



**IHACPA**

# **Pricing Framework for Australian Residential Aged Care Services 2023–24**

**May 2023**

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## Pricing Framework for Australian Residential Aged Care Services 2023–24 — May 2023

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# Abbreviations

Abbreviations	Full term
ABF	Activity based funding
ACFI	Aged Care Funding Instrument
ACFR	Aged Care Financial Report
AN-ACC	Australian National Aged Care Classification
BCT	Base Care Tariff
BDF	Basic daily fee
DAP	Daily accommodation payments
IHACPA	Independent Health and Aged Care Pricing Authority
IHPA	Independent Hospital Pricing Authority
MMM	Modified Monash Model
MPS	Multi-Purpose Service
NATSIFACP	National Aboriginal and Torres Strait Islander Flexible Aged Care Program
NEP	National Efficient Price
NHRA	National Health Reform Agreement
NHR Act	<i>National Health Reform Act 2011</i>
NWAU	National weighted activity unit
QFR	Quarterly Financial Report
RAD	Refundable accommodation deposit
RUCS	Resource Utilisation and Classification Study
UOW	University of Wollongong

# 1. Introduction

## 1.1. The Independent Health and Aged Care Pricing Authority

The Independent Health and Aged Care Pricing Authority (IHACPA) is an independent government agency. It was established and originally named the Independent Hospital Pricing Authority (IHPA) under the *National Health Reform Act 2011* (Cwlth) (the NHR Act).

IHACPA was established to promote improved efficiency in, and access to, public hospital services by developing and implementing robust systems to support activity based funding for those services.

The *Aged Care and Other Legislation Amendment (Royal Commission Response) Act 2022* (Cwlth) amended the NHR Act, the *Aged Care Act 1997* (the Aged Care Act) and the *Quality and Safety Commission Act 2018*. While the organisation will retain its functions in public hospital services, it has been renamed IHACPA and its role has been expanded to include the:

- provision of advice on aged care pricing and costing matters
- performance of certain functions conferred by the Aged Care Act.

IHACPA's expanded role in providing independent aged care pricing advice will aim to ensure that aged care funding, including through the new classification system for residential aged care and respite care, the Australian National Aged Care Classification (AN-ACC), is directly informed by the actual costs of delivering care. IHACPA will provide advice to inform Commonwealth Government (Government) decisions on the costing and pricing of residential aged care services from 1 July 2023.

IHACPA also has the power to approve refundable accommodation deposits above approved thresholds and changes to extra services fees, through the transfer of functions from the former Aged Care Pricing Commissioner. These functions relating to residential aged care accommodation pricing are out-of-scope for the Pricing Framework for Australian Residential Aged Care Services (the Pricing Framework) 2023–24. Further information about IHACPA's responsibilities in providing pricing advice is outlined in IHACPA's [Statement of Intent to the Minister](#).

The Department of Health and Aged Care (the Department) and the Aged Care Quality and Safety Commission (the Commission) remain responsible for a range of aged care functions that are outside the scope of IHACPA's remit.

The Department retains policy and system management responsibility for matters including:

- the aged care workforce
- financial contributions by residents
- the operation and implementation of AN-ACC, determining how AN-ACC assessments are undertaken and reviewed, and the requirements for re-classification
- contracting independent Assessment Management Organisations to undertake AN-ACC assessments.

The Commission retains responsibility for functions including:

- approvals for providers to deliver aged care services
- assessing and monitoring the quality of care and services against the Aged Care Quality Standards.

## 1.2 The role of the Pricing Framework

The Pricing Framework is the key policy document for IHACPA relating to residential aged care and residential respite care. It will underpin IHACPA's approach to developing residential aged care costing and pricing advice to the Government.

The Pricing Framework outlines the principles, scope and methodology that will be adopted by IHACPA to provide annual advice on aged care pricing matters to the Commonwealth Minister for Health and Aged Care. The Commonwealth Minister for Health and Aged Care will in turn determine the price for aged care services. The Department will continue to be the system operator with overall responsibility for aged care policy, including the funding of aged care services.

The Pricing Framework supports transparency and accountability by publicly making available the principles, decisions and approach used by IHACPA to inform its costing and pricing recommendations.

IHACPA will refine the Pricing Framework annually based on public consultation with all stakeholders.

IHACPA released the [\*Towards an Aged Care Pricing Framework Consultation Paper\*](#) (the Consultation Paper) for public consultation between 16 August 2022 and 14 October 2022.

The Consultation Paper focused on the AN-ACC assessment and funding model in the context of residential aged care and residential respite care. It gave stakeholders the opportunity to provide input into the development of the Pricing Framework, including the pricing principles that underpin the Pricing Framework, the key challenges for residential aged care costing and pricing, and the mechanisms that support activity based funding in aged care.

IHACPA received 71 submissions in response to the Consultation Paper. Stakeholders provided valuable feedback regarding IHACPA's proposed approach to providing aged care costing and pricing advice to the Government. IHACPA has considered this feedback in the development of the Pricing Framework. Further detail on stakeholder feedback is available in a separate Consultation Report detailing how IHACPA reached its decisions for 2023–2024.

