IHACPA

Consultation Paper on the Pricing Framework for Australian Residential Aged Care Services 2025–26

August 2024

Consultation Paper on the Pricing Framework for Australian Residential Aged Care Services 2025–26 – August 2024

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1 Introduction and IHACPA's role in residential aged care

The Pricing Framework for Australian Residential Aged Care Services is the key policy document for the Independent Health and Aged Care Pricing Authority (IHACPA) related to residential aged care and residential respite care.

The pricing framework underpins IHACPA's approach to developing residential aged care pricing and costing advice to the Australian Government (the government).

IHACPA conducts annual public consultation on a range of areas related to its pricing and costing advice, this includes annual refinement of IHACPA's pricing framework and residential aged care pricing advice.

The purpose of this year's consultation is to educate and inform aged care stakeholders on:

- IHACPA's role in residential aged care and residential respite care
- why IHACPA engages with a broad range of stakeholders
- what IHACPA's pricing and costing advice covers (in-scope and out-of-scope areas)
- key building blocks for the Australian National Aged Care Classification (AN-ACC) funding model:
  - classification system
  - data collection and costing
  - pricing model
- how IHACPA develops the pricing advice it provides to government
- principles to guide the development of residential aged care pricing and costing advice
- IHACPA's future priorities.

IHACPA is seeking your feedback on consultation questions that focus on the following topics:

- AN-ACC branching structure and funding model
- Aboriginal and Torres Strait Islander specialisation and base care tariffs (BCT)
- homeless specialisation and BCT
- residential respite care
- proposed changes to IHACPA's residential aged care pricing principles.

Your feedback to the Consultation Paper on the Pricing Framework for Australian Residential Aged Care Services 2025–26 will be used to inform IHACPA's 2025–26 pricing advice.

IHACPA is calling for submissions on this consultation paper until **20 September 2024**.

Key dates

Release of the consultation paper	14 August 2024
Submissions close	20 September 2024
Release of the consultation report consolidating stakeholder feedback	2025
Pricing Framework for Australian Residential Aged Care Services 2025-26	2025

1.1 Who is IHACPA?

IHACPA is an independent government agency providing evidence-based aged care pricing and costing advice to inform government decisions on the pricing of residential aged care and residential respite care services (**Figure 1**).

IHACPA considers the government's Expectations Setting Paper and IHACPA's Statement of Intent outlining IHACPA's aged care pricing and costing functions, including responsibilities and scope when developing aged care pricing advice.

Figure 1: IHACPA's residential aged care pricing advice process

IHACPA
Annual public consultation on the Pricing Framework for Australian Residential Aged Care Services

IHACPA
Provide residential aged care pricing advice to the Australian Government

Australian Government
Decisions on residential aged care and residential respite care funding

IHACPA
Publish the Pricing Framework for Australian Residential Aged Care Services

For further information on IHACPA, please visit our website.

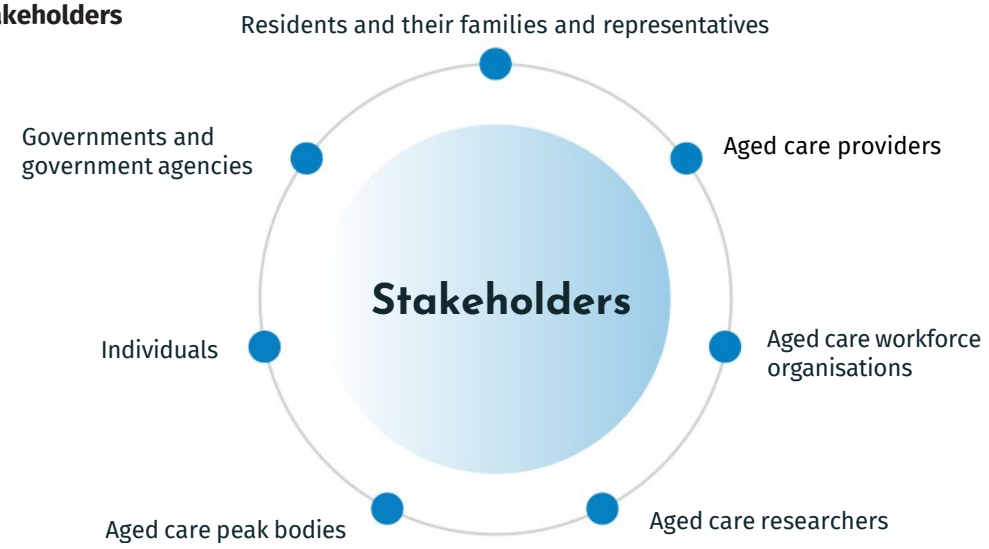
1.2 IHACPA's role in residential aged care and residential respite care

