Towards an Aged Care Pricing Framework Consultation Report

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IHACPA

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Table of Contents

1. Introduction

The Pricing Framework for Australian Residential Aged Care Services (the Pricing Framework) is the key policy document for the Independent Health and Aged Care Pricing Authority (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 Commonwealth Government (the Government).

IHACPA released its *Towards an Aged Care Pricing Framework Consultation Paper* (the Consultation Paper) for public consultation between 16 August 2022 and 14 October 2022 and invited stakeholders to provide input into the development of the Pricing Framework.

IHACPA received 71 submissions to the Consultation Paper from a diverse range of stakeholders including governments and government departments and agencies, aged care providers, aged care workforce organisations, aged care researchers, aged care industry suppliers, individuals, and peak bodies representing various groups such as the clinical workforce, providers, Aboriginal and Torres Strait Islander peoples and organisations, residents and their representatives.

Key themes arising from the consultation feedback are summarised in this report. This stakeholder feedback has informed the development of the Pricing Framework 2023–24, including the decisions that underpin IHACPA's first pricing advice to the Government. This will inform Government decisions on the pricing of residential aged care and residential respite care from 1 July 2023.

The key decisions for the aged care pricing advice are outlined in the Pricing Framework 2023–24.

Submissions will be made available on the IHACPA website, unless respondents requested or IHACPA considered it appropriate that their submission, or parts of their submission, should not be released.

This document should be read in conjunction with the:

- Towards an Aged Care Pricing Framework Consultation Paper
- Pricing Framework for Australian Residential Aged Care Services 2023–24.

2. IHACPA's role in the aged care system

To support the understanding and engagement of stakeholders, the *Towards an Aged Care Pricing Framework Consultation Paper* included an overview of the aged care system and the Independent Health and Aged Care Pricing Authority's (IHACPA) role in providing costing and pricing advice to the Commonwealth Government (the Government). As this was the IHACPA's first consultation relating to aged care pricing, various stakeholders provided feedback on IHACPA's role in the aged care system.

2.1 Consultation, transparency and trust

Feedback received

Overall, stakeholders expressed support for IHACPA's role in providing aged care costing and pricing advice.

Consultation

Many stakeholders stressed the importance of ongoing engagement and collaboration with a wide range of aged care sector stakeholders in developing and refining pricing advice and the costing studies and policy underpinning this.

Stakeholders proposed that mechanisms should be developed to allow for regular input and feedback, and aged care sector stakeholders should be kept informed of any proposed changes to the pricing model. Mechanisms, such as advisory committees, should facilitate consultation with a wide range of stakeholders, in order to engage with and understand the many different perspectives and roles in the aged care system.

Stakeholders also recommended targeted consultation for pricing refinements that have greater relevance for particular stakeholder groups. For example, IHACPA should collaborate with organisations representing Aboriginal and Torres Strait Islander peoples and relevant providers in considering the potential use of the Australian National Aged Care Classification (AN-ACC) funding model for the National Aboriginal and Torres Strait Islander Flexible Aged Care Program.

Furthermore, stakeholders noted the importance of IHACPA's collaboration with other government departments and agencies to ensure IHACPA's pricing advice complements broader aged care reforms.

Transparency and trust

Stakeholders noted the importance of facilitating trust and transparency in the aged care system, including concerns about how incentives, regulations and system structures can influence provider behaviour in adverse ways. Stakeholders indicated further trust and transparency could be achieved by:

- enhancing existing data collection processes and increasing transparency in provider spending
- ongoing monitoring for continuous improvement and sustainability of the sector
- independent, published audits of the funding algorithm.

Stakeholders raised several points pertaining to IHACPA's role in facilitating transparency in the provision of residential aged care pricing advice. There was support for:

- publication and transparency of IHACPA's costing and pricing advice, decision-making processes and outcomes
- annual public consultation and costing analysis to inform pricing
- transparency regarding the scope of inclusions in residential aged care pricing advice
- transparency regarding the link between the national weighted activity units (NWAU) and the AN-ACC residential aged care price.

Stakeholders sought clarity and assurance over various aspects of IHACPA's role including the:

- extent to which the Government will accept advice from IHACPA in determining prices, and the potential influence of Government policy on technical matters
- ability for IHACPA to provide updated advice to the Government where a Fair Work Commission wage (FWC) determination occurs outside of a normal pricing cycle
- role of IHACPA in sector education to ensure broad understanding of the pricing process and its objectives.

IHACPA's response

Consultation, transparency and trust

IHACPA is committed to transparency and a consultative approach in undertaking its aged care costing and pricing functions.

It will conduct annual public consultation for the Pricing Framework for Australian Residential Aged Care Services, providing stakeholders with the opportunity to submit feedback on how IHACPA undertakes costing studies and develops pricing advice. IHACPA will operate independently from the Government and will provide pricing advice that is evidence-based.

IHACPA will provide advice to the Commonwealth Minister for Health and Aged Care (Minister) that transparently explains the methodology used to develop the recommended AN-ACC price and NWAU values. The costs in scope for IHACPA's pricing advice are included in 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). Further clarity on the scope of inclusions will be provided in the form of technical specifications, which will accompany IHACPA's pricing advice to the Minister.

Information about IHACPA's pricing advice will be tabled by the Minister in Parliament, and the Minister may direct IHACPA to publish information about its advice. IHACPA will also work with the Department of Health and Aged Care (the Department), to improve data collections over time and support their use in costing and pricing refinement. IHACPA will not update finalised pricing advice that has already been provided to the Minister, unless requested by the Minister, such as to account for FWC wage decisions that occur outside of the pricing cycle. Further information about IHACPA's responsibilities in providing pricing advice is outlined in IHACPA's Statement of Intent to the Minister.

IHACPA will also establish separate advisory committees and working groups to support its aged care functions. This includes the Aged Care Advisory Committee, as required by the amended *National Health Reform Act 2011* (Cwlth), and sub-committees.

This will facilitate stakeholder input on a range of matters, including:

- IHACPA's aged care work program
- the development of policies and costing price advice, including proposed changes to the AN-ACC model and input on costing and pricing priorities
- how education activities and resources can support the sectors understanding of activity based funding.

In the short term, IHACPA has established an Interim Aged Care Working Group (the Working Group), which includes representation from a range of aged care stakeholders including the Department, state and territory governments, peak bodies representing providers, Aboriginal and Torres Strait Islander peoples and specialist providers, specialist providers for people at risk of or experiencing homelessness, aged care residents, carers and clinical staff.

Collaboration with the Working Group will enable IHACPA to ensure that pricing advice is complementary and supportive of whole-of-system reforms and policy priorities.

Over time, IHACPA will work to inform the establishment of benchmark reports, focused on costs and activities within the aged care system, to support improved transparency and an understanding of how providers and services are adapting to sector innovations.

The Department will retain responsibility for policies related to management and regulation of the aged care system and funding models, including transparency of aged care provider expenditure, policies regarding minimum care minutes and independent audits of the AN-ACC model.

2.2 Aged care landscape and regulatory reform

Feedback received

IHACPA received general feedback from a small number of stakeholders regarding its role in the context of the broader aged care system and reforms.

Stakeholders noted the importance for AN-ACC to address the specific challenges and context of the aged care system and the nuances of residential aged care services. This includes ensuring that IHACPA's costing and pricing advice supports the objectives of wider aged care reforms, particularly the emphasis on improvements to quality and safety. Furthermore, stakeholders considered it important that IHACPA acknowledge the interdependencies between the various government agencies and how these relate to the new funding model.

Stakeholders recommended IHACPA consider the interface between aged care services, the public hospital system and disability sectors. The differences between these systems, as well as their interactions, must also be considered in the development of aged care pricing and costing advice.