IHACPA is committed to working with stakeholders and its advisory committees to ensure that its pricing advice is robust, appropriate and responsive to changes in the aged care sector.

# 2. Principles for activity based funding in residential aged care

The decisions made by the Independent Health and Aged Care Pricing Authority (IHACPA) in developing pricing advice for residential aged care and residential respite care services are evidence-based and use the latest cost and activity data available. In making these decisions, IHACPA balances a range of policy objectives, including promoting the person-centred, quality care expected by the community while supporting improvements in the sustainability and efficiency of the aged care system over time.

The residential aged care pricing principles, outlined in Figure 1, signal IHACPA's commitment to transparency and accountability in making its policy decisions. The pricing principles comprise 'overarching', 'process' and 'system design' principles. They do not have a hierarchy and are used to inform decision making where IHACPA is required to exercise policy judgement in undertaking its functions relating to residential aged care costing and pricing. IHACPA will seek to provide clarity on how the principles have been considered and balanced to support residential aged care and residential respite care costing and pricing development.

The *Towards an Aged Care Pricing Framework Consultation Paper* proposed a set of pricing principles to articulate the policy objectives IHACPA will seek to support through its development of pricing advice for residential aged care.

In response, some stakeholders recommended modifications to the proposed principles, with greater emphasis on particular aspects of the principles, or the inclusion of additional principles. Suggestions included the consideration of equity, aspirations to higher quality care and best practice, and an enhanced focus on person-centred care.

Further detail on these recommendations and IHACPA's consideration is provided in the Consultation Report.



## IHACPA's decision

IHACPA has reviewed the feedback from stakeholders and made changes to the following pricing principles:

- Access to care
- Quality care
- Fairness
- Administrative efficiency
- Promoting harmonisation
- Using activity based funding (ABF) where practicable and appropriate
- Person-centred

The residential aged care pricing principles in Figure 1 have been updated to reflect these amendments. These amendments are detailed in the Consultation Report.



### **Next steps**

IHACPA will consult with stakeholders on an annual basis to refine and develop the pricing principles over time. This will include consideration of required amendments to the pricing principles in light of regulatory reform, including the development of the new Aged Care Act.



### **Five-year vision**

IHACPA will review the pricing principles to ensure they remain relevant and appropriate in light of the significant regulatory reforms to the aged care system over coming years, including the development of the new Aged Care Act. IHACPA will also consider refinements arising based on longer-term considerations such as the interface and relationship between the aged care system and the health and disability care systems.



## Figure 1: The residential aged care pricing principles

### Overarching principles

**Access to care:** Funding should support timely and equitable access to appropriate aged care services, for all those who require them.

**Quality care:** Care should meet the Aged Care Quality Standards, reflect continuous improvement, support resident wellbeing and deliver outcomes that align with community expectations.

**Fairness:** ABF payments should be fair and equitable, based on resident needs, promote the provision of appropriate care to residents with differing needs, and recognise legitimate and unavoidable cost variations associated with this care. Equivalent services should otherwise attract the same price across different provider types.

**Efficiency:** ABF should ensure the sustainability of the aged care system over time and optimise the value of the public investment in aged care.

**Maintaining agreed roles and responsibilities:** ABF design should recognise the complementary responsibilities of each government agency and department in the funding and management of aged care services, as well as providers in delivering aged care services.

### Process principles

**Administrative efficiency:** Funding arrangements should promote effective and efficient processes and should not unduly increase the administrative burden on aged care providers.

**Stability:** The payment relativities for ABF should be consistent over time.

**Evidence based:** Funding should be based on best available information.

**Transparency:** All steps in the development of advice for ABF and fixed funding should be clear and transparent.

### System design principles

**Fostering care innovation:** Pricing of aged care services should respond in a timely way to the introduction of evidence-based, effective new technology and innovations in the models of care that improve resident outcomes and service efficiency.

**Promoting value:** Pricing should support innovative practices and systems that deliver efficient, person-centred care.

**Promoting harmonisation:** Pricing should facilitate best practice, person-centred provision of care in the appropriate setting.

**Minimising undesirable and inadvertent consequences:** Pricing should minimise susceptibility to gaming, inappropriate rewards, and perverse incentives.

**Using ABF where practicable and appropriate:** ABF should be used for funding aged care services wherever practicable and compatible with delivering value in both outcomes and cost.

**Person-centred:** Pricing adjustments should be, as far as is practicable, based on characteristics related to people receiving care, rather than those of providers.

# 3. The AN-ACC funding model

## 3.1. General refinements to the Australian National Aged Care Classification funding model

Consistent with the recommendations of the Royal Commission into Aged Care Quality and Safety, the Commonwealth Government (the Government) has introduced a new funding model for residential aged care, transitioning to a system of activity based funding (ABF).

Under ABF, providers will be funded based on the number of residents and the type of care they require. This aims to provide a transparent, fair, equitable and predictable approach to funding that is informed by the cost of care delivery.

