

Senate Finance and Public Administration Committee Submission

SHIRE OF KOJONUP

Introduction

The Shire of Kojonup appreciates the opportunity to provide a submission to the Senate Committee and hopes that the relevant examples at its Springhaven Aged Care Hostel will support some common concerns within the industry for the future of small, rural, low care facilities, and especially those operated within the local government regulatory environment.

Background

Kojonup is located 250km SSE of Perth and has a population of 2,151. In 2006 there were 243 people above the age of 70 years and we estimate this to increase to 300 by the year 2015.

Springhaven Aged Care Hostel is a 22 bed low care facility operated by the Shire of Kojonup, as custodian for the Kojonup community. The facility was built 30 years ago by the community to provide appropriate aged care options within the district, where residents can stay close to family and friends. In 1990 the facility was upgraded to accommodate its current capacity and in 2004 the kitchen, dining, and laundry facilities were upgraded.

Terms of reference

a. Whether current funding levels are sufficient to meet the expected quality service provision outcomes

The Shire of Kojonup perceives a difference between the funding required to provide a quality service, and the additional funding required to prove compliance with expected outcomes under the accreditation process. While it is acknowledged there needs to be accountability for funding linked to assuring standards, the administration burden to support the accreditation process is not adequately funded through current mechanisms.

Small facilities have limited ability to spread this administration overhead across the organisation and this has a significant impact on viability. Furthermore the accreditation process and funding administrative requirements have actually required reallocation of resources away from clinical care and supervision of staff.

In 2005 surveyors from the Aged Care Standards and Accreditation Agency Ltd advised management that our facility would not meet future accreditation requirements if it did not move from an overnight sleep over (on call) arrangement, to 24 hour stand up shifts. This was despite no change in the number of beds or the average RCS since the previous accreditation process.

In 2007 the agency further advised that they believed there needed to be more staffing to handle administration, specifically relating to the documentation requirements for accreditation. Between the new shifts and additional staff, required by the accreditation agency to meet the standards, and the increase in staff costs, the total staffing has increased from \$441,000 in June 2005 to \$568,000 in June 2008. This represents a 28% increase in costs without any increase in funding.

Springhaven now operates at a \$205,000 annual cash operating deficit. This figure does not include any depreciation or non cash items and is despite the inclusion of the accommodation

subsidy for concessional residents, which is in lieu of receiving a bond and would ideally be put towards the capital renewal instead of operating revenue.

Based on benchmarks for capital renewal and our depreciation we are also required to fund \$100,000 per year in addition to bond interest and retention payments, bringing the cash ratepayer subsidy of the facility to \$13,863 per bed, and equates to 13% of total rate revenue. The opportunity cost to the Shire of this “own source” revenue that could be spent on other services is significant.

Given the change in the operating position of Springhaven, the Shire has conducted extensive reviews of its operations with the assistance of well known aged care consulting firms. The reviews have concluded that the limitations are mainly due to the size of the facility and ability to spread the overhead and administration costs over a larger resident base. Based on the previous feedback from the agency regarding the required administration staffing levels, and our inability to reduce clinical staffing without impacting on resident care, Springhaven is operating as efficiently as possible for a 22 bed stand alone, low care facility.

The occupancy was at 91.7% for 2007/08 and we are unable to improve further due to significant delays in ACAT assessment across the Great Southern region of Western Australia. The funding of the ACAT position for our region only provides one nurse for 5 hours per week to cover an area of 11,000 square kilometers. There has also been no relief for this nurse when leave is taken.

The reviews concluded that Springhaven is not in a unique position and suggested that stand alone low care facilities under 40 beds are not viable under the current funding structure. The Shire of Kojonup examined multipurpose service arrangements and resource sharing opportunities with other centres to assist with sustainability, but there was no interest from other parties.

Our bed ratio is within accepted benchmarks for the population over 70 years of age. Unless a solution is found to our operating deficit position we may be forced to close and the region will struggle to cope with existing demand, let alone the pressures of an ageing population. This will obviously have a dramatic effect on the community and why we have persisted with the service in the hope that there will be an industry restructure before it is too late.

Once the “grand parenting” arrangements cease our financial position will worsen under the ACFI, given the percentage of residents under the previous RCS Level 6 to 7 arrangements, which would no longer be eligible. Entry at Level 6 or 7 is also the typical arrangement in Kojonup where there are limited community care services to offer an alternative to low care residential places.

To address the funding pressures our Registered Nurse and Allied Health staff have had to increase their administration time dealing with ACFI paperwork, which has decreased the time spent on resident care and supervision of staff.