IHACPA's response

IHACPA acknowledges the need to develop pricing advice that is appropriate to the residential aged care context, including potential changes to the way residential aged care services are delivered over time. IHACPA also intends to provide pricing advice that will support and complement the various regulatory reforms occurring in the system, and will therefore balance medium- to longer-term efficiency objectives with a range of other policy objectives.

The interface and interaction between the aged care systems and other systems, particularly the public hospital system, will be considered as part of IHACPA's longer term policy and pricing refinement.

2.3 Other feedback

Feedback received

Stakeholders provided feedback on a number of topics that are outside IHACPA's remit for its costing and pricing functions, including:

- the development of policies focused on addressing and regulating quality and resident welfare in residential aged care
- facility accreditation, audit and related processes
- short term funding arrangements for services in financial distress due to external factors
- retirement village pricing and regulation
- the structure of the aged care sector, including the role of government and non-government providers and regional and local governance
- the level and eligibility thresholds for the means-tested care fee
- policies regarding the payment of resident contributions including the basic daily fee, means-tested care fee, refundable accommodation deposits and daily accommodation payments.

Stakeholders also recommended IHACPA review the policies of the former Aged Care Pricing Commissioner (ACPC), now that this function has been transferred to IHACPA.

IHACPA's response

IHACPA notes that these areas are the policy responsibility of the Department and the Aged Care Quality and Safety Commission and are outside the scope and remit of IHACPA's costing and pricing functions.

IHACPA's new functions relating to the former ACPC are not in scope for the *Pricing Framework for Australian Residential Aged Care Services 2023–24* but are being reviewed separately.

3. Principles for activity based funding in residential aged care

Consultation questions

- What, if any, changes do you suggest to the proposed principles to guide the development and operation of the Pricing Framework for Australian Residential Aged Care Services?
- What, if any, additional principles should be included in the pricing principles for aged care services?
- What, if any, issues do you see in defining the overarching process and system design principles?

3.1 General feedback on the proposed residential aged care pricing principles

Feedback received

Stakeholders expressed broad support for the proposed residential aged care pricing principles, as well as the process and system design principles, but sought to clarify or emphasise specific aspects of the principles.

In recognising the potential for tensions between the principles, stakeholders requested clarity on how trade-offs between different principles would be managed as part of decision-making during pricing development. Stakeholders gave examples of this, such as:

- the potential for providers to be incentivised to prioritise efficiency over access and person-centred care
- the need to balance efficiency and sustainability of the aged care system, including the potential effects of this trade-off on the public hospital system
- potential conflicts between minimising unintended consequences and activity based funding (ABF) pre-eminence.

One stakeholder queried the practicality of actually achieving the objectives outlined in the principles, such as resident access to services, which can be challenged by system-level factors outside the control of the Independent Health and Aged Care Pricing Authority (IHACPA). Other stakeholders noted the negative impacts on quality of care due to current workforce challenges.

IHACPA's response

IHACPA notes stakeholder concerns and the challenges of balancing multiple principles in developing pricing advice. The purpose of these pricing principles is to guide decisions regarding the development of independent pricing advice for residential aged care services using the available cost and activity data.

The principles do not have a hierarchy and such decisions will be supported through advice and consideration by the Pricing Authority, the Deputy Chair (Aged Care Pricing), the Aged Care Advisory Committee and other advisory and consultation mechanisms such as committees and working groups and public consultation. Through these mechanisms, IHACPA will work to understand the implications of these trade-offs and aim to be transparent about how these principles have been considered in decision-making.

IHACPA notes that the achievement of many of the policy objectives relies on multiple policy interventions that are frequently outside of the remit and responsibility of IHACPA. However, pricing and funding will often have a role in supporting the achievement of policy objectives, and so it remains important to articulate such policy objectives to ensure decision-making in pricing development remains aligned and complementary to whole-of-sector aims.

Stakeholders provided some specific suggestions on the individual principles, and also recommended additional principles for consideration. This feedback and IHACPA's responses are outlined in Sections 3.2 to 3.5.

3.2 Overarching principles

Feedback received	IHACPA's response
Access to care: Funding should support appropriate access to aged care services. Individuals should have access to care that is not unduly delayed by availability, access to assessment, location or other factors.	
Stakeholders suggested this principle should be focused on ensuring all Australians have timely access to quality aged care services and that this must include equitable access in terms of affordability, availability and accessibility.	IHACPA will reword the principle to state that "Funding should support timely and equitable access to appropriate aged care services, for all those who require them." IHACPA notes that resident financial contributions to their care are not within its remit and are the policy responsibility of the Department of Health and Aged Care (the Department).

Feedback received	IHACPA's response
Quality care: Care should meet the Aged Care Quality Standards and aim to deliver outcomes that align with the community expectations.	
Many stakeholders identified the need for quality to encompass holistic and person-centred care that considers resident outcomes and focuses on attainment of wellbeing and quality of life. Some stakeholders also emphasised the need to promote provider ambitions to attain high levels of quality and employ best practices.	IHACPA will reword this principle to: "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, including being based on the same price for the same services across government, private and not-for-profit providers of aged care services. This should also recognise the legitimate and unavoidable costs faced by some aged care providers.	
Stakeholders suggested this be broadened from price equity for providers to include equity of care and outcomes for residents and workforce remuneration.	To enhance the focus on fairness for residents, not just providers, IHACPA will reword the principle to: "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." IHACPA cannot make recommendations about the appropriate wage rates for the aged care sector workforce and therefore does not consider it appropriate to include this concept in the principle.
Efficiency: ABF should ensure the sustainability of the aged care system over time and optimise the value of the public investment in aged care.	
Some stakeholders expressed concerns that the Australian National Aged Care Classification funding model would deliver a system focused on compliance and cost reduction over outcomes. They suggested that pricing should consider efficiency in the context of access and quality, which were recommendations of the Royal Commission into Aged Care Quality and Safety.	IHACPA's pricing approach combines elements of both 'cost-based' and 'best practice' pricing. This recognises the need for prices to be aligned to the actual cost of delivering care, while also supporting the required uplifts in care minutes and quality arising from the aged care system reforms. The principle also reflects the need for efficiency to be a longer-term objective to promote sustainability of the aged care system over time.

Feedback received	IHACPA's response
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.	
Stakeholders identified a need for a clear definition of the relationship between residential aged care providers and the public hospital system, however they acknowledged that this would be a longer-term consideration. They also suggested future consideration of the intersection of aged care with the health and disability systems. Stakeholders noted that pricing and funding will need to be consistently allocated to align with the agreed role and responsibilities.	IHACPA will consider the interface and relationship between the aged care system and the health and disability care systems in longer-term policy and pricing refinement. The current principle adequately provides scope for this refinement and development over time.

3.3 Process principles

Feedback received	IHACPA's response
Administrative ease: Funding arrangements should not unduly increase the administrative burden on aged care providers.	
Stakeholders suggested this should focus on efficient and effective processes, while noting that adapting to the new model, including compliance with care minutes and associated reporting, will increase administrative burdens.	The principle will be renamed to 'Administrative efficiency' and reworded to: '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.	
A few stakeholders endorsed this principle, noting the need for pricing continuity and predictability to facilitate implementation and ensure delivery of safe care during the transition to the new funding model.	IHACPA acknowledges these stakeholder concerns. The current principle reflects these considerations.
Evidence-based: Funding should be based on the best available information.	
Stakeholders indicated support for pricing changes and adjustments over time to be based on costing studies and evidence-based advice on costing structures and care delivery models.	IHACPA notes this endorsement and will support pricing recommendations with regular costing studies, and utilise other available, robust and complementary data and information that can support costing and pricing advice.