The Australian National Aged Care Classification (AN-ACC) assessment and funding model developed by the University of Wollongong and the Department of Health and Aged Care, replaced the Aged Care Funding Instrument (ACFI) from 1 October 2022. This followed a number of reviews that determined that ACFI funding was no longer closely aligned to the actual costs of care of residents.

AN-ACC includes a tool that combines multiple assessment instruments, including the de Morton Mobility Index, the Australian Modified Functional Independence Measure, Resource Utilisation and Braden Scale, and assesses residents based on compounding factors.

Independent assessors use the AN-ACC assessment tool to assess each resident's care needs and assign them an AN-ACC classification. The amount of funding provided reflects the residents AN-ACC classification, based on their assessed needs. An AN-ACC national weighted activity unit (NWAU) reflects the relative cost of delivering care per bed day to residents within a class, with classes 1 and 13 being residents requiring the most costly care.

The core AN-ACC pricing model outputs are a national AN-ACC price and the NWAU. An AN-ACC NWAU is a measure of relative price. For example, an AN-ACC end class with an NWAU of 1.2 would mean that the price of the AN-ACC class is 20 percent higher than the national AN-ACC price.

To calculate the total payment per resident per bed day, the total AN-ACC NWAU is multiplied by the AN-ACC price. For more information about the AN-ACC funding model, visit the [Department of Health and Aged Care website](#).

IHACPA will use resident-level cost and activity data from residential aged care providers reported to the Government in the development of costing and pricing advice and the refinement of AN-ACC over time. A key enabler of this refinement will be IHACPA's Residential Aged Care Costing Study, which will aim to collect cost data from a wide range of facilities to determine any cost differentials by facility size, type or location as well as any cost differentials associated with specific resident groups and AN-ACC classes.

The *Towards an Aged Care Pricing Framework Consultation Paper* (the Consultation Paper) detailed the development and components of AN-ACC and sought feedback from stakeholders on potential challenges in using AN-ACC to support ABF in residential aged care, as well as how the AN-ACC should be refined over time.

Stakeholders were supportive of the ongoing refinement of the AN-ACC structure and classes over time, to ensure the classification sufficiently reflects differences in the costs of care of residents according to their needs and how these may change over time.

Respondents proposed a range of resident characteristics and care needs that may drive variation of costs within AN-ACC classes and may be relevant considerations for future changes to the AN-ACC structure. These included resident needs in relation to cognition impairments, challenging behaviours and complex care.

Stakeholders also highlighted the need to consider block funding for facilities where ABF is not considered feasible or sustainable, such as in rural and remote locations.



### **IHACPA's decision**

IHACPA will not recommend changes to the AN-ACC classes or Base Care Tariffs (BCT) and their NWAU values for 2023–24 due to a lack of new resident-level cost data or other relevant evidence since the original costing study used to develop the AN-ACC model.

The BCT structure for rural and remote providers effectively operates as a 'fixed-plus-variable' funding model, with a portion of block-type funding supplemented by ABF based on resident needs.



### **Next steps**

IHACPA will conduct its first Residential Aged Care Costing Study in 2023. The resident-level costing data collected in this study will be considered in pricing development, along with other relevant evidence, to inform recommendations for updated AN-ACC NWAU values, including a review of the BCT NWAU, for use from 1 July 2024.



### **Five-year vision**

IHACPA will seek to provide pricing advice that supports AN-ACC funding to be closely aligned to the actual cost of care over time and reflect appropriate incentives. This will involve regular costing studies and stakeholder consultation to provide evidence on the cost of care for different types of residents and facilities. This may inform changes to the AN-ACC NWAU across classes, as well as longer-term changes in the AN-ACC structure to better capture groups of residents requiring care with similar costs, or facilities facing similar cost differentials. These refinements to the classification structure will likely require the development and collection of additional data items to effectively capture resident characteristics and factors driving their care needs.

## 3.2. Review of residential respite pricing

Alongside the new funding model for residential aged care, the Government implemented a new funding model for residential respite care that is aligned to the AN-ACC funding model. This replaces the Respite Subsidy and Respite Supplement (including the respite incentive).

The Commonwealth Minister for Health and Aged Care has highlighted that a review of the new pricing for residential respite care is a priority area, to ensure the new funding model is appropriately aligned to the cost of delivering residential respite care services given this type of care was outside the scope of the Resource Utilisation and Classification Study used to develop AN-ACC. The Consultation Paper proposed a residential respite care costing study as a future priority for IHACPA to support pricing refinement and any other recommendations on the classification of residential respite care.

Many stakeholders expressed support for a residential respite care costing study, noting some concerns around its initial classification and pricing, particularly the risk of any potential ongoing financial disincentives to provide residential respite care. Stakeholders provided suggestions on what should be considered in the developments and refinements of the residential respite classification. Further detail around this can be found in the Consultation Report.