IHACPA provides annual pricing and costing advice to government. This advice informs decisions on the AN-ACC price, and if requested by government, other related elements of residential aged care pricing and policy changes to the AN-ACC funding model.

IHACPA undertakes annual public consultations and data collections to develop its pricing and costing advice.

IHACPA relies on input from a diverse range of stakeholders to ensure its advice is representative of the aged care sector (**Figure 2**).

Figure 2 – Stakeholders



Informed by the advice and recommendations from IHACPA, the government remains responsible for determining the price for residential aged care and residential respite care.

1.3 What does the residential aged care price cover?

1.3.1 In-scope costs of care

IHACPA's residential aged care pricing advice is intended to cover the cost of care. Elements of care that are in-scope for the AN-ACC funding model are set out in the *Quality of Care Principles 2014*[1]. This includes administrative costs directly related to care.

1.3.2 Out-of-scope areas for IHACPA's pricing advice

There are a number of areas considered outside the scope and excluded from IHACPA's pricing and costing advice for residential aged care and residential respite care (**Figure 3**).

Figure 3 – Out-of-scope areas for IHACPA's pricing advice

Out-of-scope areas for IHACPA's pricing advice

Residential aged care service accreditation, audit and related processes
Private self-funded aged care residents
Retirement village pricing and regulation
Transition care costs
The level and eligibility thresholds for the means-tested care fee
Appropriate wage rates and care minute targets for the sector
Hotelling supplement policies
Policies regarding the payment of a range of resident contributions and fees for permanent residents

1 Part 2 and 3 of Schedule 1 – Care and services for residential care services (the Schedule) of the *Quality of Care Principles 2014* under Section 96-1 of the *Aged Care Act 1997* (Cth).

1.4 The roles of government and the Department of Health and Aged Care

1.4.1 The roles of the Department of Health and Aged Care and the Aged Care Quality and Safety Commission

The Department of Health and Aged Care and the Aged Care Quality and Safety Commission remain responsible for a range of aged care functions, which are outside the scope of IHACPA's pricing and costing advice.

1.4.2 The Department of Health and Aged Care

The department is the aged care system operator and retains responsibility for aged care subsidies, supplements and grants; policy setting; broader aged care funding; and system management (see **Figure 4**). These responsibilities are outside IHACPA's scope.

Figure 4 – Department of Health and Aged Care responsibilities

Department of Health and Aged Care responsibilities

Aged care subsidies, supplements, and grants
Approval and classification of residents for care funding
Approved provider obligations and responsibilities
Quality of care
The aged care workforce
Care minutes and 24/7 registered nurse requirements in residential aged care
Appropriate level of financial contributions by residents
Financial viability of the sector
Policy and operational aspects of the AN-ACC funding model: • determining how AN-ACC assessments are undertaken • the requirements for reassessment • contracting of independent Assessment Management Organisations to undertake AN-ACC assessments.

1.4.3 The Aged Care Quality and Safety Commission

The Commission retains responsibility for the functions outlined in **Figure 5**.

Figure 5 – Aged Care Quality and Safety Commission responsibilities

Aged Care Quality and Safety Commission responsibilities

Approval of providers to deliver aged care services
Assessing and monitoring the quality of care and services provided against the Aged Care Quality Standards
Aged care regulation including compliance, investigations and complaints resolution
Financial and prudential regulation

1.4.4 IHACPA's work with government in residential aged care

Following recommendations of the Royal Commission into Aged Care Quality and Safety, and recent federal budgets, the government announced the establishment, review and/or commencement of several residential aged care initiatives. IHACPA works collaboratively with each of the following organisations (**Figure 6**) in the delivery of our work.

