

# Residential Aged Care Pricing Advice 2023–24

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IHACPA

## Residential Aged Care Pricing Advice 2023–24 — April 2023

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# Glossary

Words and phrases used in the *National Health Reform Act 2011* (Cwlth) (the NHR Act), *Aged Care Act 1997* (Cwlth) (the Aged Care Act) and *Aged Care (Transitional Provisions) Act 1997* have the same meaning when used in the Residential Aged Care Pricing Advice 2023–24, and in addition:

**ABS** refers to Australian Bureau of Statistics.

**ACFR** refers to the Aged Care Financial Report.

**Advice** refers to the Residential Aged Care Pricing Advice.

**Aged Care Act** refers to the *Aged Care Act 1997* (Cwlth).

**AN-ACC** refers to the Australian National Aged Care Classification.

**BCT** refers to the Base Care Tariff, which is a component of the AN-ACC funding model.

**BDF** refers to the basic daily fee.

**FWC** refers to the Fair Work Commission.

**IHACPA** refers to the Independent Health and Aged Care Pricing Authority.

**NHR Act** refers to the *National Health Reform Act 2011* (Cwlth).

**NWAU** refers to national weighted activity units.

**Pricing Authority** refers to the governing body of IHACPA established under the *National Health Reform Act 2011*.

**The Department** refers to the Department of Health and Aged Care.

**The Schedule** refers to Schedule 1—Care and services for residential care services of the [Quality of Care Principles 2014](#) under section 96-1 of the *Aged Care Act 1997*.

**UOW** refers to the University of Wollongong.

# 1. Overview

## 1.1 The Independent Health and Aged Care Pricing Authority

The Independent Health and Aged Care Pricing Authority (IHACPA) is established under the *National Health Reform Act 2011* (Cwlth) (the NHR Act) and by virtue of section 131A(1) of the NHR Act is invested with the following functions relevant to the Residential Aged Care Pricing Advice 2023–24 (this Advice):

- a) to provide advice to each relevant Commonwealth Minister in relation to one or more aged care pricing or costing matters, including in relation to methods for calculating amounts of subsidies to be paid under the *Aged Care Act 1997* or the *Aged Care (Transitional Provisions) Act 1997*
- b) such functions relating to aged care (if any) as are specified in regulations made for the purposes of this paragraph
- c) to conduct, or arrange for the conduct of, one or more of the following activities for the purpose of performing a function mentioned in paragraph (a) or (b):
  - i. the collection and review of data
  - ii. costing and other studies
  - iii. consultations
- d) to do anything incidental to or conducive to the performance of the above functions.

This Advice is an output of the performance of those functions by the Pricing Authority.

In this document, the ‘Pricing Authority’ refers to the governing body, as established under the NHR Act, and ‘IHACPA’ refers to the agency.

## 1.2 Data sources

In providing this Advice, the Pricing Authority has relied on a number of different data sources to inform the design and key parameters of the model.

These data sources include the following, provided by the Department of Health and Aged Care (the Department):

- Aged Care Financial Report 2020–21
- Aged Care sector wage estimation tool
- Resource Utilisation and Classification Study by the University of Wollongong
- Australian National Aged Care Classification (AN-ACC) assessment and shadow assessment data
- Residential Aged Care claims 2020–21
- Aged Care Funding Instrument 2020–21 assessments and claims
- National Approved Provider System facility characteristics.

The Pricing Authority has also relied on other publicly available data sources to inform the model, including:

- Australian Bureau of Statistics (ABS) Consumer Price Index series
- ABS Wage Price Index series
- Aged Care Quality and Safety Commission non-compliance register and sanction notices
- the Fair Work Commission (FWC) Stage 2 Decision<sup>1</sup> on the interim wage rise for aged care workers, published 21 February 2023.

The Pricing Authority has determined that the data are adequate to carry out its functions under the NHR Act in 2023–24. As outlined in IHACPA’s [Statement of Intent](#), this initial Advice will be limited to advice on indexation of the AN-ACC starting price published by the Department, and an estimate of the gap between the cost of required hotel services and specific types of revenue received. This is detailed in Section 4. Together, this advice is referred to as the Residential Aged Care Pricing Advice 2023–24.