### IHACPA's decision

IHACPA will not recommend changes to the residential respite classes or NWAU values for 2023–24 due to a lack of new resident-level cost data or other relevant evidence since the original costing study used to develop the AN-ACC model.



### Next steps

IHACPA will endeavour to include the collection of cost data for residential respite care in its Residential Aged Care Costing Study in 2023. This is intended to facilitate potential refinements of the AN-ACC funding model and pricing for residential respite in the short-term.



### Five-year vision

Cost data and other information collected on residential respite care in the initial Residential Aged Care Costing Study will inform the collection of cost data for residential respite care in future costing studies. This will support longer-term refinements to residential respite care pricing and classification, based on the actual costs of delivering residential respite care. In undertaking this costing and pricing work, IHACPA will consider the feedback already provided by stakeholders and further engage with advisory committees to determine priorities for consideration.

### 3.3. Review of the one-off adjustment for new residents

Residential aged care facilities receive a one-off adjustment payment under AN-ACC to fund the additional costs associated with transitioning a permanent resident to their new care environment. This has also been identified as a priority consideration by the Minister for Health and Aged Care.

The Consultation Paper sought feedback from stakeholders regarding the costs associated with transitioning a new permanent resident into residential aged care, to inform the collection of this data in costing studies. Stakeholders expressed concerns that the value of the existing one-off adjustment may not adequately reflect the costs associated with transitioning a new permanent resident into aged care. It was noted that these costs can be highly variable depending on a resident's care requirements and equipment needs. Stakeholders identified a range of activities that increase the costs associated with these transitions, which are outlined in the Consultation Report.



#### IHACPA's decision

IHACPA will not recommend changes to the one-off adjustment NWAU values for 2023–24 due to a lack of new resident-level cost data or other relevant evidence since the original costing study used to develop the AN-ACC model.



#### Next steps

IHACPA will endeavour to collect cost data relating to the transition of new residents into permanent residential aged care in its Residential Aged Care Costing Study in 2023. This is intended to facilitate potential refinements to the pricing of the one-off adjustment in the short term.



#### Five-year vision

Cost data and other information collected on the transitions of new permanent residents in the initial Residential Aged Care Costing Study will inform improvements to cost data collection in future costing studies to support ongoing refinements to the one-off adjustments. In undertaking this costing and pricing work, IHACPA will consider the feedback already provided by stakeholders and further engage with advisory committees to determine priorities for consideration.

In the longer-term, IHACPA may also consider evidence-based one-off adjustment payments for other stages in a resident's care that are associated with significantly higher but temporary costs.

### 3.4. Inclusion of hotel costs in AN-ACC

Hotel costs for residents of aged care homes are currently out-of-scope for the AN-ACC funding model and are not included in IHACPA's first AN-ACC pricing advice. IHACPA will initially provide separate advice to the Government on the gap between hotel costs and specific types of revenue. Elements in scope are outlined in Part 1 of Schedule 1—Care and services for residential care services (the Schedule) of the [Quality of Care Principles 2014](#), with the exception of facility maintenance costs as per the advice of the Government.

The Consultation Paper proposed the potential future inclusion of all hotel costs under Part 1 of the *Quality of Care Principles 2014* Schedule in the AN-ACC model. Stakeholders had mixed views regarding the inclusion of hotel costs in AN-ACC.

Many stakeholders were supportive of the inclusion, noting these costs contribute to a holistic care environment and that hotel costs can vary depending on resident care needs. Providers had concerns that the gap between hotel costs and basic daily fee cannot be covered through additional or extra services fees. Most stakeholders were supportive of IHACPA undertaking further assessments to understand the true costs of hotel services and consider appropriate funding approaches.

On the other hand, some stakeholders were not supportive of incorporating hotel costs into AN-ACC, noting the AN-ACC funding model should be based on individual assessment with a focus on care delivery, and not the complexity around the diverse range of hotel services provided by facilities.



#### IHACPA's decision

In its first pricing advice to support Government decisions on residential aged care funding from 1 July 2023, IHACPA will provide separate advice on any gap between required hotel costs and the revenue from the basic daily fee.



#### Next steps

Noting the diversity in stakeholder views and the need to better understand the costs of required hotel services, IHACPA will analyse costing study data and other available evidence and engage with stakeholders through advisory committees and public consultation to consider appropriate methods for providing pricing advice on hotel costs.



#### Five-year vision

Where appropriate, IHACPA intends to support simplification of residential aged care funding streams over time and considers the provision of pricing advice for hotel services will require further evidence and development. IHACPA is aware of the complexity of this issue and will be cognisant of the broader funding and regulatory reforms occurring in the aged care system when considering this option.



# 4. Developing aged care pricing advice

## 4.1. The residential aged care price definition and scope

The Australian National Aged Care Classification (AN-ACC) price stems from the use of the term national efficient price (NEP) in the National Health Reform Agreement, which underpins the national system of activity based funding (ABF) for public hospitals. However, the Independent Health and Aged Care Pricing Authority (IHACPA) recognises the significant differences between the public hospital and residential aged care systems, and that these require specific considerations.

