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

Dear Mr Woods

Further response to Inquiry Position Paper

Aged Care Tasmania has requested that we forward to you the attached submission on the Commission's preliminary proposals as contained in the Position paper released on 23 October 1998. Aged Care Tasmania appreciates the opportunity provided by the Commission to provide this further input into the Commission's review.

We would ask that in considering the attached, the Commission also carefully reconsider the detailed arguments and analysis provided in the initial submission compiled by us in conjunction with Aged Care Tasmania. The arguments contained in that submission still stand and there has been nothing provided as evidence in the other submissions to the Inquiry that have detracted from, or thrown into doubt, the results of the analysis or the major points made in Aged Care Tasmania's earlier submission.

Aged Care Tasmania views with considerable concern the impact that the policy of Coalescence would have on the viability and standard of nursing home care in Tasmania. While accepting a number of the Commission's findings and proposals, we do not believe that in the final analysis, the Commission's proposals will be consistent with ensuring that nursing home services can be provided in this State to a comparable standard to the services provided in other States.

The Commission is therefore asked to reconsider its fundamental proposal that basic subsidies be struck at a uniform national rate, with locational differences reflected in all enhanced viability supplement. The proposal as presented in the Commission's Position paper will only partly reflect the particular cost disabilities faced by Tasmanian homes.

The detailed analysis presented in the initial submission demonstrates that there is a compelling case for providing a differential basic subsidy for Tasmanian homes.

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While differences in cost structures faced by homes in other States may not be of sufficient magnitude to justify a complex system of differential funding, it is clear, that the cost structures faced by Tasmanian homes stand apart from those in mainland Australia. Failure to compensate adequately for the special circumstances faced by Tasmanian homes will have serious consequences for employment *in* nursing homes with an attendant reduction in the capacity to provide acceptable standards of care and accessibility to services in this State.

In light of the above, Aged Care Tasmania requests the Commission to take into account the arguments presented in this final submission and in its earlier submission, and asks that the Commission's final recommendations adequately reflect the pressures faced by aged care providers in attempting to deliver the best quality care for the elderly in difficult economic circumstances.

Yours sincerely


Paul Green
Partner

Enclosure

Final Submission
to the
Productivity Commission Inquiry
into
Nursing Home Subsidies

By Aged Care Tasmania Inc

November 1999

**Aged Care Tasmania's Final Submission on the Inquiry by the Productivity
Commission into Nursing Home Subsidies**

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1. Executive Summary

- Aged Care Tasmania endorses the Commission's main criterion that any system of subsidies needs to be based on the principle of equity of access to quality aged care.
- However, it strongly opposes the following preliminary conclusions:
 - that notwithstanding clear cost differences between the States, the differences are not significant enough to justify a differential subsidy regime based on State of location.
 - that a system can be designed to ensure equality of access and a uniform quality of care through utilising a two part system of a uniform basic subsidy and a separate viability pool distributed on the basis of only rurality and remoteness.
- Only if Tasmania were regarded as qualifying as, 'remote' in totality, would such a system deliver an equitable outcome for Tasmanian homes.
- Aged Care Tasmania provided a detailed analysis in its September 1998 submission to the Commission, on the significant additional cost of delivering nursing home services in Tasmania.
- This analysis was based on the intrinsic (ie unavoidable) difference,; in Cost structures between Tasmania and the other States on average.
- The analysis demonstrated that Tasmanian homes faced significantly higher costs than homes in other States on average. The cost differences amounted to 7 per cent on account of State location, irrespective of settlement, pattern, with all additional 7 per cent cost disability for homes in non-metropolitan areas.
- It is agreed that subsidy arrangements should provide an incentive for efficient provision, and therefore that reimbursement on the basis of actual costs incurred is inappropriate. However, the fundamental principle of equity of access to quality care can only be assured, if intrinsic cost disabilities between regions are recognised and accounted for in the subsidy arrangements.
- The various submissions and analyses provided to the Commission show that the cost of delivering care is different in each State, and varies by as much as 6% to 2.5% between the States. Given this, there is no justification for a uniform basic subsidy.
- The fact that there is a significant additional cost of delivering care in Tasmania is consistent with other available Commonwealth data on the cost disabilities suffered by service providers in Tasmania due to the State's location and dispersed population base.
- Given that, the average subsidy differential between Tasmania and the other States in the current arrangements is approximately 8 per cent. Tasmanian homes in rural areas do not currently receive adequate compensation for the cost

disadvantages they suffer. This fact would seem to account for the overall marginal viability of Tasmanian homes and the difficulty in establishing private for profit homes in many areas of the State.