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<sup>1</sup> [Fair Work Commission, Decision \[2023\] FWCFB 40 of 21 February 2023](#)

# 2. Residential Aged Care Pricing Advice 2023–24

## 2.1 The scope of IHACPA’s pricing advice for residential aged care services

Operating under the *National Health Reform Act 2011* and *Aged Care Act 1997*, the Independent Health and Aged Care Pricing Authority (IHACPA) will provide the Commonwealth Government (the Government) with annual advice on the following:

- a national price for residential aged care, based on funding the actual cost of care
- 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 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](#)<sup>2</sup>, 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 Australian National Aged Care Classification (AN-ACC) national weighted activity unit (NWAU) price
- consider appropriate loadings for any differential costs in care delivery, such as economies of scale, different geographical locations and populations with differing care needs
- consider the cost of care at different points in the resident’s journey, including a review of the weight for the initial entry payment
- 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.

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<sup>2</sup> Schedule 1—Care and services for residential care services of the *Quality of Care Principles 2014* under section 96-1 of the *Aged Care Act 1997* (Cwlth)

In October 2022, the Pricing Authority provided a [Statement of Intent](#) regarding its aged care costing and pricing functions to the Hon Mark Butler MP, Minister for Health and Aged Care. In this letter, the Pricing Authority advised Minister Butler that its first advice for 1 July 2023 would be limited to recommendations on indexation of the AN-ACC starting price of \$216.80 and an estimate of the gap between the cost of required hotel services and specific types of revenue received. This is detailed in Section 4.

## 2.2 Methodological considerations

The Residential Aged Care Pricing Advice 2023–24 used an interim methodology developed by IHACPA due to the limitations of available costing data and limited activity data following implementation of the AN-ACC funding model on 1 October 2022. This interim methodology will be reassessed when providing Residential Aged Care Pricing Advice for 2024–25.

The Department of Health and Aged Care’s (the Department’s) initial price of \$216.80 was used as a starting point and was updated on the basis of forecast cost impacts in the delivery of residential aged care and residential respite care services.

The key aspects considered in this interim methodology included:

- Fair Work Commission (FWC) interim decision to increase wages for aged care workers
- Superannuation Guarantee increase
- Indexation of historical cost data to account for underlying price inflation
- Analysis of any potential shortfall in funding for hotel costs.

### Impact of the Fair Work Commission interim decision

The Aged Care Work Value Case currently before the FWC relates to applications to vary the minimum wages for aged care employees in three Awards:

- *Aged Care Award 2010* (Aged Care Award)
- *Nurses Award 2010* (Nurses Award)
- *Social Community, Home Care and Disability Services Industry Award 2010* (SCHADS Award).

On 21 February 2023, in the Stage 2 Decision, the FWC announced an interim increase of 15 per cent to minimum wages in relation to the following employees<sup>3</sup>.

- direct care workers under the Awards and
- head chefs/cooks under the Aged Care Award (aged care employee level 4-7 provided the employee is the most senior chef or cook engaged in a facility) and
- recreational activities officers/lifestyle officers under the Aged Care Award.

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<sup>3</sup> [Fair Work Commission, Decision \[2023\] FWCFB 40 of 21 February 2023](#)



## Superannuation guarantee increase

The *Superannuation Guarantee (Administration) Act 1992* stipulates increases in the minimum superannuation guarantee by 0.5 per cent each year from 1 July 2021 until 1 July 2025.

## Indexation of historical cost data to account for underlying price inflation

IHACPA has received Aged Care Financial Report data from the Department, which includes facility information on income and expenses for care services, approved provider level balance sheets, income statements, and an annual prudential compliance statement, as well as labour cost and hours worked.

The latest ACFR received by IHACPA is the 2020–21 report, which is the first report at the facility level, rather than at a provider level. This provides a basis for calculating the various cost components associated with the delivery of residential aged care and residential respite care services. Indexation is used to inflate the cost components of the Department's starting price to account for the time between the implementation of the Department's starting price and the implementation of this pricing advice.

## Shortfall in funding for hotel costs

The Minister for Health and Aged Care has also requested that IHACPA account for all costs and revenues for items in the [Schedule of Specified Care and Services](#)<sup>4</sup>, and provide advice on the potential gap between the costs of delivering required hotel services and specific types of revenue received. This is detailed in Section 4.