Figure 6 – IHACPA's work with government in residential aged care

2 Engagement

2.1 Why is consultation important?

In the development of the pricing framework, IHACPA is committed to ensuring that pricing advice is informed by regular, open and transparent consultation with a broad range of stakeholders and views in the aged care system. IHACPA considers information gathered through consultations through all stages of developing and finalising its pricing advice to government.

2.1.1 Diversity in stakeholder engagement

As part of IHACPA's aged care stakeholder engagement strategy, IHACPA will continue to prioritise stakeholder engagement that enhances sector understanding of the scope of work conducted by IHACPA and opportunities for contribution. **Figure 7** illustrates the diversity of IHACPA's engagement and sector education strategies.

Figure 7 – Stakeholder engagement

2.2 How does IHACPA engage with the aged care sector?

2.2.1 The consultation paper

The consultation paper is the primary mechanism for all stakeholders to provide input into the development of the pricing framework. This consultation paper provides an opportunity for public consultation on:

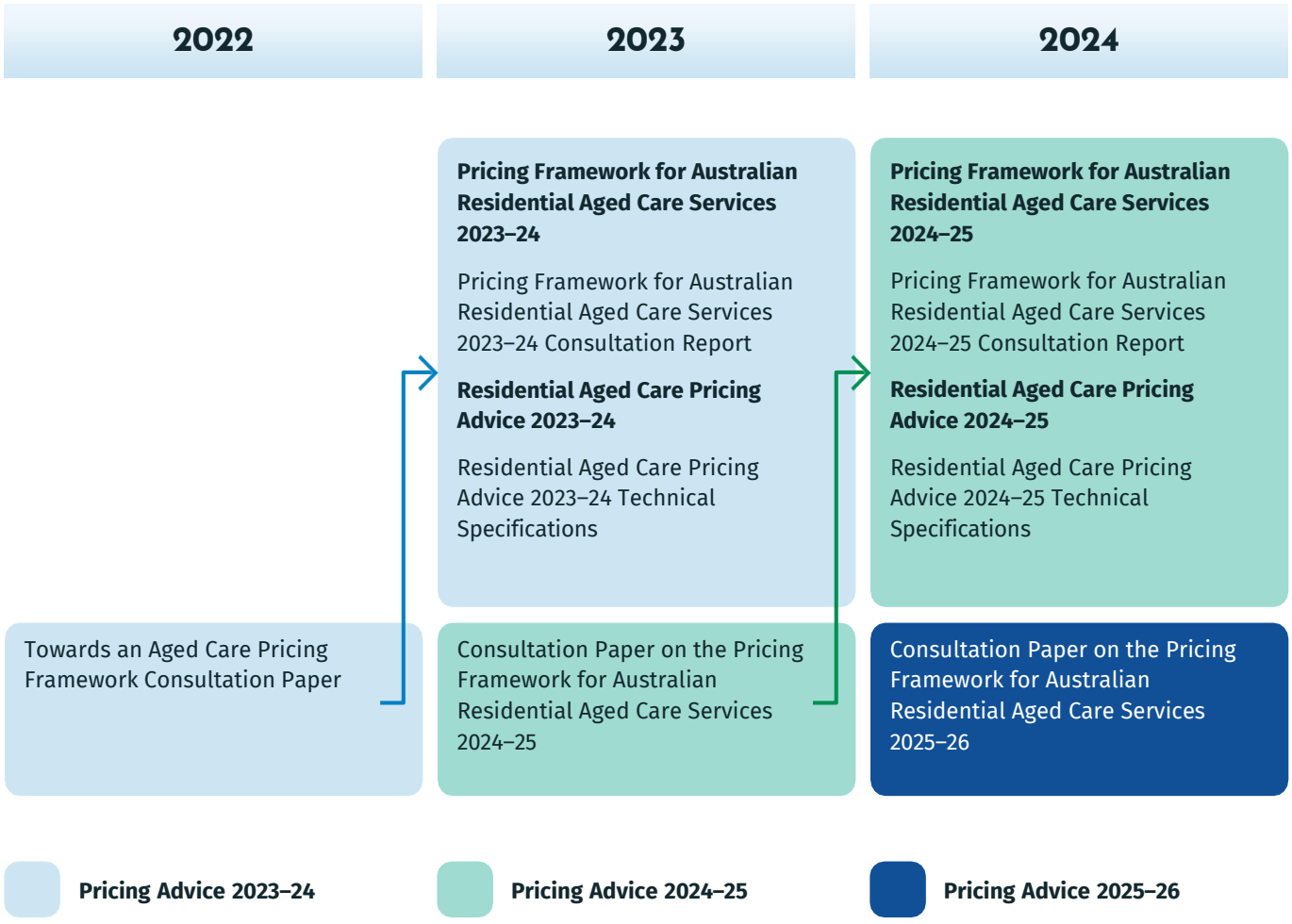
- AN-ACC branching structure and funding model
- Aboriginal and Torres Strait Islander specialisation and BCT
- homeless specialisation and BCT
- residential respite care
- proposed changes to IHACPA's residential aged care pricing principles.