- Tasmania has; the second lowest level of private for profit providers operating in any of the States (only NT is lower), which is markedly lower than other States, a reflection of the high cost in delivering care in small and relatively isolated locations.
- In these circumstances, any reduction in the current subsidy for Tasmanian homes will have serious consequences for the viability of homes, the level of employment, access to services and the level of care.
- Any downward adjustment, either by direct reduction or reduction through not indexing subsidies for the effect of unavoidable cost increases, will lead to three outcomes for Tasmania's elderly:
 - a reduced level of care due to necessary cost cutting. loss of employment opportunities for approximately 300 to 400 staff.
 - closure of facilities as a result of non-viability or as a result of being unable to attract qualified nursing staff.
- Aged Care Tasmania considers it illogical that the Commission has been asked to review the case for coalescence but has not been asked to consider the adequacy of the quantum of funds made available.
- This constraint on the Commission's inquiry implies that any changes to subsidy arrangements recommended by the Commission must be funded by reducing, subsidies to some States.
- The current subsidies have, over the past 10 years. been reduced through inadequate indexation, to a stage where they represent the lowest possible cost that care can be delivered for, with care in some States now being compromised due to a lack of funding.
- The shortfall in indexation over the past five years is estimated to now total \$128 million.
- From the data presented to the Commission there is an underfunding issue in (lie States of Queensland, South Australia and Western Australia, which may not have occurred, if indexation arrangements had been adequate.
- There is a strong argument that some of all of this shortfall should now be injected by the Commonwealth to rectify inequities in the present system while ensuring that no State is disadvantaged by the changes made. (Only \$62 million per annum would be required to bring those States currently underfunded up to at least the national average).
- Aged Care Tasmania considers that, in light of the Commission's findings, it would be inappropriate for the Commission to ignore the issue of quantum funds

required, while at the same time applying the other principles it has espoused. It is strongly argued that notwithstanding its terms of reference, the Commission should recommend an increase in the quantum of funds to ensure that its recommendations can be implemented over time, while ensuring that no State is significantly disadvantaged.

- In short, while the Commission's key findings are accepted, implementation of its proposals (taking into account the factors discussed in the Position Paper), will impact significantly on the viability of Tasmanian nursing homes and will not ensure that equity of access to quality care can be achieved in this State.
- The Commission's subsidy recommendations need to:
 - reflect unavoidable cost differences through a system of subsidies based on **both** State of location **and** rural/remote location;
 - ensure adequate indexation for unavoidable cost differences over time; and
 - ensure that no State is made worse off in real terms, as a result of any changes recommended.

2 Comments on the Commission's Proposals

In this section, comment is made on each of the Commission's proposals on a case by case basis. The tables identifying each issue are taken from the Commission's Position Paper, page xv - Summary of the Commission's preliminary subsidy proposals.

<i>Issue</i>	<i>Current arrangements</i>	<i>Commission's proposal</i>
The standard of care	No explicit link between funding rates and required outcomes	Funding for a uniform quality of care set by accreditation and certification requirements

Comment:

Aged Care Tasmania agrees with this proposal and stresses that this is the underlying basis on which any recommendation from the Commission should be made.

<i>Issue</i>	<i>Current arrangements</i>	<i>Commission's proposal</i>
Cost basis for subsidies	Historical costs of provision	Standard costs that net out the effects of quality differences and inefficiencies

Comment:

Aged Care Tasmania agrees with this proposal on the proviso that:

- standard costs are determined in the way set out by the Commission in its Position Paper (that is, calculated from the average costs of provision of all current providers).
- that the standard costs calculated in this way are then adjusted for the cost of intrinsic disabilities faced in service provision (such as calculated in Aged Care Tasmania's initial submission).

