

**A COMMENTARY ON THE VIABILITY OF HIGH CARE
FACILITIES IN WESTERN AUSTRALIA**
by L. W. BRAY FCPA

Based on figures provided recently by the Centre for International Economics in relation to category profiles (RCS) in Aged Care facilities nationally (Table B attached), the average fee for Western Australia over all high care beds is \$110 per occupied bed day after bringing to account;

The Basic Daily Care Fee

The Commonwealth Subsidy applicable to the categories 1 to 4

Pensioner Supplement

Accommodation Fees Concessional Subsidies and Supplements were not brought to account in determining the average fee. Having regard to a vacancy factor of 1%, the average fee of \$110 discounts back to \$108.90 which is used as the base for the following arguments.

To challenge the viability situation, I have chosen to work backwards starting off with the average daily income level, as above, \$108.90 and at the end of the exercise it will be seen that there is currently insufficient funds to operate high care beds as to "Other Costs" of infrastructure. Further, it will be seen that the existing shortage of funding and the potential for further erosions if not dealt with will destroy the intent of properly using the "quarantined" income from accommodation fees and concessional subsidies for the purposes of upgrading facilities.

In disregarding supplements in the average fee I have assumed that supplements will "square off" against the cost of items which they are expected to cover. The payroll tax supplement however is very suspect in this area and receives separate mention later on.

I would now like to focus on how the average operational fee as defined above should be dealt with and whether it is adequate to meet the fair and reasonable disbursements required to allow the high care facility to operate to required standards and with reasonable return to the provider. Regrettably, the final analysis appears to point to a negative situation.

1. Return on Investment

In the current funding, there is an amount of \$8.93 per occupied bed generously allowed by the Commonwealth Government as "Return on Investment" (ROI). This is still in the system carried over from the CAM/SAM era. It can be identified because it is precisely the difference in subsidies paid to "adjusted fee Government nursing homes", the latter receiving this much per day less than all other nursing homes. It arose as stated in the years pre 1/10/97, when State Government homes converting to CAM/SAM funding were not paid the ROI available to all others from the SAM component. Reference to the Residential Care Manual will confirm this is still the current position.

Of course, with ROI defined at \$8.93 per bed day, it is hardly cause for celebration i.e. \$3260 pa. from which must be met any interest payable in your business, rent, leasing charges on vehicles/equipment and remuneration for management. That which remains is the funded return on your net equity in your facility, i.e. land, buildings, plant & equipment, bed license value and working capital. At a present estimated cost of \$60,000 to \$80,000 per bed, it can be seen how inadequate is this ROI component leaving aside interest, rent, management fees. At \$3260 it represents 5.4% p.a. on \$60,000 per bed investment.

Accepting the ROI as is, deduct this item from the average fee - viz;

Average fee	\$108.90
Less ROI	\$08.93
Remaining Balance	<u>\$99.97</u>

2. Wages

Previously included under SAM at 30/9/97 is \$18.60 per bed day for wages other than nursing and personal care. This component has been part of SAM since 1/7/87 and at the commencement of the new fee structures 1/10/97 was at the indexed level stated above. The resident profile on which the present average fee is based would at 1/10/97 have embraced an average N&PC wages element of \$64 per bed day being average standard hours (2.95 hrs) x average standard hourly rate for N&PC staff (\$21.60 per hour) = \$64 to nearest \$1. This calculation, using the RCI is in the interest of conservatism since table 2.11 of the RCS Review indicates that WA operated at 1.5% less than required under the new Resident Classification Scale.

Thus, the wages component requires -

Daily Funded cost per bed for non-nursing staff	\$18. 60 (30/9/97)
Daily Funded cost <i>per</i> bed for nursing & personal care Staff	\$64.00 (30/9/97)

Add 7% for Superannuation Guarantee and 5%

Worker's Compensation Premium (at WA rates revised

1/7/98) = 12%	<u>\$09.90</u>
	\$92.50

(\$92.50 represents 85% of the WA average fee)

Thus: remainder of our average fee	\$99.97
Reduced by wages	<u>\$92.50</u>
Balance remaining for infrastructure costs	<u>\$07.47</u>

This remaining balance is there to cover the multitude of infrastructure costs previously dealt with to 30/9/97 ex the SAM component. This is "crunch time" since as stated there remains only \$7.47 per day yet this COMPONENT at 30/9/97 when SAM was "put to rest" provided nursing homes with \$11.86 per bed day. This is derived from SAM's indexation history which was -

Comprising;

Initial SAM 1/7/87	\$27.65 per bed day
Other Costs	\$8.38
Wages	\$13.21
ROI	<u>\$06.06</u>
	<u>\$27.65</u>

Final SAM (1/7/97 to 30/9/97)	\$39.13 per bed day
an increase of 41.5% over 10 Years	

Original SAM "Other Costs"

\$8.38 + 41.5% =	Current Other Cost Funding	\$11.86 per bed day
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There is ample argument to support a view that even \$11.86 per day allowed as above is totally inadequate (refer samples below), but to now have even that approved funding level reduced by over \$4 per bed day is a huge challenge to viability, for high care beds in this state.