In the *Towards an Aged Care Pricing Framework Consultation Paper* (the Consultation Paper), IHACPA proposed that initial recommendations for the AN-ACC price will reflect the need for facilities to sustainably meet direct care minute requirements, as well as the minimum Aged Care Quality Standards and other factors to support quality improvement.

In developing an annual pricing recommendation to the Commonwealth Government (the Government), IHACPA's advice will be evidence-based, reflecting the available cost and activity data and other relevant information. IHACPA will also use the Aged Care Financial Report and the new Quarterly Financial Report to support its costing and pricing work.

The recommended AN-ACC price is intended to cover the cost of care. Elements of care in-scope for the recommended AN-ACC price are specified in Parts 2 and 3 of Schedule 1—Care and services for residential care services (the Schedule) of the [Quality of Care Principles 2014](#) under section 96-1 of the *Aged Care Act 1997* (Cwlth). This includes administrative costs directly related to care.

Costs excluded from the recommended AN-ACC price include:

- capital, depreciation and leasing costs, which are funded through refundable accommodation deposits and daily accommodation payments
- costs for extra services, which are funded through extra service fees
- costs for additional services, which are funded through additional service fees
- hotel costs included in Part 1 of the Schedule, except where these were previously captured by the Basic Daily Fee Supplement.

The Consultation Paper asked stakeholders for feedback on the definition of the recommended AN-ACC price and whether any additional aspects should be covered by the price.

Stakeholders did not express significant concerns and were broadly supportive of the definition of the recommended AN-ACC price. They stressed the price must truly reflect all the costs related to the provision of high-quality care and subsequent changes in the cost of care. Stakeholders indicated the price should include the costs associated with the workforce beyond those specified in the care minute requirements and stressed the importance of accounting for current workforce shortages and resulting wage pressures. Further detail on stakeholder feedback is provided in the Consultation Report.



### **IHACPA's decision**

IHACPA will retain the proposed definition of the recommended AN-ACC price, in that it is multiplied by AN-ACC national weighted activity units (NWAU) to calculate the AN-ACC subsidy, and the scope according to Parts 2 and 3 of the Schedule.

IHACPA also acknowledges the impact of workforce shortages in the aged care system and will consider reported wages costs and wages growth in pricing development.



### **Next steps**

IHACPA will continue to consult with stakeholders on an annual basis to review the definition or scope of its pricing advice, enabling any changes to be reflected in future versions of the Pricing Framework for Australian Residential Aged Care Services.



### **Five-year vision**

IHACPA will undertake regular costing studies and use other available datasets and information to refine pricing over time. As system reforms and the AN-ACC funding model become embedded across the system, costing data is acquired and technical models are refined, greater focus will be given to efficiency in developing a national residential aged care price. IHACPA is also broadly supportive of simplification of residential aged care funding streams and recognises that the scope and definition of the price may need to change over time to reflect any changes in funding policy.

## **4.2. The residential aged care pricing approach and level**

The Consultation Paper detailed the concepts of both 'normative' or 'best practice' pricing, and 'cost-based' pricing, and IHACPA proposed a pricing approach that combined elements of both. This recognises the need for prices to be aligned to the actual costs of delivering care, while also supporting the required uplifts in care minutes and quality arising from the aged care reforms.

Stakeholders provided a range of views on the residential aged care pricing approach and level. Stakeholders were overwhelmingly supportive of a pricing approach that supports best-practice care, particularly in the short term. There were also concerns about the price not reflecting the true costs of providing care, and that average pricing may not represent an efficient price. The importance of ongoing reviews of cost data and pricing advice were emphasised. Stakeholders noted that regular costing studies should be undertaken to ensure the true cost of care and changes in the cost of care are reflected in the price.



Stakeholders expressed concerns about the price level and noted that the transition towards best-practice pricing must be gradual. It was suggested that considerations should also be given to certain providers, such as those in regional and remote areas, or those that have special operating constraints.



### **IHACPA's decision**

IHACPA acknowledges the need for providers to deliver services that meet the Aged Care Quality Standards. Pricing advice will therefore adopt a blended best practice and cost-based approach and be based on facilities meeting the standard of care required in Government policy and legislation, including uplifts in the minimum direct care minutes required from 1 October 2023.

Due to a lack of resident-level cost data and other data limitations, IHACPA will adopt an interim methodology in developing its first aged care pricing advice for 1 July 2023. This will involve the recommendation of an appropriate indexation rate to be applied to the AN-ACC starting price of \$216.80, which will aim to account for forecast increases in cost between the AN-ACC implementation date and the 2023–24 financial year.



### **Next steps**

IHACPA will undertake the Residential Aged Care Costing Study in 2023 and use this data, along with data from the Aged Care Financial Report (ACFR) and Quarterly Financial Report (QFR), to conduct a more comprehensive review and analysis to inform both recommendations for AN-ACC NWAU values as well as the recommended AN-ACC price for 1 July 2024. This will support the development of best practice pricing that is informed by the actual costs of delivering care.



