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Mr Mike Woods
Presiding Commissioner
Productivity Commission Inquiry
Into Nursing Home Subsidies
PO Box 80
Belconnen ACT 2616

Contact Martin Wallace

Dear Mr Woods

Response to Inquiry Position Paper

Our client, Aged Care Tasmania has asked us to thank you for the position paper, and to note that they look forward to the hearings, at which they would like to make further representations on their submission.


The Board of Aged Care Tasmania has made comments (attached) on a number of the issues developed in the Position Paper, and on the Preliminary Proposals.

In overview, the Board notes that the Position Paper's recognition of input cost differences between the States, of insufficient funding in the present system to pay the correct level of subsidy in currently unfunded States, and of the finding that coalescence would not deliver the correct level of funding, or guarantee an adequate level of care.

Aged Care Tasmania continues to hold views on the case for funding differences, and the need to inject additional funds into the system. It strongly opposes diverting future indexation to under-funded States. Such an approach would appear to be a form of the initially proposed coalescence.

Of particular significance for Tasmania, is the development of concepts for "smaller. rural and remote areas"

Yours sincerely


for Peter J. Murrell
Director



Productivity Commission Inquiry into Nursing Home Subsidies

*Comments on Commission's Position Paper by Aged Care Tasmania
October 26th 1998*

Point	Page	Comment
2.2	10	Differences in cost of delivering care cannot be ignored. If no allowance is made for significant regional cost differences, there would be no chance of achieving equity of care across Australia. Response: We strongly agree, with this statement.
2.2	11	For example, providing higher subsidies to all smaller operators, irrespective of location, could reduce incentives for providers in cities and the larger towns to expand or amalgamate to provide quality care at lower costs. Response: Whilst this is an acceptable general proposition, amalgamations can really only produce savings by aggregating large numbers of beds onto single sites, with considerable short term financial consequences.
2.2	11	The Commission considers that subsidies should not reflect variations in actual costs incurred by providers in delivering services, rather they should only reflect significant regional variations on a standardised cost of providing care. Response. We support this proposition tip to a point, and we have demonstrated the significant intrinsic cost differences incurred in Tasmania. However, construction of the benchmark quality of care and of standardised costs will be crucial to adequate base funding.
3.3	20	Hourly Wage rates Response: Tasmanian public hospital nurses have just negotiated a 10.4% wage Increase over 2 years. This will affect nursing homes labour supply adversely, whilst homes will receive no additional funding if a claim is agreed to lit due course.
3.3	21-22	The Latrobe study Response: Whilst we agree that this type of study is generally useful, we contend that larger and more varied sampling and certain validations would be required to determine the correct levels of variation more closely.

3.4	29	<p>Wages are trending together.</p> <p>Response. Projections would be needed to estimate a date of all), such convergence. On the assumption that wages do not fall, convergence would imply that higher subsidies will be required for some jurisdictions, rather than a redistribution of current. subsidies.</p>
3.5	31	<p>Table 3.9 comparison of standardised costs with subsidy.</p> <p>Response: In accordance with our comment at 3.3, the Latrobe study figures need refinement. The Commissioner quotes (4.1,p 33) "the estimates are quite sensitive to the underlying assumptions".</p>
3.6	32	<p>"Thus even if a regionally different subsidy regime is to be retained, the current scales would need to be restructured."</p> <p>Response; We agree with this statement, but note that States currently under-funded should be compensated by additional funds, not by a funds transfer from homes in those jurisdictions which are "correctly" funded.</p>
4.1	34	<p>"While there may be some differences in wage costs within jurisdictions, there was no evidence provided to suggest that these are generally significant in total terms".</p> <p>Response: What might appear to be a relatively small difference in wage costs (say Up to 5%), may have a significant. impact on the bottom line. Aged Care Tasmania considers that the differences In wage costs between this State and some other jurisdictions are very significant in terms of their bottom line impact. This is demonstrated in our submission.</p>
4.1	35	<p>In sum, the Commission considers that the case for differentiating basic subsidies is not compelling".</p> <p>Response: The conclusion seems to be unsupported to the extent that all the costs submitted are different for all jurisdictions. Furthermore, Aged Care Tasmania's submission demonstrates particularly significant cost differences between Tasmania and the other States.</p>
4.1	35	<p>"There must be adequate additional 'special needs' funding to ensure equitable access to services in those smaller rural and remote regions where costs are significantly higher than average".</p>

Response: Agreed, however definitions of rural and remote will need to be carefully considered in any such subsidy scheme.

5.2 41 "If a particular State wishes to impose higher quality requirements on its providers, then it should meet the resulting costs".

Response: This proposition does not seem to be relevant, since the quality of service is determined at a provider level and not at a State level, with the Commonwealth supplying both funding and legislative requirements for providers to meet. However, it is agreed that if a particular State Government requests that providers exceed any nationally agreed and funded standards, then responsibility for the cost of this policy would need to be accepted at the State level.