The current viability subsidy provides approximately \$60,000 per year and is already included in our revenue assessment above. For our facility to cover its costs the viability subsidy would need to increase from \$8.69 to \$33.00 per occupied bed day if the other funding levels and “grand parenting” arrangement of the ACFI remain unchanged.

b. How appropriate the current indexation formula is in recognising the actual cost of pricing aged care services to meet the expected level and quality of such services

Current indexation has not kept pace with cost escalation of staffing costs, especially in regional centres. However, there have also been increased expectations from consumers and the government, as outlined above.

The introduction of the Conditional Adjustment Payment was proposed to assist with some cost escalation and increased by 1.75% per annum. This not only failed to account for basic CPI increases but also had tied conditions that, if accepted, would actually cost more than gained for our organisation.

When introduced the value of the CAP for Springhaven was \$7,000. Under the Local Government Act 1995 a Shire can list part of their operations as a “significant trading entity” and provide further detail as notes to the financial statements, but cannot separate to have two sets of general purpose financial reports as per the international standards. For the Shire of Kojonup to comply the CAP requirements it would have cost \$6,300 per annum in additional auditing, management and accounting time, plus a one off cost of \$18,000 to restructure the financial systems.

The level of CAP funding has only now reached a level that it is worth us pursuing the additional revenue, however, we note that there has been a separate review into the CAP process and will not commit to the costs until the outcome is known.

It is worth noting that further costs are going to be worn by operators due to the bank deposit guarantee levy. Given the bonds are required to be managed as per the prudential requirements under the Aged Care (Bond Security) Bill 2005 we believe that these bond amounts should be exempt from the surcharge.

c. Measures that can be taken to address regional variations in the cost of service delivery and the construction of aged care facilities

We believe that the viability subsidy is the appropriate mechanism for addressing this regional variation in service delivery, but needs a higher weighting towards the size of the facility as this is the key driver of viability. This subsidy also needs to be fully indexed to account for cost escalation.

The level of the viability subsidy can be set once the main funding stream, linked to resident need, is made sustainable for larger metropolitan providers. The gap with rural and remote providers can then be modeled based on size.

If there are additional regulatory requirements for local governments, who are often the provider of last resort, and these cannot be factored into the viability subsidy across the aged care industry then we would urge the Committee to consider the ability to offset some costs for local government aged care services through the Commonwealth Grants Commission allocations.

Variation in construction costs can be assessed by the “Rawlinsons Cost Construction Manual” that already provides adjustment for regional variation within Australia and is published annually.

d. Whether there is an inequity in user payments between different groups of aged care consumers and, if so, how the inequity can be addressed

The Shire of Kojonup supports the introduction of bonds for high care facilities.

Operators rely upon bond interest and retention payments to fund capital renewal and expansion, and the concessional rate needs to be increased so that operators are not disadvantaged. Rural operators generally have a higher proportion of concessional places which further impacts on viability, especially the ability to fund capital renewal when subsidising operating deficits to ensure that services are maintained.

e. Whether the current planning ratio between community, high- and low-care places is appropriate

The Shire of Kojonup acknowledges the objectives of the ACFI in its proposed redistribution from low to high care and community support packages. However, this dramatically impacts on the viability of stand alone, low care, rural facilities where there are very limited community aged care support services.

In our town we see the need for our low care facility increasing dramatically, despite the policy shift towards high and community care, as service provision for both of these alternative areas is controlled by organisations that have proved unresponsive to previous community need, and forced the Shire of Kojonup to act as a provider of last resort to ensure these needs are met.

f. The impact of current and future residential places allocation and funding on the number and provision of community care places

We would urge the Committee to note our response to the last term of reference. Specifically that one size doesn't fit all, and although current policy and population modeling should support reallocation from low care residential to high and community care, this is not the case without significant investment in rural services.

Given the amount of cost shifting and decrease in rural services over the last two decades by State and Federal Governments we do not have any faith that realistic aged care alternatives will be provided in Kojonup in the near future. We have seen the operational subsidy from our ratepayers increase to a critical level that threatens the future of services.

Conclusion

Thank you for considering our submission. We are quite happy to provide further information, if required, as a revamp of the funding arrangement is our last chance.

Our situation is critical and all previous approaches to funding and regulatory bodies have been greeted with quotes from legislation, regulations or standards reflecting a system that appears to disregard small rural providers who are trying to serve their community, in favour of box ticking and blaming the system. We say it is time to fix the system or deal with the consequences of system failure.

Contact

Stephen Gash
Chief Executive Officer
Shire of Kojonup
PO Box 163
Kojonup WA 6395

ceo@kojonup.wa.gov.au