Feedback received	IHACPA's response
Transparency: All steps in the development of advice for ABF and fixed funding should be clear and transparent.	
Stakeholders expressed that greater transparency will foster trust in the system and stakeholder confidence in IHACPA's independence and pricing advice. Greater stakeholder understanding of ABF pricing and funding will also enhance the effects of ABF incentives to achieve desirable outcomes in the aged care system.	IHACPA is committed to ongoing, open and transparent consultation with a broad range of stakeholders in the aged care system.

3.4 System design principles

Feedback received	IHACPA's response
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.	
Stakeholders emphasised the importance of this principle but noted concerns that a focus on inputs and outputs will stifle investment and innovation, as well as the need for pricing to accurately predict the types of care and activities that will be provided in the future.	IHACPA will leave this principle unchanged, however will seek stakeholder feedback through working groups, advisory committees and future consultations on the mechanisms that can better support the implementation of this principle in pricing advice.
Promoting value: Pricing should support innovative practices and systems that deliver efficient, person-centred care.	
A stakeholder noted concerns regarding the definition of value and the importance of capturing what matters to residents, encouraging innovation and recognising value for money.	These concepts are already encompassed by the principle. IHACPA will also engage with residents and their representatives through advisory committees and public consultation to further understand resident preferences and perspectives.
Promoting harmonisation: Pricing should facilitate best-practice provision of care at the appropriate site.	
Stakeholders sought clarity on the practical implementation of this principle, expressing concerns that this would adopt a cost-minimisation approach, disincentivise care that is close to a resident's home, and how it would align with the policy intent of other principles.	The current principle will be reworded to: 'Pricing should facilitate best-practice, person-centred provision of care in the appropriate setting.' IHACPA notes stakeholder concerns and that application of this principle will be balanced with other principles and informed by consultation.

Feedback received	IHACPA's response
Minimising undesirable and inadvertent consequences: Pricing should minimise susceptibility to gaming, inappropriate rewards and perverse incentives.	
Stakeholders raised concerns that care minute requirements will encourage a minimum care effort and lead to substantial gaming and inaccurate reporting of minutes.	IHACPA acknowledges stakeholder concerns, however, the Department and the Aged Care Quality and Safety Commission remain responsible for the regulation of care minute requirements.
ABF pre-eminence: ABF should be used for funding aged care services wherever practicable and compatible with delivering value in both outcomes and cost.	
Some stakeholders suggested IHACPA should seek to incorporate all service costs into the ABF price to reduce cost-shifting and improve comparability between providers. Other stakeholders noted that alternative funding models may better promote value in certain cases, and the need to balance the pricing principles when considering ABF pre-eminence.	IHACPA is supportive of promoting a more simplified funding model, with an ABF price that incorporates multiple elements, in preference to multiple separate supplements, where possible. The pricing principles will be considered jointly, and this principle will not override other principles by default. The principle will be renamed to 'Using ABF where practicable and appropriate' and reworded to 'ABF should be used for funding aged care services wherever practicable and compatible with delivering value in both outcomes and cost'.
Recipient-based: Pricing adjustments should be, as far as is practicable, based on characteristics related to people receiving care, rather than those of providers.	
Although the intent was supported, stakeholders noted that wording should reflect a person-centred approach.	IHACPA agrees with stakeholder feedback and will rename the principle 'person-centred.'

3.5 Suggested additional principles

Feedback received	IHACPA's response
Sustainability:	
A number of stakeholders argued that changes to pricing without consideration of the impact on providers' risks, undermining the sustainability of the system and market failure, noting the need for a stable financial environment that encourages investment.	IHACPA considers the objective of sustainability to be captured by a number of existing principles, including under the overarching principle 'efficiency', the process principle 'stability' and the system design principles 'fostering care innovation' and 'promoting value.'

Feedback received	IHACPA's response
Aboriginal and Torres Strait Islander peoples equity:	
A stakeholder recommended an overarching principle that targets equity of access and outcomes for Aboriginal and Torres Strait Islander peoples and that goes beyond equity as a financial concept. They also encouraged IHACPA to reference and reflect on how it will meet the policy goals of the *National Aboriginal Torres Strait Islander Health Plan 2021–2031* and *Closing the Gap Agreement 2020–25*, including the four Priority Reform Areas.	IHACPA intends that the application of the pricing principles in pricing development is nationally consistent, and therefore does not reference policies or targets relating to particular populations. IHACPA will consider the differing care needs of specific cohorts and communities in the collection and analysis of cost data. IHACPA will also engage with stakeholders to ensure pricing reflects the pricing principles, including with regard to access and fairness, which capture equity objectives. Providing pricing advice in this way will support the Commonwealth Government to address these particular policy priorities. IHACPA considers that equity of access and outcomes for Aboriginal and Torres Strait Islander residents is an important consideration and will engage with organisations representing Aboriginal and Torres Strait Islander peoples and providers specialising in their care through advisory committees in the development of pricing advice.
Best practice pricing:	
A stakeholder raised concerns related to longstanding issues and variance in the provision of aged care services, suggesting a best practice principle to guide initial pricing. This would allow providers to improve services to an acceptable standard before a transition to cost-based pricing.	IHACPA considers best practice pricing to be a methodology and pricing approach, rather than a pricing principle. The intent of this objective is captured through a number of existing principles.
Rights-based:	
Some stakeholders noted the importance of recognising that residential aged care facilities are the homes of residents, rather than a clinical setting. Stakeholders encouraged a rights-based approach should underpin ABF in alignment with the new Aged Care Act.	IHACPA will reconsider this proposed addition and changes to the other principles in future, following the development of the new Aged Care Act, to ensure IHACPA's pricing principles and policy objectives align with the new Act.
Valued workforce:	
A stakeholder proposed this overarching principle to ensure residents have a valued, well-trained and well-remunerated workforce.	While IHACPA will aim to reflect the reported cost and available information on future wage movements in its pricing advice, it will not recommend appropriate wage rates. Therefore, IHACPA will not include this specific principle.

4. The Australian National Aged Care Classification funding model

Consultation questions

- What, if any, may be the challenges in using AN-ACC to support activity based funding (ABF) in residential aged care?
- What, if any, concerns do you have about the ability of AN-ACC to support long-term improvement in the delivery of residential aged care in Australia that is efficient, sustainable and safe?
- What, if any, additional factors should be considered in determining the AN-ACC national weighted activity units (NWAU) weightings for residents?
- What should be considered in developing future refinements to the AN-ACC assessment and funding model?

4.1 The Australian National Aged Care Classification (AN-ACC) funding model

Feedback received

Stakeholders raised the importance of the ability of AN-ACC to support continued improvement and best-practice care in residential aged care facilities. Stakeholders emphasised the view that there must be sufficient funding to support safe and high-quality care that focuses on achieving positive resident outcomes.

Various stakeholders highlighted concerns that the AN-ACC classification may encourage providers to select certain residents based on financial objectives. Providers also expressed concerns that efforts to improve the abilities of residents, or prevent decline, may not be effectively incentivised by the AN-ACC funding model.

A few stakeholders, including two state governments, were not supportive of ABF using AN-ACC for rural and remote services and specific facility types. Other stakeholders noted the potential need to use block funding for particular elements of provider costs, such as the fixed costs of smaller providers or particular training or types of services. In cases where ABF is not considered feasible or sustainable, there were calls for block funding to support flexibility and provider viability.

Some stakeholders also advised that the multiple funding streams within residential aged care creates confusion, with some support for a simplified funding approach.

IHACPA's response

The Independent Health and Aged Care Pricing Authority (IHACPA) recognises the importance of the AN-ACC model in supporting ongoing improvement in residential aged care services.