> This consultation paper applies to residential aged care and residential respite care for the Pricing Framework for Australian Residential Aged Care Services 2025–26.

2.2.2 Supporting documents

This consultation paper builds on IHACPA's previous work. The following documents support the work in this year's consultation process (**Figure 8**).

Figure 8 – Documents supporting the consultation process



How to make a submission

IHACPA is calling for submissions on this consultation paper until **20 September 2024**. Details on the submission process can be found on **page 27**.

3 The Australian National Aged Care Classification funding model

3.1 The AN-ACC funding model

The AN-ACC funding model includes independent assessments of aged care residents using the AN-ACC tool to assess each resident's characteristics (functional, cognitive and physical) that drive their costs of care and assign them to one of 12 AN-ACC classes. This does not include class 1 – 'admit for palliative care', where services are instead required to submit a Palliative Care Status Form, which includes an independent medical assessment of their palliative status.

Under the AN-ACC funding model, activity data from residential aged care providers is reported to the government. This includes data on the assessed AN-ACC classes of the residents as well as demographic and service data.

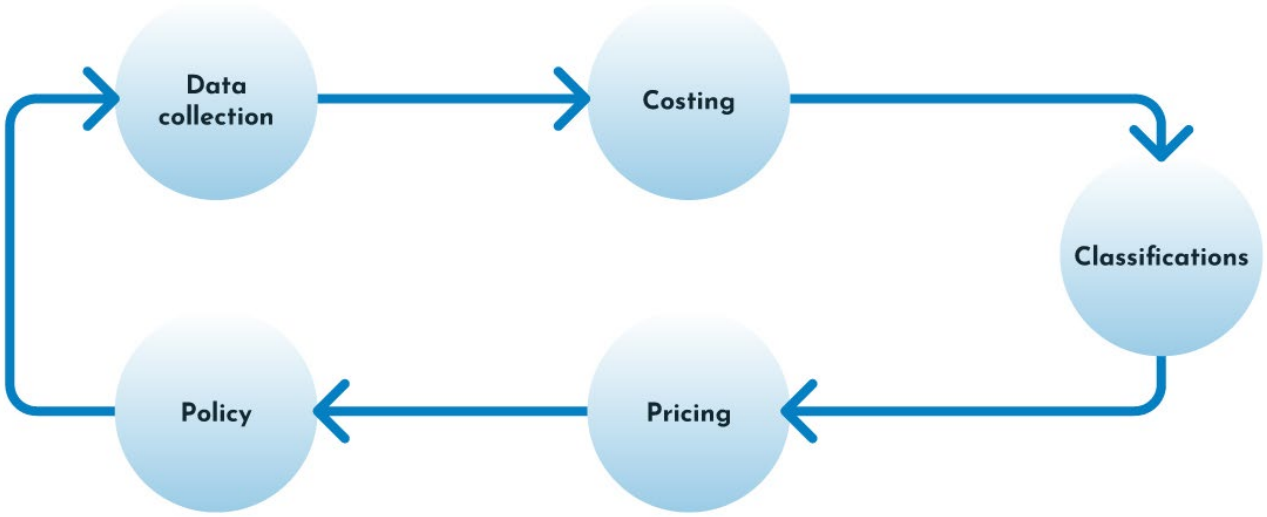
More detailed information about AN-ACC, including its development, is available on the department's website.