5.2 42 "A number of participants suggest that 60 beds now constitutes minimum efficient scale".

Response: The Aged Care Tasmania submission supports the contention that minimum efficient scale would be at least 60 beds and probably higher than this. Tasmania has low average bed numbers, due to its spread of population. Nearly all facilities would be classified as small facilities.

5.2 42 "The use of best practice inputs would be appropriate".

Response. It would be important to develop and implement safeguards to ensure that "best practice" is not determined purely by reference to the lowest financial costs. It also needs to be understood that there will be intrinsic reasons why homes in certain locations such as in Tasmania, will not be able to achieve the "best practice" of Australian mainland operations.

5.2 43 "Proposal 3: Basic subsidy rates should be linked to the cost for providing the benchmark level of care in an efficient sized facility using an average input mix. Additional funding support for smaller nursing homes in rural and remote area should come from a special needs funding pool".

Response: This basic proposition may be appropriate for mainland operations, however, a system based on this approach would not recognise that Tasmanian homes suffer financial disadvantage for essentially two reasons - the higher cost structures in Tasmania generally irrespective of population settlement patterns, and the higher costs because Tasmania has a very small and very scattered population. Unless the whole of Tasmania is classified as rural and remote, only the second of

these disabilities will be compensated for under such an approach. As Indicated above, the detail of such a system would need to be carefully thought through particularly with respect to the definitions of rural and remote.

5.2 44 "The industry cost base should reflect nursing wage rates and conditions in the aged care sector rather than in the acute care sector".

Response: The aged care industry is linked to the acute sector for two reasons:

- **Nursing staff are sourced from the acute sector, and there is no other source.**
- **Some of the work done in Nursing Homes is of an acute nature particularly in palliative care.**

5.2 46 Indexation

Response: Generally agreed, but on what basis would productivity gains be calculated?

5.2 45 Proposal 4

Response: Indexation to date has not been sufficiently industry specific. The composition of the ABS productivity discount will be crucial.

5.2 54 Proposal 7: Commonwealth contributions towards workers compensation costs should continue to be improved through the basic subsidy regime.

Response: We agree partly, but there should be some top up on State by State basis, depending upon the premium rates in that State, as premium rates are largely outside the control of providers.

5.2 56 "Against this background, the Commission proposes that there should be special needs funding arrangements that build on the current viability supplement".

Response: We agree with the special needs/viability supplement. As mentioned earlier, definitions of rural, smaller rural and remote are crucial for Tasmania, given the population dispersion.

5.2 59 Proposal 9

Response: There should not be a redistribution of the current funds pool, rather additional funds should be injected for the currently under-funded States, on a costs based model.

5.3	65	<p>The Commission seeks further comment on whether, in moving to a new subsidy regime, another round of changes to income and asset tested resident charges should be contemplated?</p> <p>Response: The asset tested accommodation charge should have a higher limit than \$12, and it should be Indexed. The income tested variable fees should be made available to the provider, as was previously the case in hostels, not used to reduce the government subsidies. The two measures would enhance viability prospects for all providers.</p>
5.4	70	<ul style="list-style-type: none"> - Supporting a uniform quality of care across Australia at the level required to meet the accreditation and certification requirements. - Addressing current funding anomalies across jurisdictions - enhancing the scope for providers in all parts of Australia to maintain the quality of their care over time. <p>"More generally, if meeting the standard of care required under the accreditation and certification requirements necessitates increased total Commonwealth support, then some of the adverse impacts noted above would be offset or eliminated. It is therefore difficult to fully assess effects until this core issue is dealt with by Residential Aged Care Review".</p> <p>Response: Additional funds can be provided by the Commonwealth (increased indexation, retention of variable fees by providers', additional funding for underfunded States), and by additional user pay funds, by increasing the maximum asset tested accommodation charge.</p> <p>Redistribution alone by coalescence or other methods reducing the current subsidy levels to Tasmania, will mean loss of jobs and thereby loss of standards of care. Full coalescence would cause the loss of more than 300 jobs in Tasmania.</p>
5.5	73	<p>"The Commission seeks participants' views on an appropriate time frame for implementation of the full proposals, the inter-relations with the Residential Aged Care review, and whether new arrangements should be phased-in or simply introduced after a grace period".</p> <p>Response: We consider that development of the proposals could progress through in conjunction with the Residential Aged Care Review, if that maintains sufficient impetus, to provide for commencement of implementation in 18 months to 2 years from now. Rural and remote supplementary funding could be implemented immediately at that time.</p>

Assuming that Tasmania would retain its level of subsidy (plus any rural and remote top-up), a short term (say 3 years) phase-in of further additional Commonwealth funds for the underfunded States would seem to be equitable provided the asset tested accommodation charge, and income tested variable fees were freed up immediately as described, and realistic indexation provided.

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Proposal 13

Response.. We strongly disagree with this proposal. In the States not receiving indexation, both the quality of care and the viability of facilities will be detrimentally affected. Job losses will occur as a result. It will also not be possible to attract qualified staff.