IHACPA acknowledges stakeholder concerns that the AN-ACC funding model may provide inappropriate resident selection incentives if AN-ACC pricing is inadequately aligned to the actual cost of care across the different classes. IHACPA will undertake costing studies to support AN-ACC pricing to be closely aligned to the actual cost of care over time and reflect appropriate incentives.

Regarding feedback supportive of block funding arrangements, IHACPA notes that the Base Care Tariff structure for rural and remote providers effectively operates as a 'fixed plus variable' model, with a portion of block-type funding supplemented by ABF based on resident needs. IHACPA will review the performance and appropriateness of this pricing structure and consider any required refinements over time to ensure AN-ACC pricing does not unduly incentivise certain provider types, locations or sizes.

The pricing principle of 'ABF pre-eminence' does not require exclusive use of ABF but allows consideration and potential recommendation of alternative funding models where ABF is not appropriate or feasible. However, decisions about funding model structure will remain the responsibility of the Commonwealth Government and the Department of Health and Aged Care (the Department).

Where it aligns with the residential aged care pricing principles, IHACPA is supportive of the simplification of aged care funding streams over time and will seek to support this, where appropriate, through the structure of pricing advice.

4.2 Future refinements to AN-ACC

Feedback received

Stakeholders expressed that AN-ACC must be robust, indicating it is not yet sufficiently mature and must be subject to ongoing refinement over time to ensure it is aligned to resident care needs. Stakeholders noted continuous improvement will be facilitated by stakeholder feedback, enhancements in data collections, and further costing studies.

Stakeholders expressed the view that AN-ACC must be driven by the clinical and personal care needs that effectively support resident wellbeing and the model should be flexible and account for diverse and changing resident care needs.

Stakeholders highlighted particular areas where they believe care needs are not well reflected in the AN-ACC structure, resulting in cost variations within AN-ACC classes. These include:

- continence/incontinence management
- dementia and cognition impairments
- allied health needs
- palliative care
- residents with challenging behaviours who are mobile.

Many stakeholders particularly highlighted the need to consider classification, costing and pricing for complex care. They identified specific areas of complexity that must be better reflected in the funding model:

- residents with central venous access and/or requiring parenteral nutrition
- residents with complex mental health presentations
- residents entering permanent care for the first time.

Some facilities, such as some public residential aged care facilities, were noted to have particularly complex resident casemix that may not be adequately addressed by the AN-ACC funding model.

Many stakeholders also raised the need to better understand the costs of residential respite care to ensure there are no disincentives to providing respite care.

The integration of health and aged care services must be considered to support effective management of residents with complex care needs. One stakeholder advocated that the funding model be sufficiently flexible to ensure that older people with complex needs will be accepted into residential facilities, where care needs can be safely managed, rather than admission to hospital.

IHACPA's response

IHACPA notes that the refinement of AN-ACC will be an extended and evolving process.

The current AN-ACC structure and classes have been set by the Department based on the University of Wollongong's Resource Utilisation Costing Study. IHACPA does not intend to recommend changes to the AN-ACC structure or weightings in the first year, due to a lack of resident-level cost data.

IHACPA will consider potential refinements to the AN-ACC structure, including for residential respite care, in the medium- to long-term, noting that this will require sufficient resident-level cost data and relevant data on resident characteristics and care needs. IHACPA will ensure representative samples are used, including public sector facilities, so that pricing advice reflects the whole system.

IHACPA will continue to engage with stakeholders to receive input and feedback on the refinement of AN-ACC over time.

4.3 Assessment process

Feedback received

Given the pivotal nature of the assessment process in supporting the funding model, stakeholders raised concerns about the transparency, accuracy, timing and frequency of the AN-ACC assessment process. Stakeholders noted the following:

- concerns around the accuracy and consistency of AN-ACC assessments
- point-in-time assessments may not accurately reflect resident care needs
- assessment for allied health care needs is currently inadequate
- concerns regarding the diversion of care staff to the assessor workforce
- residents, families and providers should be involved in the assessment process to better determine residents' care needs
- the need for further clarity on, and review of, re-assessment processes and the timing of changes to funding
- the potential need to refine the use of component tools in the AN-ACC assessment to inform classification.

IHACPA's response

The Department remains responsible for the AN-ACC assessment and re-assessment process. The Department has previously engaged an independent organisation to provide statistical quality assurance of the shadow AN-ACC assessment data to ensure assessor and assessment consistency.

IHACPA may consider potential refinements to the components of AN-ACC assessments, such as how the measures and outcomes of clinical assessment tools inform classification groupings, as part of future recommendations regarding classification refinement.

4.4 Care minutes

Feedback received

Various stakeholders expressed concerns regarding the minimum care minute requirements for AN-ACC.

Feedback included:

- challenges with data collection for care minute reporting
- recommendations for the inclusion of allied health services in targets
- workforce constraints hindering providers' ability to meet targets
- concerns about the ability of care minute measurement and reporting to effectively promote and reward quality care.

IHACPA's response

The Department and the Aged Care Quality and Safety Commission have responsibility for various aspects of the AN-ACC care minutes policy and regulation, including data collection, reporting, monitoring and related workforce matters. IHACPA will remain alert to the implications of minimum care minutes targets for potential refinements to AN-ACC and the development of costing and pricing advice.

5. Developing residential aged care pricing advice

5.1 The residential aged care price definition and scope

Consultation questions

- What, if any, concerns do you have about this definition of a residential aged care price?
- What, if any, additional aspects should be covered by the residential aged care price?

Feedback received

While stakeholders did not raise any significant concerns regarding the residential aged care price definition, they indicated that the price must reflect all of the costs related to the provision of high-quality care and suggested this include the associated workforce beyond those specified in the minimum care minutes requirements.

Stakeholders recommended that the residential aged care price cover the costs associated with:

- high quality care that includes not only direct clinical services but also holistic care such as social activities and other lifestyle and wellness services
- residents with complex care needs including those with cognitive impairments, maintaining continence, challenging behaviours, and specialty equipment
- direct clinical care including allied health care, oral health care, palliative care, acute care, mental health care, reablement and rehabilitation care, and respite care
- any costs associated with the delivery of appropriate aged care to Aboriginal and Torres Strait Islander peoples
- staff attraction and retention, and staff development and training costs
- emergency preparedness
- regulation and compliance, including meeting quality standards, quality improvements and data collection, particularly for small providers
- capital asset replacement and maintenance
- an adequate margin for providers and an incentive for investment.

IHACPA's response

The costs in scope for the Independent Health and Aged Care Pricing Authority's (IHACPA) pricing advice are included in 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). Further clarity on the scope of inclusions will be provided in the form of technical specifications, which will accompany IHACPA's pricing advice to the Minister for Health and Aged Care (Minister).

In response to the specific elements raised by stakeholders, IHACPA notes the following:

- complex care is included in the Schedule, particularly in Part 3, and is therefore in-scope for IHACPA's pricing advice

- aside from being included in the Schedule and in-scope for IHACPA's pricing advice, the Australian National Aged Care Classification (AN-ACC) funding model already includes an incentive for reablement through the ability to retain the resident's original AN-ACC class instead of having to be re-assessed to a potentially lower AN-ACC class
- mental health and acute care costs for services beyond what is included in the Schedule are out-of-scope for AN-ACC pricing, however, IHACPA will consider the interface between residential aged care and the health and mental health system in the longer-term to consider any implications for AN-ACC classification, costing and pricing refinement
- the existing Base Care Tariffs for specialist providers for Aboriginal and Torres Strait Islander peoples in rural and remote areas reflect the differential costs of these facilities and will be refined using future costing studies
- IHACPA considers emergency preparedness to be in-scope under the Administration component of Hotel services outlined in Part 1 of the Schedule, therefore reported in-scope costs will be reflected in IHACPA's pricing advice
- although maintenance costs are included in Part 1 of the Schedule, feedback from the Department of Health and Aged Care (the Department) advised some industry reports consider maintenance as part of accommodation. As such IHACPA have considered maintenance costs in line with the Schedule but have reported them separately to other hotel costs in IHACPA's pricing advice. Capital costs are not included as they are funded separately through accommodation costs
- the Minister has not requested IHACPA include a margin in pricing advice and the inclusion of a margin will be a decision for the Commonwealth Government (the Government) in determining the price.