3.2 The AN-ACC classification system

The key building blocks for a successful AN-ACC funding model are (**Figure 9**):

- a robust **classification system** that accurately groups residents according to resource utilisation and cost in a meaningful way
- nationally consistent **activity data**
- nationally consistent **cost data** at a resident level
- **pricing services** that are regularly updated to reflect the latest cost and activity data.

Figure 9 – Building blocks for a successful AN-ACC funding model

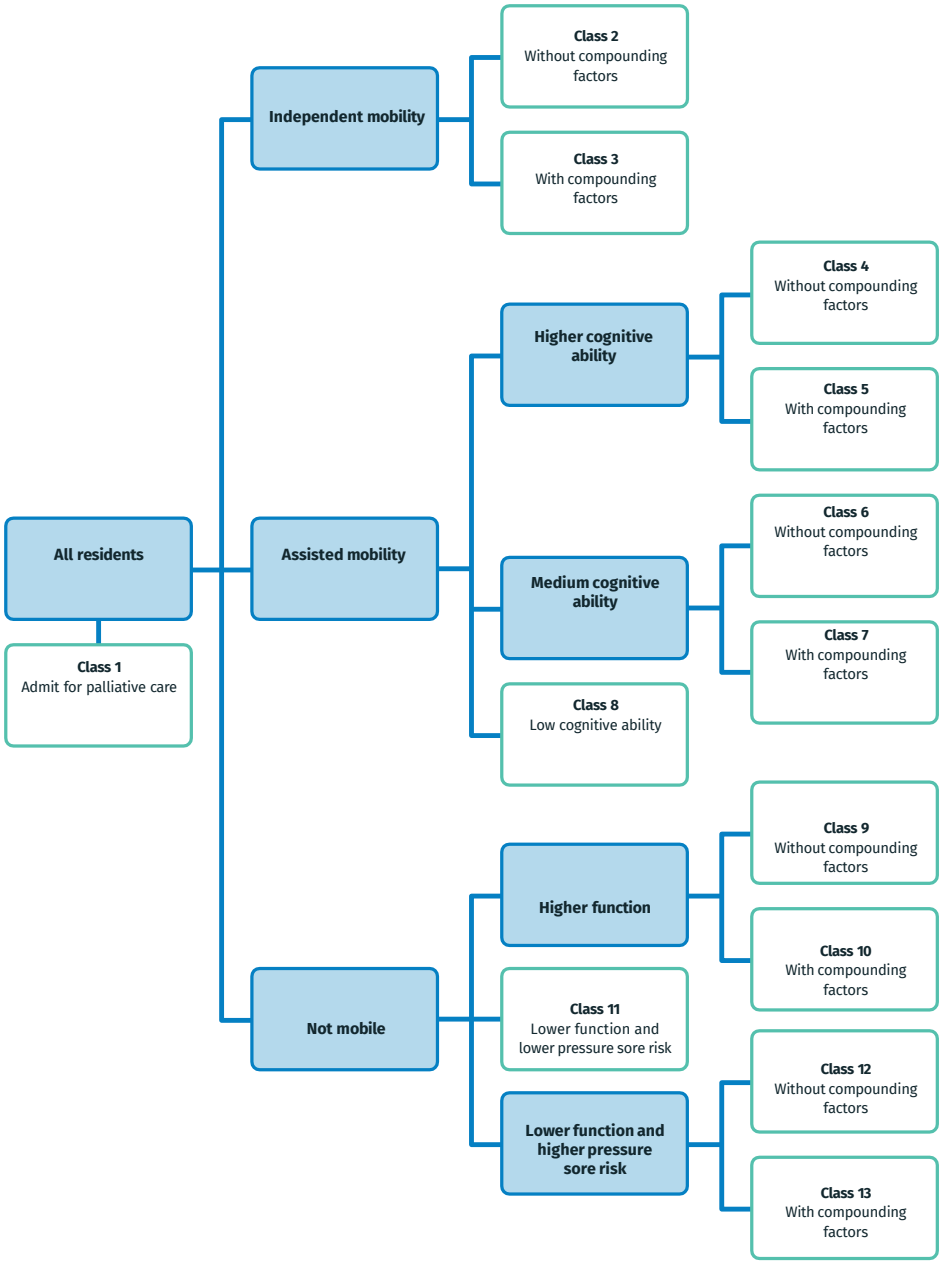


3.2.1 The classification system

Classification systems enable the grouping of residents into predefined classes (**Figure 10**).

