



Health Department of Western Australia

Mr Mike Woods
Commissioner
Productivity Commission
Level 28, 35 Collins Street
MELBOURNE VIC 3000


Dear Mr Woods

**PRODUCTIVITY COMMISSION
INQUIRY INTO NURSING HOME SUBSIDIES**

Enclosed are supplementary comments from the Health Department of Western Australia in regard to the Inquiry into Nursing Home Subsidies.

The Health Department's contact officer in regard to these comments is David Inglis, (08) 9222 4273.

Yours sincerely


Alan Bansemer
COMMISSIONER OF HEALTH
15 December 1998

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HEALTH DEPARTMENT OF WESTERN AUSTRALIA
SECOND SUBMISSION TO PRODUCTIVITY COMMISSION
INQUIRY INTO NURSING HOME SUBSIDIES

The Health Department of Western Australia wishes to provide comments in regard to the following proposals contained in the Productivity Commission's Nursing Home Subsidies Position Papers, October 1998 and November 1998.

The Standard of Care
Regional Differentiation in Basic Subsidies
Indexation of Basic Subsidies
Supplementary Funding

In addition the Health Department of Western Australia wishes to raise with the Commission a broader issue of relative structural efficiency between nursing home sectors in the various States and Territories.

Standard of Care

The Productivity Commission has put the view in its position paper that all residents of nursing homes should have access to a common 'standard quality' of care.

The Health Department concurs with this premise. The funding system should not impede the achievement of this goal. However, it would seem highly improbable that average input costs for nursing home services for an efficient nursing home will be the same in all states or the same within a particular state, e.g. between efficient urban and rural nursing homes.

Hence, if the Productivity Commission believes that a primary concern is the achievement of a common 'standard quality' of care for all nursing home residents this would seem to weigh against the setting of national standard subsidies, see below discussion on "Regional Differences in Basic Subsidies".

Regional Differences in Basic Subsidies

Health Department of Western Australia believes that the nursing home funding system should be capable of taking into account, at a state level, higher costs incurred by an efficient nursing home to provide the required minimum 'quality standard' of care. The Health Department believes that conditions can arise between states which affect the prices of nursing home inputs which are outside of the control of individual nursing homes or the particular state's nursing home sector as a whole.

An example of this is higher costs for nursing staff in a particular state because of short to medium term nursing workforce shortages, a situation which currently exists in Western Australia.

In summary therefore Health Department of Western Australia believes that it is unrealistic to require nursing homes in a particular state to meet a national minimum standard of care unless government regulated funding arrangements are capable of being adjusted for unavoidable input cost differences at a state level.

Indexation of Basic Subsidy

The Productivity Commission has proposed that subsidy rates be adjusted on the basis of increases in input prices, less a productivity discount.

Because the environment in regard to the nature of demand and provision of nursing home services is not static, nursing homes are subject to cost increase pressures which may from time to time lessen the ability to achieve efficiency improvements. These factors need to be taken into account in determining required productivity discounts in regard to the indexation of basic subsidies. Examples of these factors are:

- Extra costs associated with periodic professional staff shortages, e.g. registered nurses, as discussed above.
- Increased resident turnover.

There appears to be a trend towards increased turnover of residents in nursing homes. Increased resident turnover increases admission and separation cost overheads.

Also, the Health Department believes that any system of indexation of basic subsidies should include triennial benchmark costing and performance reviews. These reviews should have the capability to not only examine trends in input costs and service best practice but should also take into consideration changes in the overall structure of the demand and provision of aged care services, particularly in respect to those changes which affect the-demand for nursing home services.

Aged care services are undergoing significant change which is resulting in -

- long term change to the mix of services, e.g. residential versus community
- changing practice in regard to the provision of residential care services e.g. ageing in place
- shorter average lengths of stay in nursing homes.

These changes are having a significant and evolving effect on the nursing home sector.

Supplementary Funding for Small Rural and Remote Nursing Homes

The Productivity Commission has proposed an augmented special needs funding pool to address the special additional funding requirements for small rural and remote nursing homes.

