



Ref: D22-14667

The Hon Mark Butler MP  
Minister for Health and Aged Care  
PO Box 6022  
House of Representatives  
Parliament House  
CANBERRA ACT 2600

Dear Minister

### **Independent Health and Aged Care Pricing Authority – Statement of Intent**

Thank you for your letter setting out the Government's expectations of the Independent Health and Aged Care Pricing Authority (IHACPA) in respect of its aged care costing and pricing functions. As Chair of the Pricing Authority and in response to the Expectations Setting Paper, received on 22 August 2022, I am pleased to provide IHACPA's Statement of Intent.

IHACPA welcomes the expansion of its functions as it sets out to contribute to major reforms of the Australian aged care system, as part of the Government's response to the Royal Commission into Aged Care Quality and Safety. Through the provision of aged care classification, costing and pricing advice, IHACPA will seek to promote access to safe and high-quality aged care services for all Australians. When working to support this vision, IHACPA will act with independence, transparency, fairness, respect, accuracy and accountability.

IHACPA will use evidence, obtained through data analysis and stakeholder engagement, to make recommendations on fair pricing for the delivery of Australian aged care services, supporting better outcomes for those receiving care.

Since 2011, IHACPA has worked with all Australian governments to improve the health outcomes of Australians, through its role in pricing public hospital services. IHACPA will maintain its long-standing commitment to the principles of transparency and evidence-based methodology as it undertakes its aged care functions. Alongside these new functions, IHACPA will continue to meet its obligations under the National Health Reform Agreement.

Your letter and Expectations Setting Paper, along with this Statement of Intent, will be published on the IHACPA website.

### **The Pricing Framework for Australian Aged Care Services**

The *Pricing Framework for Australian Aged Care Services 2023-24* (the Pricing Framework) will underpin IHACPA's approach to developing and providing annual aged care costing and pricing advice to the Government.

#### **Independent Health and Aged Care Pricing Authority**

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The development of the Pricing Framework will be informed by regular, open and transparent consultation with a wide range of aged care stakeholders. The [Towards an Aged Care Pricing Framework Consultation Paper](#) (the Consultation Paper), released on 16 August 2022, is the primary mechanism for all stakeholders to provide input into the development of the Pricing Framework and provides an opportunity for public consultation on:

- the pricing principles, which will underpin the Pricing Framework
- the key challenges for aged care costing and pricing, and how to best address these, including indexation and adjustments to methodologies
- the mechanisms that support Activity Based Funding (ABF) in the context of residential aged care and residential respite
- the new Australian National Aged Care Classification (AN-ACC) funding model for residential aged care and the related respite care funding model
- future costing and pricing priorities and developments.

Submissions to the Consultation Paper will be published on the IHACPA website. A consultation report summarising the submissions received, and how these have been considered in the development of the Pricing Framework, will be published in early 2023.

In the fourth quarter of 2022, IHACPA will provide the Government with a draft copy of the Pricing Framework for review prior to its finalisation and release.

The Pricing Framework will be updated annually and will cover matters including how IHACPA will:

- approach the care services and costs that will be in scope for the pricing advice to Government
- support efficient, effective and transparent use of resources in the aged care sector
- consider and address issues of equity and recognise differential cost-drivers (such as for rural and remote areas, and groups with special or additional needs)
- collect necessary data to support its functions
- consult on, develop and provide its pricing advice to Government, including timeframes.

For the development of residential aged care pricing advice, IHACPA will draw on its role in pricing public hospital services and the concept of the national efficient price (NEP), in that it provides a national benchmark price to support an ABF system. IHACPA acknowledges there are significant differences between the public hospital and residential aged care systems that will require specific consideration.

Providing a recommendation to support a residential aged care AN-ACC price will be an extended process. IHACPA anticipates that initial recommendations for the 2023–24 financial year will focus on indexation of the AN-ACC starting price published by the Department of Health and Aged Care.

Following this, IHACPA will prioritise enhancing the pricing methodology to ensure it reflects the costs for facilities to sustainably meet direct care minute requirements, as well as other factors required to support minimum care standards and quality improvement. As system reforms and the AN-ACC funding model become embedded across the system over the longer-term, costing data is acquired and technical models are refined, greater consideration will be given to efficiency in developing a recommended residential aged care AN-ACC price.

## Scope and Priorities in Aged Care Pricing

Operating under the *National Health Reform Act 2011* and *Aged Care Act 1997*, as amended by the *Aged Care and Other Legislation Amendment (Royal Commission Response) Act 2022* (Cwth), IHACPA will provide the Government with annual advice on:

- a national price for residential aged care, based on funding the actual cost of care, consistent with how the NEP is determined for public hospitals (but separate from the public hospital NEP)
- how the funding of residential aged care and residential respite care can be refined over time as more comprehensive and contemporary evidence emerges on the costs of care for different residents.