### **Five-year vision**

IHACPA will undertake regular costing studies and utilise updated data from the ACFR and QFR to develop best practice pricing that is informed by the actual costs of delivering care, and how these may change over time. Annual public consultation and engagement with advisory groups will inform how IHACPA balances residential aged care pricing approaches and develops costing and pricing models over time. IHACPA will also engage with the Department of Health and Aged Care to support refinements to data collection and quality standards to promote increasing quality of costing and pricing data. This will support continuing alignment of pricing to the actual costs of care delivery.

## 4.3. Indexation

As IHACPA's pricing advice will predominantly be based on historical cost data, indexation will be required to inflate underlying costs so that they are aligned to the expected cost of care delivery in the relevant funding year. In the Consultation Paper, IHACPA proposed reviewing independent reports, consulting with technical experts, analysing time-series cost data (if available) and comparison with other available data sources, to ensure the development of an appropriate indexation methodology.

Stakeholders noted the importance of using recent cost data where possible, particularly in accounting for Fair Work Commission (FWC) minimum wage decisions. Stakeholders had diverse views around the use of standard measures, such as the Consumer Price Index, or the adoption of a composite approach designed to reflect increases in the different components of residential aged care costs. Some stakeholders also requested consideration of differential indexation rates based on location and other factors.



### IHACPA's decision

IHACPA's interim indexation methodology, used to develop its first residential aged care pricing advice for 1 July 2023, will use a range of Australian Bureau of Statistics indexes to separately index each labour and non-labour component of the aged care starting price.

IHACPA will also account for the Interim Wage Rise for direct care workers, according to the decision of the FWC.

The AN-ACC funding model is a national model and uses a single AN-ACC price. IHACPA will consider available information on cost growth but will not develop multiple indexation rates or AN-ACC prices based on different locations.



### Next steps

IHACPA will update its indexation methodology for the purpose of developing pricing advice for 1 July 2024, to account for greater availability of relevant data on cost growth over time. This will be informed by feedback from advisory committees and public consultation on the *Pricing Framework for Australian Residential Aged Care Services 2024–25*.



### Five-year vision

IHACPA's future indexation methodology will be informed by ongoing stakeholder feedback and other relevant information on cost growth, as well as time series cost data collected through IHACPA's costing studies and the ACFR and QFR to calculate indexation that reflects trends in the growth of reported costs over time.

Reported workforce costs, including for agency staff, will be considered in measuring cost growth over time. IHACPA will reflect the available FWC decisions on wage rises and annual wage growth trends in its pricing advice. IHACPA will not update previously finalised advice to reflect new FWC decisions outside of the IHACPA pricing advice cycle, unless requested by the Minister for Health and Aged Care.

# 5. Adjustments to the recommended price

## 5.1. The Independent Health and Aged Care Pricing Authority's approach to adjustments

The Australian National Aged Care Classification (AN-ACC) does not necessarily account for all the resident related characteristics that impact the cost of delivering care, resulting in variations in the cost of care for residents in the same AN-ACC class. Adjustments refer to additional elements within the funding model, to account for legitimate and unavoidable variations in the cost of delivering care for particular cohorts. Adjustments can assist in addressing systematic cost variations that cannot be effectively captured and priced through the classification model.

For example, the existing Base Care Tariffs (BCTs) in the AN-ACC funding model aim to address unavoidable facility factors such as rurality and remoteness, or provider specialisations that generally have higher costs associated with the type of care they deliver.

The *Towards an Aged Care Pricing Framework Consultation Paper* outlined the Independent Health and Aged Care Pricing Authority's (IHACPA's) preference to base adjustments on the characteristics of a person receiving care rather than facility-related adjustments. This is because adjustments related to individual people receiving care are more clearly outside the control of a particular facility.

Stakeholders broadly supported the need for price adjustments for unavoidable cost variations, with calls for clear definition of the proposed adjustments, stakeholder engagement and regular review to ensure their ongoing appropriateness and adequate consideration of new and emerging costs.



### IHACPA's decision

IHACPA will not recommend the introduction of any new pricing adjustments, nor changes to the BCTs and their national weighted activity unit (NWAU) values, for 2023–24 because AN-ACC was only implemented from 1 October 2022 and there is not yet clear evidence to support the introduction or refinement of adjustments.



### Next steps

IHACPA will consult with advisory committees and through next year's public consultation on the *Pricing Framework for Residential Aged Care Services 2024–25* (the Pricing Framework) to seek recommendations and evidence for potential pricing adjustments.



### Five-year vision

IHACPA will engage with stakeholders through its advisory committees and annual public consultation on the Pricing Framework to review existing price adjustments and provide evidence for potential pricing adjustments. IHACPA will also work to improve and expand data collections to provide evidence for potential adjustments in the longer-term.



### IHACPA's decision

IHACPA will not recommend the introduction of any resident-level pricing adjustments in 2023–24, due to the fact that AN-ACC has only been implemented since 1 October 2022 and there is not yet any clear evidence to support the introduction or refinement of adjustments.