5.2 The residential aged care pricing approach and level

Consultation questions

- What, if any, concerns do you have about the proposed pricing approach and level of the residential aged care price?
- How should 'cost-based' and 'best practice' pricing approaches be balanced in the short term and longer-term development path of IHACPA's residential aged care pricing advice?

Feedback received

Feedback provided a range of responses 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, with many noting concerns about pricing that does not reflect the true costs of providing the required care and uplifts in direct care time. Some argued that average pricing may not represent an efficient price nor reflect the costs of high-performing facilities. Many also acknowledged a need to ensure the pricing approach appropriately addresses the operating constraints of smaller and regional and remote providers.

Many stakeholders also noted the importance of an ongoing review of cost data and pricing advice to ensure it reflects the true costs of providing quality care and the changes in care costs over time. They also recommended that cost data should not be taken at face value, given the reforms and changes currently occurring in the aged care system, such as ongoing infection prevention and control following coronavirus disease 2019 (COVID-19). Similarly, a few stakeholders were concerned that pricing advice should not be unduly influenced by any artificial budget constraints, should reflect the actual costs of care delivery and incentivise innovation.

Feedback also noted the need for improved data collection and reporting by providers, and data standards to promote consistency. The additional costs imposed on providers to develop and operate cost and activity data collection systems should be considered.

IHACPA's response

IHACPA recognises 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.

Due to a lack of resident-level cost data, IHACPA will recommend an appropriate indexation rate be applied to the existing AN-ACC price for 1 July 2023. Beyond this, IHACPA will utilise resident-level costing studies, data from the Aged Care Financial Report (ACFR) and Quarterly Financial Report (QFR) to develop best practice pricing that is informed by the actual costs of delivering care, and responsive to changes in the underlying models of care and associated costs over time. This will include the ongoing costs of managing COVID-19 outbreaks and other illness outbreaks as reflected in the ACFR, QFR and other cost study data collected by IHACPA.

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 seek to ensure costing and pricing methodologies remain simple and transparent to foster the sector's understanding and application of activity based funding (ABF). IHACPA's proposed ABF system design principles include 'fostering care innovation' and support the importance of aged care pricing being responsive to the cost impacts of new technology and innovations in models of care, especially those that improve resident outcomes and service efficiency.

The Department is the system manager for aged care and is responsible for many of the data collections IHACPA will utilise in developing pricing advice. IHACPA will also develop and manage additional cost data collections. IHACPA will engage with the Department to support refinements to data collection and data quality standards to ensure data collections facilitate costing and pricing development.

5.3 Indexation

Consultation questions

- What should be considered in the development of an indexation methodology for the residential aged care price?
- What, if any, additional issues do you see in developing the recommended residential aged care price?

Feedback received

While stakeholders noted the importance of using recent cost data where possible, particularly in accounting for Fair Work Commission (FWC) minimum wage decisions, there were mixed views regarding the development of a suitable indexation methodology to adjust historical cost data for use in pricing.

Stakeholders placed significant emphasis on appropriately accounting for wage rises, including by:

- analysing cost data to quantify actual wage increases and compare these to other measures
- appropriately and transparently weighting the wage and non-wage related cost components within an indexation methodology
- accounting for changes in award rates, including future increases.

Providers expressed diverse views around the use of a standard measure, such as the Consumer Price Index (CPI), or the adoption of a composite approach for reflecting the different components of residential aged care costs. Many providers noted the importance of reflecting increases in input costs such as food, utilities, fuel and supplies. Some suggested the CPI could be applied to the whole cost base, while one suggested it be used for the goods and services component only.

Some stakeholders also recommended that an indexation methodology should account for different inflation and wage increases by location and rurality, while some argued that it should reflect various enterprise bargaining arrangements.

IHACPA's response

IHACPA notes that feedback around indexation methodology is mixed. Broadly, stakeholders seek a methodology that adequately addresses growth in input costs, and particularly wage costs given that these are a significant component of provider costs.

IHACPA intends to conduct regular costing studies to support indexation that reflects trends in the growth of reported costs over time. Until this cost data becomes available, IHACPA is considering the use of a range of Australian Bureau of Statistics indexes to separately index each labour and non-labour component of the aged care price for application on 1 July 2023.

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

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.

6. Adjustments to the recommended price

6.1 Approach to adjustments

Consultation question

- What, if any, changes are required to the proposed approach to adjustments?

Feedback received

Stakeholders recommended that consideration of adjustments be made on an ongoing and regular basis in collaboration with stakeholders, as they will account for emerging and future costs. Stakeholders also noted the need to clearly define proposed adjustments and their application.

IHACPA's response

The Independent Health and Aged Care Pricing Authority (IHACPA) will engage in annual public consultation for stakeholders to provide feedback and input into the Pricing Framework for Residential Aged Care Services, including to recommend and provide evidence for potential pricing adjustments.

6.2 Adjusting for factors related to people receiving care

Consultation questions

- What, if any, additional adjustments may be needed to address higher costs of care related to the resident characteristics?
- What evidence can be provided to support any additional adjustments related to people receiving care?

Feedback received

Adjustments for complexity of care

In addition to the price differentials generated from the application of the Australian National Aged Care Classification (AN-ACC) classification system, stakeholders suggested additional resident-level adjustments for a range of resident cohorts including those with:

- dementia and cognitive impairments, particularly those with behavioural issues and high mobility

- specific needs, including those who are experiencing homelessness or have a history of homelessness, those with a history of substance abuse, complex trauma or are experiencing social isolation, or who are veterans, refugees, or from culturally and linguistically diverse communities
- specific needs such as complex communication needs, swallowing difficulties, or broader mental health and psychogeriatric care needs
- specialised equipment and complex care needs, including mobility aids, dialysis, paraplegia, enteral feeding
- continence care needs including the care required to maintain continence.

Stakeholders noted these resident cohorts often require design changes to their environment and additional staff including specialists, therefore increasing the costs associated with their care.

Stakeholders identified the potential need for adjustments in relation to the interface with acute care, including for residents transitioning from a hospital episode of care or requiring rehabilitation after leaving hospital. A stakeholder suggested the model should balance incentives and minimise perverse incentives to transfer residents to hospital if preventable or not clinically appropriate.

Stakeholders expressed concern that activity based funding will encourage providers to select residents they consider likely to be more 'profitable' based on their AN-ACC class, and incentives should be provided for providers to accept and care for frail or vulnerable residents, particularly those with complex care requirements.

Stakeholders noted that pricing should support equitable access for older people from diverse and marginalised groups, Aboriginal and Torres Strait Islander peoples, and people with intersectional, complex needs.

Adjustments for Aboriginal and Torres Strait Islander residents

A stakeholder noted that the majority of Aboriginal and Torres Strait Islander peoples live in cities and regional areas and will access mainstream residential aged care services. Similarly, stakeholders expressed the view that only having adjustments related to Aboriginal and Torres Strait Islander peoples in facilities in rural and remote areas Modified Monash Model (MMM) 6-7 was inadequate.

Stakeholders recommended the price take into consideration adjustments for culturally appropriate care for:

- Aboriginal and Torres Strait Islander residents in MMM 1-5 region facilities
- Facilities with less than 50 per cent of the residents identifying as Aboriginal or Torres Strait Islander peoples.

