

From:
To: [Community Affairs Committee \(SEN\)](#)
Cc:
Subject: FW: Living Longer Living Better - Proposed Reforms - Workforce Compact
Date: Monday, 22 April 2013 1:12:57 PM

Submissions regarding the proposed Workforce Compact

The Workforce compact in its proposed form will put further significant additional cost pressures on aged care providers. The proposal calls for significant pay increases across all care staff categories that will provide for a significant increase in initial rates of pay and ongoing increases in the following years. In return, providers will receive an additional 1% supplement based on their existing ACFI subsidies.

Economic modeling undertaken by us indicates a dramatic shortfall between the costs of the increased rates of pay over the next 5 years and the additional income in the form of additional supplement. This modeling assumes that there will not be further changes to erode the base subsidies that are currently in place. The Government has previously demonstrated a willingness to erode that base as part of the *'Living Longer, Living Better'* reforms by already axing \$1.6B in funding by way of indexation freezes and changes in assessment criteria.

Most providers already run on a relative knife edge of profitability and cash flow. The most significant cost centre for all providers is staff costs. The most significant revenue stream is the ACFI subsidies. The proposed compact will significantly drive up operating costs yet increased revenue will not come close to offsetting these additional costs. Increasing wages will also drive other costs up, such as payroll tax that further widens the divide between the costs created by the compact and the subsidy that will be paid.

Whilst it has not been expressed outright in the *Living Longer, Living Better* reform package, it is clear that the key driver for the reforms is affordability. There is ample data reported by the Productivity Commission and Treasury that the public costs of Health Care and Ageing are increasing at astounding rate and that the current system cannot continue to be funded in the same form in the future.

The amendments masquerade under the propaganda of providing better care and a better paid workforce. However, given that subsidies are likely to reduce in the future, the Government needs to be realistic about the wages the workforce is paid. If the Government cannot continue to pay subsidies that support the pay increases it desires then it must come to the realization that it cannot financially provide for the level of care it aspires to.

The Workforce compact is, to coin a classic term, *'robbing Peter to pay Paul.'* The standard of care provided depends on the funding that is available to provide care. If a provider must pay higher wages yet operate on lower revenue, cuts will need to be made elsewhere within the organisation to pay for them. This means reductions in staffing levels, lower quality food, less amenities and lower quality services. On top of that there is absolutely no evidence to support the proposition that paying slightly higher wages will result in better quality staff.

Indeed, in the immediate future, the same staff will be getting higher wages yet absolutely nothing will change about the services they currently deliver. In summary the Workforce

compact is short sighted, unlikely to provide better quality staff and is more than likely to see cuts to budgets that will directly affect the level of care provided by providers as they tighten their belts in an attempt to keep their heads above water.

Given that there are significant compliance costs with eligibility and such a low level of supplement is being paid, it is highly unlikely that any providers who operate on a commercial basis will even consider becoming compliant. If the compact does drive up the market wages payable to employees, there will be no demonstrated increase in the quality of care provided.

Regards

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