## 5.2 Adjusting for factors related to people receiving care

The AN-ACC model considers the impact of two specific resident related factors that significantly influence the costs of their care. These are the provision of care to Aboriginal and Torres Strait Islander peoples and people at risk of or experiencing homelessness.

Despite being related to resident characteristics, these additional costs have initially been captured in the AN-ACC model through differential BCT categories at the facility level. This is because the provision of specialist care to these groups often occurs in combination with other facility characteristics that may impact fixed cost drivers, such as remoteness, size and low bed occupancy.

Some stakeholders noted concerns for Aboriginal and Torres Strait Islander peoples living in facilities that are not eligible for the differential BCT, there are cost variations associated with providing equitable access and appropriate care.

Other stakeholders wanted assurance that the AN-ACC adequately captures and differentiates the cost of residents with complex needs and proposed various resident related factors that could be considered for future adjustments. Further detail on resident related factors including IHACPA's response is provided in the Consultation Report.



### Next steps

IHACPA will work with organisations representing Aboriginal and Torres Strait Islander peoples to understand priorities for the development of pricing advice that better addresses the equity concerns that have been identified.

IHACPA will also consult with advisory committees and through public consultation on the Pricing Framework to prioritise potential adjustments and consideration of any required data collections or costing studies that may be required to facilitate supporting evidence.



### Five-year vision

IHACPA notes there may be challenges, particularly in the short term, in collecting sufficient data on resident characteristics, that could then be linked to cost data to inform consideration of resident-based adjustments. However, pending the availability of suitable evidence, IHACPA will engage with relevant stakeholders to identify potential candidate criteria for resident-level adjustments, including consideration of whether a resident-level price adjustment for Aboriginal and Torres Strait Islander peoples would better address equity concerns for residents in urban and regional areas or non-specialist facilities.

## 5.3 Adjusting for unavoidable facility factors

As explained in Section 5.2, the AN-ACC funding model already contains differential BCT categories to facilitate higher and, in some cases, more stable funding of facilities that are affected by remoteness, and low and variable levels of occupancy, as well as facilities specialising in the care of Aboriginal and Torres Strait Islander peoples or people at risk of or experiencing homelessness. Through these BCT categories, the AN-ACC model seeks to account for cost variations associated with particular types of facilities.

IHACPA recognises that a diverse range of providers deliver services across the residential aged care system nationally.

Guided by the residential aged care pricing principles, IHACPA will be committed to the principles of fairness and transparency, with the pricing being impartial to provider business and financial structures. However, there will be cases in which facilities face legitimate and unavoidable variations in the delivery of residential aged care. In these situations, facility-related adjustments may be required, if these variations cannot be otherwise addressed through refinements to the classification or resident-related adjustments.

Stakeholders were broadly supportive of facility adjustments to account for unavoidable factors and identified a range of factors for further consideration. Quarterly and annual financial reports were identified as potential sources of evidence to identify cost variations at the facility level. In particular, higher costs associated with attracting and retaining workforce in rural and remote areas were highlighted by stakeholders.



### IHACPA's decision

IHACPA will not recommend the introduction of any new facility-related pricing adjustments, nor changes to the BCTs and their NWAU values, for 2023–24 due to the fact that AN-ACC has only been implemented from 1 October 2022 and there is not yet any clear evidence to support this. The existing BCTs are expected to address cost pressures for rural and remote facilities in 2023–24.



### Next steps

IHACPA will utilise cost data from its Residential Aged Care Costing Study, the Aged Care Financial Report, Quarterly Financial Report and other available evidence to consider potential refinements to the NWAU values for the BCT categories, to inform funding decisions from 1 July 2024.

IHACPA will also consult with advisory committees and through public consultation on the Pricing Framework to identify other priorities for facility-related adjustments to reflect legitimate and unavoidable variations in cost.



### Five-year vision

IHACPA will seek to principally rely on resident-based adjustments to address systematic, legitimate and unavoidable cost variations. However, IHACPA acknowledges that data constraints may limit the ability to develop resident-based adjustments or classification refinements. In these cases, facility-related adjustments may be a better option to address such cost variations, at least in the shorter-term. IHACPA will examine evidence from costing studies and engage with stakeholders to consider priorities, evidence and possible approaches regarding cost variations associated with particular types of facilities.

## 5.4 Adjusting for safety and quality

Adjustments for safety and quality through activity based funding can encourage good quality care, where payment captures not only the cost and complexity of care, but also the safety and quality of the care delivered.

IHACPA acknowledges the complexity of safety and quality standards within residential aged care and the need for adjustments to complement and support the role and work of the Aged Care Quality and Safety Commission. Thus, IHACPA aims to consider quality and safety adjustments in a long term, phased approach once AN-ACC is well established.

IHACPA also sought feedback from stakeholders on their views on how this could appropriately be incorporated as a long-term objective.