Let us examine reasons for this deficiency in infrastructure cost funding and other evidence which indicates there is insufficient funding for this group of costs which we incur.

Questions and answers may best present the argument in regard to this inadequacy.

Question 1.

What has to be paid for by way of infrastructure costs?

Answer:

All 'hotel' services relating to accommodation catering and non-nursing administration of the facility. There are 'prescribed services' under the Aged Care Act which are mandatory, including -

- The provision of 3 meals each day to resident plus morning afternoon tea and supper.
- All non-prescription and medical and incontinence requisites.
- Personal laundry and general laundry including foul laundry.
- Provision of commercial recreation equipment and activities such as bus trips, concerts and outings
- Mobility aids, special bedding.

Other Items:

Cleaning, Maintenance, Accounting Bank & Audit charges, Advertising, Insurance, Vehicle costs, Stationery, Depreciation, Gardening, Rates & Taxes (as examples).

The above list is not exhaustive. No adjustment has been made to this segment of funding since 30 June, 1985 other than CPI/COPOS indexation. Consequently, the much increased dependency level of residents over 13 years has been ignored in whatever review process that have taken place.

Question 2.

What tangible evidence is available elsewhere as to the inadequacy of this area of funding?.

Answer:

1. A survey of Infrastructure Costs over 90 nursing homes across Australia for the year ended 30/6/96 indicated an average cost level of \$21 per bed day for infrastructure costs/excluding wages for infrastructure staff and slightly more for 1977. The average "bottom line" per facility was a net deficit and only 33% of the facilities surveyed in 1996 made a profit. In the 1996/97 survey 130 homes were surveyed and 50% made a profit. The average deficit overall homes surveyed increased from \$1.35 per bed day - \$1.78 per bed day between 1996 and 1997.

2. TABLE A (attached)

Please refer to a cost study of 350 WA beds undertaken a few months ago. Remember, SAM over 10 years was increased by 41.5%. There are many items incurred by the sampled 350 beds (e.g. Incontinence & Medical Supplies) which have cost increased over 10 years by hundreds of percent.

3. Arthur Anderson & Co. survey:

A survey carried out in 1992/93 by Arthur Anderson & Co. in Victoria, commissioned by the Federal Government as part of the process within the review by Professor Bob Gregory indicated that the average of SAM expenditure items was \$34.49 per day and the median \$34.60. SAM set at 1/7/92 was \$35.06 (national figure).

Other factors which will farther erode an already non-viable situation:

1. You will see further increases in the Superannuation Guarantee charge. The 1% rise on 1/7/98 was allowed in the funding at 52 cents per resident day and incredibly was averaged at a flat rate over categories 1 to 7. Based on the ratio of high care and low care beds nationally and the % of subsidies paid in the high care/ low care areas the flat rate average approach was absurd. More realistically, the \$23.5m allowed nationally for this increase should more equitably have been distributed on a basis of approx. 22 cents/day low care and 68 cents/day high care. If this flawed methodology persists, the position will worsen over future SGC increases.

2. The Federal Government ignored the legislative changes by WA government increasing Worker's Compensation premiums for the Aged Care industry by 90 cents per bed day last July 1. Other increases regardless of work place performance (good or bad) are mooted. If not, funded you will obviously be seriously affected.

3. How is the payroll tax supplement faring applicable to your facility?. If you lie in the 31-60 bed group, you will probably find that what you are paying to the WA state government for this item is not covered by your supplement. There are huge flaws in the Commonwealth government methodology. For example - a 60 bed facility in WA is funded at 99c per bed day and a 61 bed at \$4.58. That is indefensible, leaving a 60 bed facility at WA rates of payroll tax thousands of dollars in deficit annually on this one item and a 61 bed facility (obviously with the same staffing establishment), tens of thousands of dollars in surplus.

4. Think about your registered nurses and their unfortunate pay rates compared to their colleagues in the WA acute sector and the aged care sector in the eastern states. At present they face a catch up of over 20% in regard to their WA peers. When they do (catch up) there appears to be nothing on the horizon officially, which will assure WA nursing homes of a funding increase to cover. The rules are at present a once a year adjustment on 1 July equivalent to Australian Industrial Relations Commission's Safety Net Adjustment which last year nationally rendered an increase of 1.4%. You will be looking towards a \$2 to \$3 per bed day funding shortfall on this item.

At this point, with the funding gloom and doom present and predicted, you may think that no mention has been made of the "goodies" *i.e.* the increase in funding resulting from the build up of accommodation fees and concessional subsidies.

Sure, there is a life-line here but the outcome will depend on how well or poorly your own facility is placed. For example, you may be better situated with your payroll tax supplement than your colleagues. Your geographic situation will affect the ratio of Accommodation Fees/Concessional Subsidies.