IHACPA's response

Adjustments for complexity of care

IHACPA also acknowledges the diverse range and care needs of residents within residential aged care facilities. IHACPA will consider the potential inclusion of data fields recognising these domains in costing studies and other data collections, to support a nationally consistent method of collecting data and classifying all types of aged care residents, their care, and associated costs.

This will support the refinement of classification systems that effectively group residents with similar care needs, so pricing advice can be more closely aligned to the actual costs of care for residents. Pricing adjustments may also be considered where classification refinement cannot fully account for legitimate and unavoidable cost variations for certain cohorts.

IHACPA notes general support for the better recognition of the needs of residents with cognitive impairment or behavioural issues in the AN-ACC funding model. Consideration of potential classification refinements or pricing adjustments to provide evidence of cognitive impairment will need to incorporate relevant resident clinical information such as diagnosis. IHACPA will work with stakeholders and advisory committees to work towards appropriate inclusion of these additional collections in future costing studies to provide an evidence-base for future refinements.

Aboriginal and Torres Strait Islander residents

In the short-term, the differential Base Care Tariffs (BCT) for providers specialising in care for Aboriginal and Torres Strait Islander peoples in remote areas will begin to address the different care needs for these residents. IHACPA notes feedback that differential BCTs or other pricing adjustments may be required to ensure equity and effective, culturally appropriate care of Aboriginal and Torres Strait Islander peoples residing in facilities not eligible for a specialist BCT.

IHACPA will consult with Aboriginal and Torres Strait Islander peoples, and organisations representing them, to refine the classification and pricing over time. This will include ensuring costing studies are representative of these specialist facilities, but also consideration of movement towards person-centred adjustments in future, which may better reflect the differing care needs of Aboriginal and Torres Strait Islander peoples in urban and regional areas or non-specialist facilities.

6.3 Adjusting for unavoidable facility factors

Consultation questions

- What should be considered in reviewing the adjustments based on facility location and remoteness?
- What evidence can be provided to support any additional adjustments for unavoidable facility factors?

Feedback received

Stakeholders broadly supported facility adjustments to account for unavoidable factors, with one emphasising that adjustments should only be for external factors beyond provider control, rather than as a result of their operating model or quality of service.

There was support for consideration of various factors including:

- geographical distance and isolation, thin markets and socioeconomic factors
- premium labour costs for regional, rural and remote providers, including staff housing costs, allowances and travel
- facilities providing care to specialist resident groups
- providers with patterns of low occupancy, including temporary adjustments for new facilities
- facilities with a lack of ability to generate economies of scale
- facilities exposed to temporary economic change such as mining towns

- regional facilities that do not currently receive a higher BCT weighting but may have higher costs than metropolitan facilities, particularly where they may be categorised as regional facilities but are still relatively isolated
- public sector residential aged care services, noting historical funding differences compared with non-government facilities.

Stakeholders suggested that for the Quarterly Financial Reports (QFR) and Annual Aged Care Financial Reports (ACFR) could be used to identify cost variations at the facility level, in order to provide evidence to support facility-based adjustments. Resident-level costing studies could be used to further identify differences in facilities, confirm the findings of the original Resource Utilisation and Classification Study (RUCS) and identify changes in cost drivers over time.

IHACPA's response

IHACPA notes various stakeholder recommendations around the potential introduction of pricing adjustments for facility types not currently differentiated under BCT categories, being potentially based on facility size, location or provider type.

In general, IHACPA prefers the use of resident-based adjustments to avoid enshrining facility-level inefficiencies or incentivising particular provider or facility types. However, over the medium- to long-term, IHACPA will examine evidence arising from costing studies and engage with stakeholders to identify legitimate and unavoidable costs associated with particular types of facilities and potential options to address this.

IHACPA notes the recommended areas for consideration and will utilise QFR and ACFR data, costing study data, stakeholder feedback and other available evidence to both refine the existing AN-ACC BCTs for rural and remote facilities over time and consider any other required adjustments.

IHACPA also notes that as the AN-ACC funding model is a national model, any temporary or specific funding supplements would be the responsibility of the Department of Health and Aged Care (the Department).

6.4 Adjusting for safety and quality

Consultation question

- How should any adjustments for quality and safety issues be considered in the long-term development path of AN-ACC and the associated adjustments?

Feedback received

Stakeholders were broadly supportive of price adjustments for quality and safety. Many recommended positive adjustments rather than negative, for example, providing a 'premium' where a provider can demonstrate service improvement or attainment of a required standard of care. However, this support was not universal. One provider had the view that pricing should be linked to meeting government requirements, leaving market competition to drive providers to exceed these requirements, with some stakeholders noting that improved safety may promote efficiency.

Where adjustments were supported, views on the timing of their introduction varied. Some stakeholders were supportive of immediate introduction, while others suggested these could be phased in more gradually by identifying high priority target areas and working to develop adjustments for these first, and others preferred a longer-term approach to allow establishment of the AN-ACC funding model.

Feedback also outlined the need for adjustments to be appropriate and carefully developed. One stakeholder argued that adjustments should only be made for quality and safety where performance is under the control of the provider and can be attributed to their actions. Another noted that pricing adjustments need to be risk-adjusted to account for facilities that are prepared to care for higher-risk and more complex residents. It was also suggested that pricing adjustments could be aligned to local quality and safety initiatives of providers.

There was support for alignment of quality and safety requirements with the aged care quality standards, with the use of national quality indicators to monitor providers and inform price adjustments. One stakeholder suggested the measurement tools used as part of AN-ACC assessments may be able to be used to benchmark and support pricing adjustments. Suggested indicators included prevalence of adverse events, such as infections, pressure sores, medication errors, falls, avoidable hospital admissions and unnecessary emergency department transfers. Price adjustments for improved dental hygiene and medication safety were also specifically identified.

IHACPA's response

IHACPA notes general support for the introduction of safety and quality adjustments, but significant variation in recommendations around the scope, nature, timing and phasing of such adjustments.

IHACPA will work with stakeholders through its public consultations, advisory committees and working groups to inform priorities and a long-term development path for the introduction of safety and quality pricing adjustments.

IHACPA will also engage with the Department and the Aged Care Quality and Safety Commission to ensure any approach to safety and quality adjustments is complementary of other reforms and compliance activities.

7. Priorities for future consideration

7.1 Inclusion of hotel costs in AN-ACC

Consultation question

- Should hotel costs be incorporated into the AN-ACC funding model and what should be considered in doing this?

Feedback received

There were mixed views regarding the inclusion of hotel costs in the Australian National Aged Care Classification (AN-ACC) funding model. Many stakeholders were supportive of the inclusion of hotel costs, noting they contribute to a holistic care environment and the safety and wellbeing of residents, and it can be difficult to separate these costs from care costs. Some stakeholders noted that the cost of hotel services can vary depending on resident care needs and that hotel costs are included in activity based funding (ABF) for public hospital services. Providers argued there is a gap between hotel costs and what is funded by the basic daily fee (BDF) paid by residents, and that this gap cannot be covered through additional or extra service fees. A stakeholder also noted concerns that a pattern of using additional supplements over time has added to the complexity of the existing funding system.

Stakeholders highlighted important considerations the Independent Health and Aged Care Pricing Authority (IHACPA) must consider in the inclusion of hotel costs in AN-ACC:

- variation in hotel costs based on resident care needs
- the potential for significant differences in hotel services and costs across providers
- consideration should be given to facility factors such as the age, size and location of the service, noting that some facilities currently rely on cross subsidization of care and hotel funding to support service sustainability
- the ability for provider expenditure on hotel services to be monitored.