Stakeholders are broadly supportive of introducing positive incentives for providers able to demonstrate service improvement or attainment of a required standard of care. While stakeholder views vary in relation to the appropriate nature of the incentives and the timing of their implementation, support was expressed for the five-year vision to include a focus on ensuring the pricing system supports the delivery of high quality person-centred care.



### Next steps

IHACPA will consult with advisory committees and other stakeholders through public consultation, to begin to identify possible avenues, existing data and any required future data collections that would be required to support longer-term consideration of safety and quality.



### Five-year vision

IHACPA recognises the need for extensive consultation, the use of robust evidence and the development of appropriate risk adjustments to support effective consideration of adjustments for safety and quality. IHACPA will work with stakeholders to develop a long-term development path for the introduction of safety and quality adjustments, noting the importance of alignment with ongoing national aged care policy and regulatory reform, and existing aged care compliance measures and activities.



# 6. Costing and pricing for other aged care programs

As part of broader funding and regulatory reforms to the aged care system following the Royal Commission into Aged Care Quality and Safety, the Commonwealth Government (the Government) is considering funding reforms for other aged care programs and has requested the Independent Health and Aged Care Pricing Authority (IHACPA) consider the potential costing and pricing of these programs in future.

The *Towards an Aged Care Pricing Framework Consultation Paper* (the Consultation Paper) detailed these programs and sought stakeholder feedback on considerations for potential future costing and pricing work.

## 6.1 Support at Home Program

The Department of Health and Aged Care (the Department) is developing a new in-home aged care program, which is expected to replace the Commonwealth Home Support Programme, Home Care Packages Program and Short Term Restorative Care Programme from 1 July 2025.

As part of the Federal Budget delivered on 25 October 2022, it was announced that IHACPA would have a role in providing costing and pricing advice to the Commonwealth Minister for Health and Aged Care for the Support at Home Program.

Stakeholders were supportive of IHACPA undertaking work for the Support at Home Program. The importance of collaborating with stakeholders during this process was highlighted, and stakeholders recommended an alignment between residential aged care pricing advice and the Support at Home Program pricing advice. In particular, stakeholders noted the importance of pricing arrangements that enable people to receive care and remain in their homes where appropriate.



### Next steps

IHACPA will conduct consultation, policy development and costing and pricing studies to provide advice to inform Government decisions on Support at Home pricing from 1 July 2025. This process will be informed, in part, by feedback already provided by stakeholders in response to the Consultation Paper.

## 6.2 National Aboriginal and Torres Strait Islander Flexible Aged Care Program

The National Aboriginal and Torres Strait Islander Flexible Aged Care Program (NATSIFACP) provides aged care to older Aboriginal and Torres Strait Islander peoples. These aged care services are mainly delivered in rural and remote areas and are designed to better meet the needs of Aboriginal and Torres Strait Islander peoples and their communities.

The NATSIFACP is funded by the Department, subject to parliamentary appropriation.

Stakeholders expressed strong support for a fixed funding model for NATSIFACP facilities to ensure there is flexibility in the provision of services. In line with Recommendation 47 of the Royal Commission into Aged Care Quality and Safety, they also advocated for the development of a new aged care pathway for Aboriginal and Torres Strait Islander peoples.

There was support for the care pathway and future funding model to be developed in collaboration with Aboriginal and Torres Strait Islander stakeholders. Stakeholders suggested that the model and care pathway must be appropriately developed, tested and refined to ensure it reflects the true cost of care, supports existing and new providers in the market and the provision of culturally appropriate care, and reflects the disparity in health outcomes experienced by Aboriginal and Torres Strait Islander peoples.



#### **Five-year vision**

IHACPA will consult with Aboriginal and Torres Strait Islander stakeholders to inform medium- to longer-term considerations, data collection and analysis relevant to the potential use of the Australian National Aged Care Classification (AN-ACC), or a model based on AN-ACC, for the funding of NATSIFACP facilities.

## **6.3 Multi-Purpose Services**

Multi-Purpose Services (MPS) provide health and aged care services for small regional and remote communities. MPS providers currently receive a combination of funding including, a flexible aged care subsidy from the Government for aged care services, and state and territory government funding for health services, capital and infrastructure.

Stakeholders expressed mixed views regarding the potential future application of the AN-ACC funding model for MPS, due to concerns about potential impacts on the financial viability of MPS services, particularly in thin markets. Stakeholders also indicated that existing pooled funding for MPS together with NATSIFACP provides funding flexibility and supports the delivery of critical integration of health and aged care services in small communities. Stakeholders recommended a review of the appropriateness of the AN-ACC funding model to support MPS. There were requests for close consultation with stakeholders through this process and prior to the implementation of any changes to MPS funding.



#### **Five-year vision**

IHACPA will work closely with stakeholders, including state and territory governments, to understand the implications of any changes to MPS residential aged care funding in the medium- to long-term, and what adjustments or refinements may be needed to ensure AN-ACC, or a potential funding model based on AN-ACC, can effectively address the particular cost drivers and nature of these facilities. This will consider the interaction of the aged care, health, and disability systems and funding models, particularly referencing how this may differ in regional, rural and remote areas.





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