This approach would achieve the objective of avoiding compensation for actual costs (and address the attendant concerns on lack of incentives for being efficient) while ensuring that unavoidable cost structure differences are explicitly recognised and that efficient providers retain the benefits from being more efficient than the average provider.

Aged Care Tasmania supports the introduction of a benchmarking study that is both comprehensive and transparent in its process and outcomes. However, it does not accept that there are necessarily in-built inefficiencies in the current system.

<i>Issue</i>	<i>Current arrangements</i>	<i>Commission's proposal</i>
Regional differentiation in basic subsidies	Based on State and Territory borders, but to coalesce to uniform national rates	Uniform national rates

Comment:

This proposal is at odds with the evidence on cost differences and with the underlying principle that any proposals should be based on the concept of a uniform quality of care.

National rates would only be defensible if the cost of delivering care is the same or similar, or will eventually be the same or similar in all States - that is, where all pay rates and conditions will be the same, and where every provider has the same "opportunity" to deal with cost pressures.

As the cost of delivery currently varies between States (somewhere between 6 and 25 per cent), then a uniform national rate can only apply at some point in the future, if and when all costs converge. In the absence of some kind of direct intervention, this convergence could take between 5 and 25 years. Direct intervention in the "market place" in order to bring together a national system of wage rates and conditions, including workers compensation premiums, would lead to convergence more quickly, but under current policy (such as competition policy and micro-economic reform it is extremely unlikely that this would occur. In fact these policies will effectively ensure that cost differences will become more marked over time, reflecting regional circumstances rather than centrally controlled subsidies and wage rates.

If, and when, convergence in costs occur then it would be possible to strike a national uniform rate, but until then, any attempt to converge rates, where some States are worse off than others, will bring about an inability to achieve uniform levels of care.

Indeed it is questionable as to whether the premise that costs are converging, and will continue to converge, is correct. Careful examination of the Commonwealth Department of Health and Family Services submission, on which the Commission's conclusion appears to be based, shows that while the differences between the States with the highest and lowest CAM rates decreased between 1993-94 and 1996-97, differences between some individual States have actually increased.

For example, over the period in question, Tasmania's position has deteriorated compared with all other States and Territories with the exception of Queensland. There is also other evidence which suggests that Tasmania's non-wage costs have increased relative to the other States on average over this period. This supports Aged Care Tasmania's argument that a differential (higher) subsidy rate is justified for Tasmanian homes and that this is likely to be the situation for the foreseeable future under current Commonwealth and State policies. (Attachment 1 sets out an alternative method of achieving a uniform rate over time).

<i>Issue</i>	<i>Current arrangements</i>	<i>Commission's proposal</i>
Relating subsidies to the dependency of residents	Resident Classification Scale	Resident Classification Scale

Comment:

Aged Care Tasmania agrees with the Commission's proposal.

<i>Issue</i>	<i>Current arrangements</i>	<i>Commission's proposal</i>
Indexation of basic subsidy	Use of COPO index - not specifically linked to movements in industry costs	Subsidy rates adjusted on the basis of Increases in input prices, less a productivity discount

Comment:

Aged Care Tasmania agrees that COPO is not an adequate index. The use of this index has already discounted payments to providers by \$128 million over the past five years. Indexation rates need to reflect actual costs increases outside the control of providers.

The proposed productivity discount should be linked to tangible and demonstrated productivity gains and reviewed on an annual basis using the results of the benchmarking model and cost data for each State. Aged Care Tasmania is concerned that a system of productivity discounts, if not rigorous and empirically based, would result in a real terms reduction in funds to the sector, leading to a reduction in the quality of care over time. Aged Care Tasmania suggests the calculation method for this discount should be agreed by all parties.

<i>Issue</i>	<i>Current arrangements</i>	<i>Commission's proposal</i>
Supplementary funding	Range of supplements to cater for specific cost circumstances not readily handled through the basic subsidy regime	Continue system but with some changes to individual supplements
	Special funding for small remote and rural homes through the viability supplement	An augmented special needs funding pool to address these requirements

Comment:

Aged Care Tasmania draws the Commission's attention to Appendix 1 on the use of supplementary funding and how this could be used to arrive at a national uniform rate.