Stakeholders supported IHACPA undertaking further assessment to understand the true costs of hotel services and consider appropriate funding approaches, with some suggesting a review of the current resident contribution to the BDF is needed and a sensible approach must be used in the initial implementation. One stakeholder suggested a funding model for hotel services could be developed to operate in parallel to AN-ACC to ensure consistency and transparency in the delivery of hotel services.

Stakeholders who were not supportive of incorporating hotel costs into the AN-ACC funding model indicated:

- the AN-ACC funding model should be based on the individual assessment and care needs of the resident along with a focus on care delivery
- IHACPA's pricing advice for care should remain separate to advice on hotel service costs

- there is great complexity around the diverse range of facilities and services offered by providers.

IHACPA's response

IHACPA notes diversity in stakeholder views on the inclusion of hotel costs in the AN-ACC funding model and the complexity of this issue.

In its first advice for pricing from 1 July 2023, IHACPA will provide separate advice on any gap between required hotel costs and the specific types of revenue received. IHACPA will then analyse costing study data and engage with stakeholders through advisory committees and public consultation to further consider the potential inclusion of hotel costs into AN-ACC as soon as possible, noting an intent to support appropriate simplification of residential aged care funding streams over time.

7.2 Residential respite care costing study

Consultation question

- What should be considered in future refinements to the residential respite classification and funding model?

Feedback received

Many stakeholders expressed support for a costing study that includes residential respite care to support review and refinement of the classification and pricing of respite care.

Stakeholders cited concerns about interim residential respite care pricing, including that financial disincentives to provide residential respite care may not be adequately addressed, which could lead to barriers to access.

Stakeholders suggested the following be considered in developing and refining the residential respite classification:

- substantial administration costs associated with residential respite, which may require a one-off admission subsidy
- the need for residential respite funding to support and incentivise providers to increase resident function, including consideration of the costs of allied health services
- a range of resident factors beyond mobility, such as resident cognition.

IHACPA's response

Given the analysis of residential respite care was out-of-scope of the Resource Utilisation and Classification Studies and AN-ACC model development, IHACPA will endeavour to include the collection of cost data for residential respite care in its first residential aged care costing study. This is intended to facilitate potential refinements of the AN-ACC funding model and pricing for residential respite in short term. This will also inform the collection of cost data for residential respite care in future costing studies to support longer-term pricing refinements based on the actual costs of residential respite care.

In undertaking costing and pricing work for residential respite care, IHACPA will consider the feedback provided by stakeholders and further engage with advisory committees to determine priorities for consideration.

7.3 Review of the one-off adjustment for new residents

Consultation question

- What are the costs associated with transitioning a new permanent resident into residential aged care?

Feedback received

Stakeholders expressed concerns that the one-off adjustment may not adequately reflect the costs associated with transitioning a new permanent resident into residential aged care, and that these costs can be highly variable depending on the complexity of their care and equipment needs. Supporting older people to transition between health and aged care services is challenging, and there was support for the model to provide incentives to reduce delays in the transfer of residents, particularly when being discharged from hospitals.

While a high level of variability was noted, stakeholders identified a range of activities that increase the costs associated with transitioning residents into permanent residential aged care. These include:

- administration work
- seeking and reconciling health records
- clinical, lifestyle and allied health assessments and development of care plans
- consultations with residents and families
- room renovations and installation of equipment and personal goods
- increased staff time to facilitate transition, including facility orientation.

One provider also suggested the need for a one-off payment when there is a change in a resident's AN-ACC class, due to the associated administration and management costs. Another stakeholder suggested funding be provided for pharmacist-led medication reconciliation to reduce medication errors following hospital discharge.

IHACPA's response

IHACPA will consider these elements when designing costing studies to examine one-off adjustments, including the potential need for one-off adjustments at other points in a resident's care.

IHACPA acknowledges feedback supporting pharmacist-led medication reconciliation but notes this is outside the scope of IHACPA's costing and pricing functions. It is expected to be funded under an alternative measure implemented by the Department of Health and Aged Care (the Department).

7.4 Costing and pricing for other aged care programs

Feedback received

Stakeholders commented on other programs that may form part of IHACPA's future development of aged care costing and pricing advice.

Support at Home Program

Stakeholders noted the urgency and importance of developing pricing advice for the services to be included in the future Support at Home Program, and were supportive of IHACPA undertaking this work. They highlighted the importance of stakeholder consultation in this process and recommended that there should be alignment between residential aged care pricing and Support at Home Program pricing, with particular feedback around the importance of pricing arrangements enabling people to receive care and remain in their homes, where appropriate.

National Aboriginal and Torres Strait Islander Flexible Aged Care Program

Stakeholders provided strong support for a fixed funding model for National Aboriginal and Torres Strait Islander Flexible Aged Care Program (NATSIFACP) facilities, to ensure flexibility of providers in delivering care. They also advocated for the development of a new aged care pathway for Aboriginal and Torres Strait Islander peoples, in line with Recommendation 47 of the Royal Commission into Aged Care Quality and Safety.

Stakeholders suggested the care pathway and future funding models should be:

- based on a funding model that has been appropriately developed, tested and refined to reflect the true costs of care, such as fixed funding based on the AN-ACC model
- developed in consultation with Aboriginal and Torres Strait Islander stakeholders
- focused on encouraging entry to the market by new and emerging providers, including Aboriginal Medical Services to provide culturally appropriate aged care in remote communities
- reflective of the disparity in health outcomes experienced by Aboriginal and Torres Strait Islander peoples living in rural and remote areas and the importance of culturally appropriate care.

Multipurpose services

There was mixed support for the potential future application of the AN-ACC funding model for multipurpose services (MPS). Stakeholders, including state and territory governments, suggested a review of the appropriateness of the AN-ACC funding model in supporting MPS and requested close consultation with stakeholders prior to the implementation of any changes to MPS funding. Stakeholders emphasised the importance of ensuring MPS remain financially viable, particularly in thin markets, and one state government did not support the use of AN-ACC for MPS due to concerns that it may result in a deficit for MPS in rural and remote areas. They also indicated the existing pooled funding for MPS together with NATSIFACP provides funding flexibility and delivers critical integrated health and aged care services in small communities, noting further opportunity for integration of disability funding in pooled funding arrangements.

IHACPA's response

Support at Home Program

The Department is responsible for the management, funding and policy design of the existing home care system and the new Support at Home Program. IHACPA will conduct consultation, policy development and costing and pricing studies to provide advice to inform Commonwealth Government (the Government) decisions on the Support at Home Program pricing from 1 July 2025. IHACPA will consider the feedback already provided by stakeholders in the development of its public consultation to inform the Pricing Framework for Support at Home services.

National Aboriginal and Torres Strait Islander Flexible Aged Care Program

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 AN-ACC, or a model based on AN-ACC, for NATSIFACP facilities.

Multipurpose services

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 a potential funding model is fit-for-purpose. This will consider the interaction of the aged care, health, and disability systems and funding models, particularly how this may differ in regional, rural and remote areas.

7.5 Workforce

Consultation question

- How might workforce challenges present in the implementation and refinement of AN-ACC for the aged care system?

Feedback received

Stakeholders overwhelmingly expressed concerns about workforce shortages and how current market conditions will impact implementation of the funding model, associated regulatory reforms and overall service delivery in residential aged care. They suggested that coronavirus disease 2019 (COVID-19) has exacerbated workforce shortages due to low immigration rates and additional workforce demands, such as infection control measures.

Stakeholders indicated that recipient-based funding can be challenging for workforce stability due to changing occupancy rates and resident needs. Stakeholders noted the need for workforce models to have the ability to flex up and down, noting each facility will have unique care minute targets, depending on their AN-ACC case mix.