The lack of adequate supplementary funding for small rural and remote nursing homes is a major short coming of the current system of nursing home subsidies. Small rural and remote nursing homes incur:

- diseconomies of small scale
- higher input costs both for labour and other goods and services
- higher equipment and equipment maintenance costs.

As well, they incur other costs which urban nursing homes do not incur or incur to a much lesser extent. Important examples of these additional costs are:

- higher cost of staff recruitment
- the need to subsidise professional staff accommodation in remote regions
- costs associated with higher professional staff turnover
- extra costs associated with maintaining required levels of staff training.

The Health Department supports approaches to funding of rural and remote nursing homes which would recognise the unavoidable higher input costs incurred by these nursing homes if they are to provide the same standard of care enjoyed by residents of urban nursing homes.

It is essential however that a system of augmented funding for rural and remote nursing homes recognises all factors which contribute to higher costs and also recognises unavoidable differences in these costs between individual remote and rural nursing homes. In other words it seems unlikely that a generalised formula approach for augmented funding for rural and remote nursing homes would be adequate.

Nursing Home Sector Relative Efficiency - Another Consideration

Residential Classification Scale statistics for each State- and Territory show significant differences in the proportion of high dependency residents, RCS 1 and 2, in nursing homes between the states.

NSW	54.1%
Vic	61.1%
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SA	51.5%
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For some states this variation in high dependency case mix can be explained by differences in the relative provision of nursing home beds between the states.

However, for example, NSW has a relatively high provision of nursing home beds as well as a relatively high proportion of high dependency nursing home residents. Also, NSW nursing home subsidy rates are above the national average.

The significance of this analysis is that there appears to be differences in nursing home sector structural efficiency between states which has implications for government outlays.

One possible explanation of such structural efficiency differences is that some states provide a more cost effective balance of aged care service modalities, i.e. lower cost substitutes for nursing home care.

The current system of Commonwealth nursing home subsidies does not reward structural efficiencies at a state aged care services level. On the contrary it would appear to reward structural inefficiency.

For example, if NSW had the same relative provision of nursing home beds and a similar resident case mix as WA, Commonwealth outlays for nursing home subsidies would be reduced by approximately 14% for NSW which would be equivalent to an approximate 6% reduction in Commonwealth subsidies for nursing homes nationally.

This analysis raises the question as to whether there should be a mechanism within the funding system for nursing home services which provides incentives for the achievement of broader aged care sector efficiencies.

27 November 1998

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HEALTH DEPARTMENT OF WESTERN AUSTRALIA

**SUBMISSION TO PRODUCTIVITY COMMISSION
INQUIRY INTO NURSING HOME SUBSIDIES**

The following are matters which the Health Department believes the Productivity Commission should take into account in its inquiry into Nursing Home Subsidies.

Proposed Coalescence of Nursing Home Subsidy Rates in States and Territories

The Health Department believes that the Commission should review the validity of having national standard nursing home subsidy rates, see below.

However, if coalescence is to proceed the Health Department believes that the proposed time line for coalescence, seven years, is far too long, particularly for states where the subsidy rates are below the national average.

Given that it is estimated that the total effect of coalescence will provide the Western Australian nursing home sector with only an additional \$2 million annually, the Health Department believes that it should be possible for the Commonwealth to immediately bring states receiving lower nursing home subsidy rates to the coalescence level.

States with lower subsidy rates are at a significant disadvantage in regard to their ability to adjust to the requirements of the Commonwealth's residential care reforms compared to states which enjoy higher subsidy rates.

It is accepted that states whose subsidy rates will fall with coalescence should be provided with sufficient time to adjust to lower subsidy rates.

Relative Costs Between the States and Territories of Providing Nursing Home Care

Nursing home and personal care staff wages are strongly influenced by wage levels of comparable staff categories outside the sector. As well general economic and labour demand and supply conditions at a state level can significantly influence wage levels in relatively small economic sectors such as nursing home services.

It would seem inevitable, therefore, that the establishment of national subsidy rates will benefit some states and disadvantage other states.

The standardisation of nursing home fee and subsidy rates at a national level assumes that there is little or no variability at a state level of input costs.