## 2.3 Technical specifications

The *Residential Aged Care Pricing Advice Technical Specifications 2023–24* are provided separately to this document and detail the underlying technical methodology used to develop this Advice.

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<sup>4</sup> Schedule 1—Care and services for residential care services of the *Quality of Care Principles 2014* under section 96-1 of the *Aged Care Act 1997* (Cwlth)

# 3. Australian National Aged Care Classification pricing advice

## 3.1 The scope of Australian National Aged Care Classification (AN-ACC) pricing advice

A key element of the Independent Health and Aged Care Pricing Authority's (IHACPA's) residential aged care and residential respite care pricing advice relates to the AN-ACC funding model.

The University of Wollongong (UOW) was commissioned by the Department of Health and Aged Care (the Department) to develop a new classification system for residential aged care in Australia. Following a series of studies known as the Resource Utilisation and Classification Study, UOW developed the AN-ACC. The Commonwealth Government (the Government) introduced the AN-ACC funding model to calculate residential aged care and residential respite care subsidies from 1 October 2022, replacing the Aged Care Funding Instrument.

Elements of care in scope for the AN-ACC funding model are specified in Part 2 and Part 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*.

The two components of IHACPA's AN-ACC pricing advice include the recommended:

- AN-ACC price, which is a single price per national weighted activity unit (NWAU)
- AN-ACC price weights, measured in NWAU.

## 3.2 The recommended AN-ACC price

Should the interim wage rise for direct care workers take full effect on or before 1 July 2023, the Pricing Authority recommends the AN-ACC price for the 2023–24 financial year to be **\$243.10**.

This advice excludes the \$10 Basic Daily Fee supplement on the basis that the Government has advised its intention to remove the supplement from within AN-ACC from 1 July 2023. This advice also excludes any impact on aged care costs arising from the implementation of the FWC decision prior to 1 July 2023 and is made without information on how the interim wage rise may be funded, should it take effect prior to 1 July 2023.

For 2023–24, this recommended AN-ACC price is calculated by subtracting \$10 from the 1 October 2022 AN-ACC price of \$216.80 (set by the Department), and indexing the resulting \$206.80 by 17.6 per cent to cumulatively account for:

- inflation and wage rises in 2022–23 (3.1 per cent)
- the Fair Work Commission interim wage rise decision (10.7 per cent), then
- the superannuation guarantee increase (0.4 per cent)<sup>5</sup>, then
- underlying inflation from 2022–23 to 2023–24 (2.6 per cent).

This price is intended to be multiplied by the total AN-ACC NWAU to calculate the total AN-ACC subsidy.

### Excluding the impact of the Fair Work Commission interim wage rise

Excluding the effect of the FWC interim wage rise for direct care workers, the Pricing Authority recommends the AN-ACC price for 2023–24 to be **\$219.62**.

## 3.3 Recommended AN-ACC price weights

The current AN-ACC price weights (or NWAU) for the fixed and variable components and the initial entry adjustment for permanent care recipients are detailed in the [Schedule of Subsidies and Supplements for Aged Care](#) that were effective from 1 October 2022.

The Pricing Authority recommends the AN-ACC price for 2023–24 be applied to the AN-ACC price weights or NWAU values for the following components of the Residential Aged Care Subsidy detailed in the [Schedule of Subsidies and Supplements for Aged Care](#), that were applicable from 1 October 2022:

- Variable component (classification funding) – permanent care recipients
- Variable component (classification funding) – respite care recipients
- Fixed component (Base Care Tariff or BCT) for services where funding is calculated on the basis of occupied places – both permanent and respite care recipients
- Fixed component (Base Care Tariff or BCT) for services where funding is calculated on the basis of operational places – both permanent and respite care recipients
- Initial entry adjustment – permanent care recipients.

The Pricing Authority has not recommended changes to the AN-ACC price weights and recommends retention of the NWAU that were applicable from 1 October 2022 for the 2023–24 financial year. This is due to a lack of updated resident-level cost data or other relevant evidence, preventing an evidence-based recommendation by the Pricing Authority on any appropriate changes to the AN-ACC price weights. This is explained further in Section 1.2.