Shortages in nursing, allied health, personal care and medical services were identified as key areas of concern. For example, several stakeholders noted that the national shortage of appropriately trained nurses and care workers will make it difficult to deliver the required care minutes allocated and effectively support multidisciplinary care. Allied health stakeholders expressed concerns around the lack of mandated allied health care minutes in the new model, noting that as a result, the sector may experience a loss of allied health staff.

Some also expressed concerns that the need for independent AN-ACC assessors with a minimum of five years' experience as a registered nurse, physiotherapist or occupational therapist providing clinical services in an aged care facility will draw trained staff away from providing direct care to completing assessments.

Stakeholders noted the need for the AN-ACC funding model to support sufficient wages in the aged care sector to mitigate workforce shortages and attract more staff to the sector. Feedback also raised the need for increased teaching and training capacity in aged care to develop a highly skilled workforce.

Given the challenges attracting and retaining staff, particularly in thin markets, stakeholders noted there will be higher costs associated with recruitment, relocation and travel expenses, retention allowances and training. One stakeholder recommended a funding incentive to increase the uptake and usage of virtual care in rural and remote areas. Another stakeholder voiced concerns that smaller facilities may struggle to support the required additional costs of the reforms, such as information technology and administrative staff costs.

Stakeholders also supported the inclusion of more Aboriginal and Torres Strait Islander health workers in residential aged care to ensure access to the provision of culturally safe care for Aboriginal and Torres Strait Islander residents.

IHACPA's response

The Government and the Department remain responsible for policies relating to the complex matter of workforce, including the monitoring of workforce composition and the AN-ACC assessment workforce.

IHACPA acknowledges the impact of workforce shortages within the aged care industry, particularly through the potential increases to workforce costs and how these may need to be reflected in IHACPA's pricing advice. IHACPA will not assess appropriateness of wages within the aged care system, however, it will consider reported wage costs and cost growth in pricing development.

IHACPA acknowledges the extra costs of attracting and retaining a rural workforce. IHACPA intends to reflect the legitimate and unavoidable cost variations for rural and remote facilities through refinements to the Base Care Tariffs (BCT) in the medium-term. IHACPA will also continue to engage with stakeholders through working groups to gain an understanding of any cost differentials associated with thin markets.

IHACPA will also work to ensure that its pricing advice appropriately reflects the costs associated with the specific care needs for Aboriginal and Torres Strait Islander residents over time.

7.6 Five-year Vision

Consultation questions

- What areas should be included in the proposed five-year vision for IHACPA's aged care pricing advice?
- What would be considered markers of success in IHACPA's aged care costing and pricing work?

Feedback received

There was support for IHACPA to have a five-year vision to guide a sustainable development path for classification, policy, costing and pricing refinement. There was support for annual updates to the Pricing Framework for Australian Residential Aged Care Services (the Pricing Framework), informed by public consultation, to notify the sector about future pricing developments. Stakeholders cited the need for ongoing review of the pricing model to:

- allow for adjustments and improvements
- fully assess the efficacy of the reforms
- determine the extent to which the true cost of providing quality care is accounted for in the model
- consider the changing cost of service delivery over time, particularly for high-needs clients
- review enhancements in efficiency through technology and improvements in safety and quality and its potential impact on demand.

Stakeholders noted that the five-year vision should focus on ensuring the Pricing Framework:

- effectively and transparently supports the delivery of high quality, person-centred care focused on achieving positive resident outcomes
- fosters a balanced system that facilitates trust and promotes funding and care that is equitable, accessible and promotes value
- supports timely access to residential aged care
- reflects the trust cost of care across residential aged care settings and locations
- is responsive to ongoing reforms and the impact these have on the cost of service delivery
- stimulates market development
- supports investment and incentives for providers to develop and deliver innovative care.

Stakeholders cited additional considerations that should be considered in the five-year vision of the Pricing Framework, including:

- pricing parity across sectors
- the relationship between the AN-ACC funding model and access to other specialised clinical services including oral health practitioners
- changes to the composition of service delivery and models of care over time across providers
- developing a multi-year pathway of minimum expectations for the collection and submission of cost data.

Finally, stakeholders identified what they perceived to be key markers of success arising from IHACPA's aged care costing and pricing work. These include:

- recruitment and retention of a well-trained and motivated workforce
- improvements in quality indicators, such as care outcomes, resident satisfaction, community confidence and sustainability of services to meet demand
- a reduction of adverse events and unnecessary hospital transfers
- greater funding transparency in aged care
- improved financial viability of providers and greater investment in the sector
- improved data systems to capture data underpinning ABF and reduce administrative burdens
- movement away from consideration of resident classification and care needs in financial decisions
- evidence that funding flows equitably according to resident need and volume
- implementation of innovative care models
- ease of interpretation of the Pricing Framework throughout the system.

IHACPA's response

IHACPA acknowledges the various feedback provided by stakeholders and thanks stakeholders for their input and engagement with its first consultation for residential aged care pricing. These issues, priorities and objectives will be considered as IHACPA shapes its medium- to longer-term work plan for classification, policy, costing and pricing development for residential aged care and residential respite care.

While the Department is primarily responsible for a number of the policy areas raised by stakeholders, such as pricing parity across sectors, funding policy and the development and implementation of various other regulatory reforms to the aged care system, IHACPA recognises the need for its costing and pricing advice to be cognisant of and complementary to these broader system developments. Costing and pricing development will therefore be guided by the pricing principles, which will in turn be refined over time through regular public consultation.

IHACPA looks forward to ongoing, close engagement with stakeholders through its working groups and advisory committees. This will support IHACPA in shaping its work plan over the coming year to reflect a shared vision and support the development of high-quality and appropriate costing and pricing advice that is informed by the actual cost of resident care.

Appendix A: List of stakeholders

The stakeholders that made submissions in response to *the Towards an Aged Care Pricing Framework Consultation Paper* have been outlined below, except where respondents have been kept confidential due to commercial or other reasons.

- Australian Capital Territory Minister for Health
- Aged Care Crisis Inc
- Aged Care Workforce Industry Council
- Aged and Community Care Providers Association Ltd
- Allied Health Professionals Australia
- Anglicare Australia
- Anglicare Sydney
- APM Assessment services
- Arcare Aged Care
- Australian Commission on Safety and Quality in Health Care
- Australian Medical Association
- Australian Nursing and Midwifery Association
- Australian Podiatry Association
- Barwon Health
- Bethanie Group
- BUPA
- Calvary Care
- Carers Australia
- Carers NSW
- Catholic Health Australia
- Centre for Aboriginal Economic Policy Research
- Continence Foundation of Australia
- Council on the Ageing
- Dementia Australia
- Estia Health
- Gateway Community Services
- HammondCare
- Health Services Union
- Hon Donald Punch MLA, Minister for Disability Services, Small Business, Fisheries, Seniors and Ageing
- Hon Mark Butler MP, Minister for Health and Aged Care
- Hon Patrick Gorman MP, Assistant Minister to the Prime Minister
- Jeremy Rockliff MP, Minister for Health Tasmania
- National Aboriginal Community Controlled Health Organisation
- National Rural Health Alliance
- NSW Health
- OneCare
- Older Persons Advocacy Network
- Palliative Care Australia
- Pharmaceutical Society of Australia
- Queensland Department of Health
- Resthaven Incorporated
- Royal Australian and New Zealand College of Psychiatrists
- South Australia Department of Health
- Seniors Dental Care
- Signature Care
- Speech Pathology Australia
- St Andrews Village Ballina
- Telstra Health
- United Workers Union
- Uniting Care Australia
- Uniting Care Queensland
- Uniting Care NSW and ACT
- Universities Australia
- University of Melbourne
- Victorian Department of Health
- Victorian Health Association
- Victorian Public Sector Residential Aged Care Leadership Committee
- Western Australia Department of Health
- Thirteen confidential submissions

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