In regard to funding for homes in rural and remote areas, Aged Care Tasmania agrees that extra funding is required to accommodate the needs of this group, but would also argue that, due to its location and dispersed population, Tasmania as a whole should fall into the category of "remote".

Aged Care Tasmania requests the Commission to clearly define "rural and remote" in its recommendations, and to give due consideration to including the whole of Tasmania in this category.

<i>Issue</i>	<i>Current arrangements</i>	<i>Commission's proposal</i>
Deductions	Basic subsidy reduced for government-run homes	No differentiation of basic ownership

Comment:

Aged Care Tasmania agrees with this proposal.

<i>Issue</i>	<i>Current arrangements</i>	<i>Commission's proposal</i>
Acquittal of expenditure	Not required	Not required

Comment:

Aged Care Tasmania agrees with this proposal.

<i>Issue</i>	<i>Current arrangements</i>	<i>Commission's proposal</i>
To whom are subsidies paid?	Providers	Providers

Comment:

Aged Care Tasmania agrees with this proposal.

<i>Issue</i>	<i>Current arrangements</i>	<i>Commission's proposal</i>
Extra service places	Number of places subject to a quota.	Consider replacing quotas with a monitoring arrangement to safeguard the interests of those seeking only basic care, and abolish other regulations
	Also controls on nature and price of extra services	
	Reductions in the basic subsidy for residents in extra service places	Abolish reductions, and offset revenue loss by increasing the stringency of the income test for the basic subsidy

Comment.

Aged Care Tasmania agrees with this proposal. However, it has severe reservations about the use of any monitoring outside the new accreditation system. To set up another system merely for this purpose would be inefficient to the Government, providers and residents. This should be covered in the process of accreditation.

3. Conclusion

- Overall in its draft paper, the Commission has correctly identified the current issues in subsidy design for aged care facilities. However, in Aged Care Tasmania's view some solutions have been proffered which are inconsistent with the available evidence and which will not, of themselves, ensure, that a national uniform level of access and quality of service can be provided in Tasmania.
- Because the Commission has not been asked to consider the quantum of funds, its recommendations will necessarily leave some States worse off, by making others better off.
- Aged Care Tasmania believes that the Commission should adopt the principle that has underpinned changes in Commonwealth initiated programs in the past - that no State should be worse off, in real terms, after the implementation of the recommended changes. (Negotiations on the GST are a case in point);
- Aged Care Tasmania also recognises comments made by the Commission in its draft report, and in particular, strongly endorses the sentiment in the second sentence of the following quote from part 4,1, page 34:

"Nevertheless, the data suggest that the choice between uniform and regionally differentiated subsidies is finely balanced. This is particularly the case as all unfunded cost penalty of even a few percentage points can be significant for home viability".

- This is reinforced in Tasmania's case as any reduction in subsidy rates will impact on viability. The current situation is that the viability of many providers relies on very slim margins and a small movement of say 5% (8% under the proposed coalescence) will cause providers to reduce the level of care by reducing staff (4 to 5 per facility on average); resulting in aged care services not being provided in areas where there is a definite need. The Private for Profit sector will not fill this need due to the question of viability.
- Any negative adjustment to subsidy rates for Tasmanian homes will affect viability, which in turn will affect access, equity and the quality of care delivered. In the great majority of homes, there is no excess financial capacity to cope with a reduction in subsidies, whether it be implemented immediately or over time through non-indexation.
- It is Aged Care Tasmania's view that three principles need to be adopted by the Commonwealth in regard to nursing home subsidies:
 - unavoidable cost differences need to be reflected through a system of differential subsidy rates based on **both** State of location and rural/remote location;
 - indexation needs to adequately compensate for unavoidable increases in costs over time; and
 - no State should be worse off as a result of any changes recommended.

Attachment 1 - Alternative Approach to Subsidy Determination

If it is believed that pay, conditions and other cost factors will converge over time, all alternative approach would be to strike a uniform rate, with a State/Regional viability supplement. progressively adjusted over time on the basis of empirical evidence of cost convergence.

