



Tuesday, October 06, 1998

Mr Jim Roberts
Director
Inquiry Into Nursing Home Funding
Productivity Commission
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Dear Mr Roberts

Relative Labour Cost Study - Nursing Home Funding

Thank you for inviting us to explain the differences between the findings of the relative labour cost study conducted for ACA by La Trobe University and those identified by TriCare in its submission.

While you are correct in noting that the two studies are broadly comparable in their scope and methodology, there are nonetheless significant differences in methodology which probably account for the different range and ranking of cost relativities among the states.

The differences between the two studies are as follows:

1. The La Trobe University study assesses relative labour costs based on the average for 11 different baskets of staff mix (drawn from a sample of actual staffing rosters). A range of baskets of staff mix was used so that the relative labour costs identified were not simply an artifact of one or two particular baskets of staff mix. The TriCare study is based on only 2 baskets of staff mix and these two baskets do not include enrolled nurses (they use only assistants in nursing) or physiotherapists.
2. The La Trobe University study models the impact of higher salary levels (Models 3 a and 3b) and this was found to produce small differences and different rankings in the relative costs between states. Differences in the comparable salaries used for the differing types of staff between the two studies may contribute to the different range and ranking of labour cost relativities.
3. The description of the methodology used for the TriCare study indicates that "extraordinary provisions for staff/resident ratios and staff supervisory levels in Victorian, NSW and Tasmanian awards were applied to the base model roster". It is not clear

what impact this has had on the relative costings in the TriCare study, as the roster hours indicated for the 60 and 148 bed facilities respectively show that they are standard across all jurisdictions. In the La Trobe study no adjustments were made to the 11 baskets of staff mix used as they were based on actual sample rosters provided by facilities, including facilities from States where staff/resident ratios and staff supervisory level requirements apply.

4. The TriCare study includes estimates of the cost of leave provisions (public holidays, annual leave and sick leave). This would contribute to the difference in the range and ranking of relative costs, as their study shows that their estimates of the cost of leave provisions range from 17.01 % in NSW to 22% in Tasmania. By comparison, the La Trobe Study does not include any quantitative assessment of leave provisions, as this depends on actual leave-taking patterns (particularly for sick leave). Instead, page 8 of the La Trobe study provides a qualitative assessment of the differences in leave provisions among the states.
5. The La Trobe University study includes an assessment of the relative costs of workers' compensation, using the flat-rate premiums currently applying in each state. While these will under-state the actual costs for individual providers, they do provide a reasonable basis for comparing relative costs among the states. Reference to the base model and model 2 in Table 2 on page 9 of the report shows that the inclusion of worker's compensation has the effect of changing the ranking of labour cost relativities among the states. The TriState study does not include workers' compensation in their estimates of relative labour costs.
6. The TriCare study, unlike the La Trobe University study, includes allowances (uniform, cleaning, on-call) in their estimates of relative labour costs. This would account for some of the difference in the range and ranking of the relative labour costs between the two studies.
7. If the Productivity Commission wishes to take full advantage of the two studies it could do this by:
 - checking that the same salary rates were used across all 13 baskets of staff mix (from the two studies)
 - modelling "lower" and "higher" salary rates for all 13 baskets of staff mix to determine the impact of different rates for the same type of staff on the labour cost relativities
 - identifying for all 13 baskets of staff the various additional labour cost components: workers' compensation, staff allowances, and leave provisions (given the difficulty in costing sick leave, it would be wise to restrict cost estimates to annual leave only).

ACA would be prepared to make available to the Productivity Commission the spreadsheets used in the La Trobe University study so as to facilitate further work of this nature.

I hope this assists you in your consideration of the two studies. We would be happy to provide any further assistance you may require.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Odette', with a stylized flourish at the end.

Odette Waanders
Policy Officer