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<sup>5</sup> The increase of 0.4 per cent on the AN-ACC price is derived after adjusting the labour-cost component by 0.5 percentage points in the Superannuation Guarantee from 10.5 per cent in 2022-23 to 11.0 per cent in 2023-24.

In making the recommendation to retain the existing AN-ACC price weights, as set by the Department for implementation from 1 October 2022, the Pricing Authority has assumed that these reflect the best-available evidence regarding the relative cost of care for each AN-ACC class and BCT category.

The Pricing Authority intends to review the AN-ACC price weights based on resident-level cost data from the Residential Aged Care Costing Study and other relevant evidence, in order to make any recommendations on AN-ACC price weights to inform the Government funding decisions from 1 July 2024.

# 4. Hotel cost advice

## 4.1 The scope of advice on hotel costs

Elements of in-scope hotel costs are outlined in Part 1 of Schedule 1—Care and services for residential care services of the [Quality of Care Principles 2014](#) under section 96-1 of the *Aged Care Act 1997* (Cwlth).

Hotel costs for residents are currently aligned under the payment of the basic daily fee (BDF). The BDF is up to 85 per cent of the basic aged care pension, with all residents required to pay or apply for hardship or alternative payment options.

Despite initially being consolidated into the Australian National Aged Care Classification (AN-ACC) price, the Commonwealth Government has removed the supplement from within AN-ACC and will instead deliver this as a \$10 per resident per day BDF supplement.

According to its [Statement of Intent](#) and in response to communication from Professor Brendan Murphy, Secretary of the Department of Health and Aged Care, the Independent Health and Aged Care Pricing Authority (IHACPA) will provide advice to the Department of Health and Aged Care on the gap between the costs of delivering required hotel services, and revenue received, including how this can be translated to an AN-ACC national weighted activity unit price. The following types of hotel-related revenue have been considered in IHACPA's gap analysis:

- the BDF
- the BDF supplement
- additional service fees
- extra service fee
- other hotel-related income.

Additional and/or extra hotel services, such as higher quality meals, bedding, furnishings or preferred brands of toiletries can be offered and paid for by residents through additional service fees, and/or extra service fees. This component of hotel costs, that is, costs for the delivery of hotel services in addition to required hotel services, is out of scope for the IHACPA's advice on hotel funding.

## 4.2 Estimated hotel costs

The total revenue related to hotel services can be calculated as the sum of the BDF, the BDF supplement, additional service fees and extra service fees. Due to a lack of available data, this advice also excludes any impact from the Fair Work Commission (FWC) decision related to head chefs/cooks under the Aged Care Award.

The Aged Care Financial Report (ACFR) provides information on extra service fee and additional service fee revenue, and the BDF supplement can be estimated based on total occupied bed day information in the ACFR.

Total hotel expenditure is also reported in the ACFR. These items together allow the gap between hotel revenue and expenditure to be calculated as expenses less revenue.

Depending on the intended application, maintenance costs are often considered as either hotel or accommodation costs. For the purposes of this analysis, maintenance costs have been separated in consideration of the gap between the cost of required hotel services and the revenue from the BDF and BDF supplement.

The Pricing Authority also advises there is a gap between the cost of required hotel services, the revenue from the BDF and the BDF supplement. This gap is estimated to be **\$2.89** per resident per bed day in 2023–24, **excluding** maintenance costs, which are estimated to be **\$10.32** per resident per bed day in 2023–24.

The total administration costs are reported under the following categories of the ACFR:

- Corporate recharge
- Administration employee labour costs
- Other administration costs
- WorkCover premium for administration staff
- Payroll tax for administration staff
- Fringe benefits tax
- Quality, compliance and training external costs
- Insurances.

The administration costs have been apportioned between Care, Hotel and Accommodation as:

- 37.0 per cent Care
- 33.6 per cent Hotel
- 29.4 per cent Accommodation.

This apportionment is based on financial reporting from the [September 2022 Aged Care Financial Performance Survey Report by StewartBrown](#).

IHACPA further notes that any future FWC decisions on minimum wage rises for workers other than direct care workers may impact the hotel cost gap.



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