The system would work in the following manner:

National Rates would be struck for each of the categories (which are the weighted average beds per category, by different State rates), with a top-up viability payment (per bed per day):

	RCS 1	RCS 2	RCS 3	RCS 4
Base Rate.	102.20	92.10	79.10	55.60
Supplement:				
NSW	1.80	1.90	1.91	1.42
Vic	6.80	5.90	4.91	4.42
Qld	-12.20	-11.10	-9.09	-6.58
SA	-5.20	-4.10	-3.09	-1.58
WA	-2.20	-1.10	-1.09	-0.58
Tas	7.80	7.90	6.91	6.42
ACT	-2.20	-1.10	-1.09	0.42
NT	3.80	2.90	2.91	2.42

The above reflects the current cost differences between the States. Aged Care Tasmania maintains that the Queensland, Southern Australia and Western Australia's positions be rectified by using part of the \$128 million shortfall over the past five years. (Refer to the attached table on the effect of bringing Queensland, South Australia and Western Australia up to at least the national rate).

The components of the model would be calculated as follows:

The National Rate: This is the benchmark care model rate which carries the same average cost across the whole of Australia.

The Supplement Rate: This reflects the intrinsic cost differences between States for delivering the same quality of care in each State.

The movement towards a national uniform rate would be carried out in the following manner;

- Step 1: The benchmark study would be used to determine a National Rate.
- Step 2: Each State's cost of delivering care would be used to determine the viability supplement (all of the known costs that can be compared between the States would be agreed at the time of performing the benchmark for quality of care, and updated on a yearly basis, in a proper and transparent manner).
- Step 3: As the various costs converge, then the national rate is increased and the, viability supplement is decreased, until such time that the uniform national rate reflects the same costs across all States.

As mentioned before, this may take anything between 5 to 25 years, and depends upon the convergence of costs between States. If costs do not converge significantly over time, the subsidy differential will continue to appropriately reflect the unavoidable cost differences faced by homes in different States and locations.

This method achieves three outcomes in a way which is consistent with the Commission's key objective - funding quality of care as set by the accreditation and certification requirements:

- it ensures that no State is worse off.,
- it ensures that the quality of care is maintained in all States; and
- it creates a system that recognises the current difference in costs between States, but also sets in place the movement to national rates without compromising the first two points of these outcomes.

Aged Care Tasmania puts forward the following timetable for this to occur:

- | | |
|--------------|--|
| 1998/99 | Agree on Care model for benchmarking, which includes supplementary funding for rural and remote facilities. |
| 1999/2000 | Apply the average costs in each State to the model developed and determine the level of funding for each State, and apply new indexation arrangements. |
| 1999/2000 | Commence payment of supplementary money. |
| 2000 onwards | At the end of each financial year, take the major cost elements in the model and compare them in each State - as these major cost elements converge make appropriate adjustments to the subsidy rates. |

By using this method three things are achieved:

- a benchmark is set for providers to operate within.
- the inescapable cost differences that currently exists between each of the States are recognised.

- subsidy differentials are eliminated over time, if and as the major costs converge.

This process would bring about a uniform national rate reflecting an efficient provider, and would allow time for providers to adjust over a period of time, and as costs. converge.

It would also bring the current States that are underfunded into line more quickly. The cost of bringing the lower States at least up to the national average, is \$62.1 million or 2.2 per cent of the total expenditure on the Aged Care residential sector.

Attachment No. 1

Category	QLD	WA	SA	ACT	National average
1	\$23,629	\$1,062	\$4,284	\$185	102.2
2	\$62,548	\$2,776	\$12,458	\$277	92.1
3	\$40,728	\$2,383	\$8,447	\$270	79.09
4	\$9,696	\$332	\$1,125	(\$45)	55.58
5	\$0	\$0	\$0	\$0	34
6	\$0	\$0	\$0	\$0	28
7	\$0	\$0	\$0	\$0	22
8	\$0	\$0	\$0	\$0	0
Total per day	\$136,601	\$6,553	\$26,314	\$687	
Total per year	\$49,859,365	\$2,391,845	\$9,604,610	\$250,755	
Total	\$62,106,575				