This classification, costing and pricing advice will:

- be evidence-based and developed transparently
- be based on facilities meeting the standard of care required in Government policy and legislation
- aim to account for all costs and revenues for items in the Schedule of Specified Care and Services and the gap between the costs of delivering required hotel services and the revenue received from the Basic Daily Fee, including advice on how this can be translated to an AN-ACC national weighted activity units (NWAU) price
- consider appropriate loadings for any differential costs in care delivery such as economies of scale, different geographical locations (such as rural and remote areas) and populations with special needs (such as homeless, Indigenous, dementia care, individuals with a disability or other specialist services)
- consider the cost of care at different points in the resident's journey, including a review of the weights for the initial entry payment and whether costs differ at other points (such as before exit)
- over time, inform the establishment of benchmark reports, focused on costs and activities within the sector, to ensure the residential aged care sector is adapting to broader market innovations.

IHACPA will not, unless directed by the Government to do so, provide assessments, analysis or commentary on the following:

- whether Government policy and legislation deliver adequate care
- appropriate wage rates for the sector
- the appropriate level of consumer contributions.

IHACPA understands that the Government is currently designing a new single in-home care program. If requested to do so, IHACPA will undertake public consultation and develop costing and pricing advice relating to the new single in-home care program.

## Priority areas

Developing and refining a pricing framework for aged care services will be an extended and evolving process. When developing future aged care projects and priorities, IHACPA will include the following priorities identified by the Government:

- an assessment on the implications of the wage decision to be handed down by Fair Work Commission (FWC) for the cost of delivering residential aged care
- an assessment to determine if and how Multipurpose Services and National Aboriginal and Torres Strait Islander Flexible Aged Care Program services should be funded through AN-ACC or a modified version of it

- a residential respite costing study and provide an assessment of whether the respite model appropriately classifies respite clients based on their care costs, and whether the funding weights attached to the respite classes are appropriate (including to account for any cost differentials associated with caring for clients for short periods of time)
- a costing study on the quantum of the initial entry adjustment payment and consider whether there are other periods during a resident's journey where costs vary (e.g., end of life)
- a study into the best way of including costs related to hotel services in the AN-ACC model and recommend an adjustment to the base care tariff NWAU to address variations in hotel services costs between regions.

IHACPA notes that the FWC wage decision is likely to be finalised imminently. IHACPA intends to prioritise assessment of the implications of the outcome on the cost of delivering residential aged care.

### **Accommodation Approvals**

With the transfer of functions from the former Aged Care Pricing Commissioner to IHACPA, IHACPA will continue the work of the Commissioner taking on the responsibility for reviewing and approving:

- applications to increase or decrease extra service fees
- applications to charge a refundable accommodation bond (RAD) (or equivalent daily amount) that is more than the maximum allowed without approval, or higher than an aged care provider's current approved amount.

IHACPA welcomes this expansion of its functions and is committed to undertaking them objectively and in keeping with the long-standing principles IHACPA operates under.

IHACPA will provide the Government with annual reports that include:

- the number of applications made during the financial year for approval of accommodation payments that are higher than the maximum allowed amount of accommodation payment, as determined by the Minister under section 52G-3 of the Aged Care Act 1997
- the number of applications made during the financial year for approval to charge an extra service fee
- the number of applications that were approved, rejected or withdrawn during the financial year for both application types
- information in relation to the amounts being approved.

### **Role of the Department of Health and Aged Care**

IHACPA acknowledges that the Department of Health and Aged Care remains the system operator and manager of the aged care system. This includes responsibility for (but not limited to):

- all aspects of the AN-ACC assessments of residential aged care consumers
- setting quality standards
- the financial viability of the sector
- adjustments to the price to take account of prospective wage increases (noting that IHACPA may provide advice on this issue if requested by the Minister)
- Aged Care Approvals Round administration.

IHACPA is pleased to commence its aged care costing and pricing functions, to support Government decisions on aged care funding and the approval of refundable accommodation deposits and extra services fees in residential aged care. In undertaking these new functions, IHACPA will utilise and build on its extensive expertise in understanding the costs of delivering care in Australia and demonstrate commitment to promoting access to safe and high-quality aged care services through its independent costing and pricing advice. We look forward to working with you and the Government to provide advice that will contribute to the significant reforms being implemented throughout the aged care sector.

Yours sincerely

A handwritten signature in black ink, appearing to read 'David Tune', written in a cursive style.

David Tune AO PSM  
Chair  
Independent Health and Aged Care Pricing Authority

19 October 2022

cc. The Hon Anika Wells MP, Minister for Aged Care and for Sport

cc. The Hon Ged Kearney MP, Assistant Minister for Health and Aged Care