Your average fee increase generated from this new income stream may be lower or higher than others as a result. The present deficiencies in funding \$4 at least in infrastructure plus "potentials" per items 1 to 4 immediately above have the clout to totally wipe out additional fee income from your accommodation fee paying and concessional residents. Also, keep in mind that you face a whole new raft of expenditure for the accreditation process with no component in funding to cover.

If you are fortunate and some surplus from these sources ensues, you will if you are a private sector facility, return 36% of it to Government anyway by way of Income Tax. The nature of Section 57 2n in setting the rules for spending this income stream confine that spending in the main to capital items and debt reduction, thus reducing scope for tax deductibility. A real "Indian Give!".

A couple of points I would like to make in conclusion:

1 Don't be lulled into a false sense of security by the non accountable nature of the present funding system. CAM, SAM and OCRE items were built in there on 1/10/97 and can still be identified if you keep track of 1 July adjustments. You need to track your spending under these old headings (for a while anyway). Methodology of funding and adjustments thereto are clearly flawed at some points in the system and you need to be aware as to how those problems effect your income/spending ratios. Payroll tax, Worker's Compensation premiums and SGC are classical examples. The infrastructure :Other Costs: element is simply a gross deficiency put in place in 1985 and never examined since from a resident dependency point of view. We are now it seem dealt a serious set back with the funding - \$7.47 per bed day now returned to a level below that of 1/7/87 when SAM was initiated! At that point it was \$8.3 8 per bed day! .

2. Be proud of your essential caring industry and your place in it and fight for a decent funding. Why as providers do you deserve to be treated so inadequately in return for what is expected of you by 2001?. The treatment meted out to the Aged Care Industry financially is simply not worthy. It would be difficult to imagine it happening elsewhere.

For instance -

- A funding system affecting 135,000 aged which at its best would allow 4 to 5% return on investment and no recoupment for rent, interest or management remuneration.
- Can you imagine other essential services such as emergency, acute care, air safety, education, justice etc. operating on infrastructure cost levels 13 years old with only CPI type adjustment, particularly as providers are required now to cope with new levels of standards accreditation and upgrading in many fields apart from our own.

Decide on your viability or lack of it and if you are not happy see your MP as soon as possible.

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TABLE A

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The current cost has been averaged over the 4 homes. - 350 BEDS

ITEM	Funded per bed day 1/7/87	Funded per bed day 1/7/97	Actual Bed Day Cost 97/98	% Increase of actual cost since 1/7/87 (SAM Increase was 41.5%
Medical/ Incontinence	.28	.39	1.30	364
Energy	1.18	1.65	1.67	41
Rates & Taxes	.45	.70	1.33	195
Bank Charges	.08	.11	.21	162
Telephone	.17	.23	.38	124
Replacements	.05	.07	.77	1440
Maintenance	.73	1.02	1.24	70
Food Supplies	3.03	4.24	3.83	26
General Ins.	30	42	.53	76
	6.27	8.83	11.26	Average 80%

In aggregate, the cost of the above samples on an annualised. basis in terms of current 97/98 cost as an excess to SAM funding is \$310,000 or \$2.43 per bed day for the 350 beds.

The panel of 9 items sampled are representative of 75% of SAM costs funded as "Other Costs" at 1/7/87. The best possible assumption for the other 25% not illustrated is that they would correlate with the 41.5% indexation of Sam represented by the figure set 1/7/97. This however is most unlikely- see later comment on laundry performance (as an example).

Thus, it can be expected that additional funding which will generate in due course from accommodation fees and concessional subsidies, (assuming an average of \$7 per bed day) will be severely eroded in pursuing the main objective for a facility to remain viable. But then surely Section 57.2 (u) of the Aged Care Act 1997 prohibits such a practice and virtually "quarantines" such funding for application to capital requirements.

To be realistic, since only 75% of items in original SAM have been sampled, the emerging deficit will probably be much worse since at least part of the remaining 25% riot sampled will also have other serious shortfalls attached. eg. Laundry cost, due to the incontinence factor affecting in further investment in linen, increased laundry supplies, depreciation of machinery.

One group of nursing homes in WA in 1987 handled 17 tons of laundry per month. Two years ago (1996) it was measured at 31 tons per month. At the same time a count of items in one 92 bed home comparing to numbers in 1987 showed -

Sheets	up	93%
Draw Sheets		68%
Kylies		200%
Face Washers		178%
Quilts/Blankets		400%

This particular facility had the same efficient senior laundress in 1997 as in 1987. There was no change in bed numbers between these dates

Table C. 7 RCS distribution by State and Territory, number of residents

	<i>High Care</i>			<i>Low Care</i>		
	RCS 1	2	4	4	5-8	Total
NSW	3541	11882	10260	2814	19266	47763
Vic	2712	8230	5671	1285	14245	32143
Qld	1904	5678	4532	1408	10764	24286
WA	416	2567	2162	595	5481	11221
SA	668	3076	2826	699	5862	13131
Tas	191	790	867	267	1547	3662
ACT	105	229	206	108	661	1309
NT	12	124	82	20	107	345
Total	9549	32576	26606	7196	57933	133860

Source: Centre for International Economics, 1998, p.31.