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This would appear to be a very unlikely scenario. Hence, the Health Department believes that the nursing home subsidy rate setting methodology used by the Commonwealth should be able to factor in significant input cost variations at a state level which are outside the control or influence of the nursing home sector.

As well, within states there can be very significant wage and related cost differentials in regard to the provision of nursing home services. For example, the provision of nursing home services in rural and remote areas of WA is more costly than the provision of these services in the Perth metropolitan area.

Higher per unit costs are incurred in remote and rural Western Australia for the following reasons:

i Diseconomies of small scale

The average size of nursing homes in rural and remote areas tends to be smaller than in urban areas. It is generally recognised that at current subsidy rates nursing homes below 60 beds incur significant diseconomies of small scale.

ii Higher Staff Costs

In order to attract and retain nursing home staff in non metropolitan areas, particularly the relatively remote areas, it is often necessary to provide additional staff benefits in the form of higher salaries and allowances and other benefits.

iii Staff Turnover Rates

Nursing homes in remote centres can experience significantly higher staff turnover rates than nursing homes in the metropolitan area with resultant additional staff recruitment and training costs.

In a state geographically as large as WA with a dispersed population, the financial impact of intra state input cost differentials is likely to be much greater compared to states with a lesser spread of population.

In this regard the Productivity Commission should consider the Commonwealth Grants Commission's public nursing home assessments, which include factors for differences in costs between states arising from dispersion (i.e. the spread of state population) and input costs (mainly interstate wage differentials). However, it should be noted that the Grants Commission does not take account of Commonwealth subsidies for nursing homes. (in the context of the Grants Commission current review, Western Australia is proposing that account be taken of these subsidies for public nursing homes).

3.

Trends in Wage Costs

There is currently a 15% - 20% gap between nursing home nurse wage rates and hospital nurse wage rates. On recent trends this gap could widen if the shortage of hospital nurses persists.

Also if this wage differential persists it will become increasingly difficult for nursing homes to attract and retain qualified nursing staff with a resultant downward spiral in nursing home capability and quality of care.

Because of the control over fees and subsidy rates nursing homes have little or no scope to even partially match hospital nurse wage increases.

Differential Subsidies

The Health Department believes that the Commonwealth's nursing home subsidy rate methodology should have provision to pay differential rates in respect to cost of input differences which are outside the control of the nursing home sector, e.g.

- (a) The general level of nurse wages in the particular state.
- (b) Unavoidable additional input costs incurred by rural and remote nursing homes for staff and other inputs.

The Health Department would be willing to work with the Productivity Commission to determine the appropriate methodologies to fairly determine unavoidable inter regional and inter state nursing home input cost differentials.

General Comment

The Health Department believes that the fundamental issue which is facing the nursing home sector is whether the level of available funding is sufficient to enable the nursing home sector to provide the level of nursing home care which the Commonwealth expects should be available to people living in urban and country areas throughout Australia.

The nursing home sector believes that the available level of funding is insufficient.

Unless the required quantum of funding is available by way of government subsidies and user charges, refinement of the methods and formulas to distribute the available funding will be of little or marginal benefit to the nursing home sector. Hence, the Health Department believes that the terms of reference of the Productivity Commission inquiry should be expanded to enable the Commission to examine the medium and long term economic viability of the nursing home sector, having regard to:

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- the overall economic circumstances in which the sector is required to operate.
- the current regulations and methodology in respect to the setting of levels of resident fees and government subsidies.
- the need for the sector to restore and improve the quality of its building stock which has deteriorated because of previous limitations to the sector's ability to access capital maintenance and replacement funding.
- the need to relocate nursing home beds because of changes in the geographical distribution of the elderly population.
- the need for the sector to meet new and upgraded certification and accreditation standards.

The Health Department believes that there is a need for a thorough assessment of the overall level of recurrent funding and capital infrastructure which is required by the nursing home sector to enable it to provide services of the standard required by government and expected by the community.

The current inquiry conducted by the Productivity Commission is unlikely to provide this detailed assessment and consideration should therefore be given to broaden the scope of the Commission's Inquiry into Nursing Home Subsidies.

Health Department of Western Australia
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17 September 1998

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HEALTH DEPARTMENT OF WESTERN AUSTRALIA
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