,000 per annum
RCS Category 3:	18 Residents\$ 741,096 per annum
RCS Category 4:	7 Residents\$ 226,041 per annum
Total:	\$1,904,880 per annum

The split of residents is on the basis of number of residents shown as category 1-4 on the RCS scale in the RCS review carried out by the Centre for International Economics, March 1998.

Level of care provided

The model was compared to the Documentation and Accountability Manual supplied to Nursing Home Providers by the Department of Health and Family Services prior to October 1997. In this Manual, the Department set out the desired level of hours to be spent on care for the different categories. Whilst the categories did number from 1 to 5 under the system prior to the 1st of October 1997, these can be used to convert to the new system of categories 1 to 4.

The hours expected to be given to residents on a daily basis were:

Category	1	3.857
Category	2	3.357
Category	3	2.786
Category	4	1.857

Using these figures the model produced a total of 861.5 hours per week of care delivered, as against the Department's recommended level of care of 898 hours per week.

Being in a nursing home, the residents all receive various amounts of time attending to their individual needs. By way of example, the attached sets out what 3.857 hours per day might typically provide in a nursing home of this size to a category 1 resident.

Also attached are the detailed costings of the model.

Nursing & medical care:

- Medication is administered by the registered nurse, as per state legislation.
- Insulin dependant diabetics receive their insulin twenty minutes prior to meals.
- MS Contin, a pain medication, which needs to be signed and checked by a second person is given out at twelve hourly intervals and with eight residents requiring this, twenty minutes minimum is required by two staff at 7am & 7pm.
- At 8am a medication round of 45 residents usually takes 90 minutes. Eye and ear drops are also administered.
- Dressings that are required by any of the residents are attended to after this time.
- The staff attending to the residents report any concerns to the Registered Nurse for her observation and follow-up treatment
- Monday to Friday, a level 2 Registered Nurse works an eight hour day. This person has the responsibility of the residents and staff to attend to. Doctors visit the home on a regular basis and usually visit their residents in the morning, if there are any concerns the Registered Nurse will negotiate with the doctor in between visits. Specimens are collected, specialist appointments made, families are supported, staff inservice arranged.
- Assessing the resident for the classification instrument, assisting in staff interviews, admission of new residents are among the many duties, general liaison and supervision of staff.
- Documentation and ensuring care plans are up to date are the responsibility of all staff delivering care.
- Lunch time medication is delivered and can take 45 -60 minutes.(During this time the Registered Nurse is also assessing the resident's general condition).
- Ensuring stock required is available, organising inservice needs of the staff, ensuring equipment is safe and repairs and maintenance are attended to.
- Answering the telephone, (enquires about residents etc)
- 4pm another medication round is required and this again would take 60 -90 minutes.
- 7pm another MS Contin round requiring two staff, takes at the minimum twenty minutes.
- At 8pm another medication round for the sedation's and aperients is attended to.
- A registered nurse is available for the twenty four hours attending to the needs of the residents. With respite, palliative care and dealing with incidentals , their time is fully consumed and they do hand over in their own time as overlap does not exist on the night shift or the weekends.

Personal care:

- The residents have a call bell that they can ring for attention. The reasons they ring vary from that of requiring assistance to go to the toilet or wanting a drink, sometimes they ring frequently, as they are feeling lonely or anxious.
- Some residents who are unable to ring and it is important that staff still attend these residents for their physical needs and their social needs as they have a potential to be isolated once they are in their room.
- Residents require sitting up for breakfast, this includes insertion of hearing aids and, assisting them put their glasses on and inserting teeth.
- Some residents like to be up for breakfast. Approximately ten residents require full assistance for feeding and drinking purposes.
- The majority of residents get up in the mornings. Most require the assistance of two staff for lifts and transfers. The resident is showered, bathed or sponged at their request or requirement. They are dressed in day clothes.
- Attention to their grooming shaving for the men, make-up and jewellery for the women.
- Toileting before and after meals is time consuming. Residents need their continence requirements attended to.
- Morning tea has to be given to the residents who require full assistance.
- Assisting residents with their walking aids or transferring them to their preferred area or activity as required after completion of their physical needs.
- The pastoral carer, is around to see to residents needs, the activity officer is busy assisting residents in various activities, attending to personal needs as well including finger nails and facial hair removal
- Lunch is served at 12 midday, residents have to be seated at the various dining tables throughout the building or in their rooms if they prefer. Once again supervision and full assistance of residents takes place.
- After lunch, toileting needs are attended to and residents taken to their respective place for the afternoon, some join in group activities others like to have a rest on their bed or sit in a quiet area. Afternoon tea is served at around 2pm
- Throughout the day individuals ring for various needs.
- At 3 pm there is a change over of shift, prior to tea which commences at 4.45pm the residents, who request it are assisted back to bed. In the winter the requests are earlier than in the summer months.
- Toileting, and preparation for tea is attended to, there are fewer staff in the evenings so the feeds are commenced at 4.45 and the residents who feed themselves are served at 5pm.
- After tea there is a desperate attempt by residents to get to bed, most require assistance and are aware that they will be catered for as soon as possible.

- Due to sun downer's syndrome, those with dementia become quiet unsettled and are more demanding, this is usually a very hectic time.
- The telephone is unattended from 5pm - 8am so staff answer the phone as required.
- Residents receive supper from 7pm. those that require full assistance are given it
- At about 9 pm the majority of residents are settled for the evening. The staff continue to put residents to bed and attend the continence needs of others, bed rounds and turning bed bound residents.
- Throughout the night these needs of the residents as well as other requests are attended to.
- Staff who call in sick need to be replaced, often at very short notice.
- Documentation is a very important task, exception report and documenting for the residents care plan are the responsibility of all the staff throughout their shift.
- On top of the above there are the dying residents (85% of separations from nursing homes are due to death, Australian Institute of Health & Welfare, Media Release, 11 December 1997) and their loved ones require extra time, staff also grieve and yet they have to admit new residents and assist families when they are going through an emotional turmoil when placing their parent or loved one into a Nursing Home.
- Office Staff are called on a regular basis to assist residents with any financial concerns.
- The maintenance man is fixing items and assists with movement of furniture.

Overall the level and type of care given varies from Medical, to Personal, to Financial and finally Social.