The AN-ACC classification system provides a meaningful way of relating residents' characteristics to the resources required to deliver their care. This allows the output of service providers to be measured to inform pricing, funding, budgeting and benchmarking.

Figure 10 – AN-ACC branching structure and classes



Consultation question 1

Do the current AN-ACC classes in **Figure 10** group independently mobile residents in a manner that is relevant to both care and resource utilisation (that is, require the same degree of resources to support their care delivery)?

a. What factors should be taken into consideration in developing any future refinement to the AN-ACC branching structure for independently mobile residents?

b. What evidence is there to support this?

3.2.2 AN-ACC assessment and classes

Independent assessors use the AN-ACC assessment tool to evaluate a resident's functional, cognitive and physical capabilities[2]. Based on the scores and outcomes of the assessment, residents are assigned into one of 12 classes. This does not include class 1 – 'admit for palliative care', where services are instead required to submit a Palliative Care Status Form, which includes an independent medical assessment of their palliative care status.

In addition to the 13 AN-ACC classes for permanent residents, there are default classes for both new permanent and respite residents who do not have an existing AN-ACC classification.

> Information on the AN-ACC assessments and the 13 AN-ACC classes and default classes can be found on the department's website.

3.2.3 Consideration of classification refinement

Classification review and refinement is a staged process that takes place over several years. Classification review is intended to capture and account for:

- improvements in activity and cost data collections
- changes in cost and complexity profiles
- refinements to improve classification soundness.

3.3 IHACPA's approach to adjustments

3.3.1 Adjustments to the recommended price

Adjustments refer to additional elements within the funding model that are intended to account for variations in the cost of delivering care for particular cohorts.

3.3.2 Adjusting for factors related to people receiving care

The AN-ACC funding model considers the impact of 2 specific resident-related factors that significantly influence the costs of their care. These are the provision of care to:

- Aboriginal and Torres Strait Islander peoples in remote and very remote locations
- people at risk of, or experiencing, homelessness and have a relevant behavioural diagnosis.

While being related to resident characteristics, these additional costs are captured in the AN-ACC funding model through differential BCT categories at the service level[3].

As part of IHACPA's annual pricing advice, refinements for residents who require specialised services will continue to be considered based on new and available costing and activity data.

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2 Department of Health and Aged Care AN-ACC Reference Manual and AN-ACC Assessment Tool

3 The *AN-ACC – Specialised Status Guide for Residential Aged Care Approved Providers* published by the Department of Health and Aged Care provides further information on this.

Consultation question 2

What, if any, factors should IHACPA consider when looking at specialised BCT rates for Aboriginal and Torres Strait Islander peoples?

What, if any, additional cost variations and eligibility requirements are associated with the provision of care for Aboriginal and Torres Strait Islander residents?

Consultation question 3

What, if any, factors should IHACPA consider when looking at specialised BCT rates for specialised homeless status?

What, if any, additional cost variations and eligibility requirements are associated with the provision of care for these residents?

3.3.3 Adjusting for unavoidable service factors

Two adjustments have been included in the AN-ACC funding model BCTs to support the stable funding of services with unavoidable service factors that have a significant impact on the cost of delivering care.

BCT components of the AN-ACC payment make adjustment for services within Modified Monash Model categories 5 to 7. This is combined with resident factors where the service provides specialist care to Aboriginal and Torres Strait Islander peoples. In addition, remote services receive a BCT based on approved provider beds, rather than per occupied bed due to their low and variable occupancy.

In combination, these adjustments provide a degree of block funding that is independent of actual occupancy, while retaining a price inclusive of multiple elements rather than multiple separate supplements.

3.4 Residential respite care

3.4.1 Classification system

The residential respite care funding model is aligned to the AN-ACC funding model and has replaced the Respite Subsidy and Respite Supplement.

There are 3 respite classes reflecting residents who are assessed to:

- be independently mobile (Respite Class 101)
- have assisted mobility (Respite Class 102)
- have limited mobility (Respite Class 103).

Residential respite funding comprises a **fixed component**, which is the same as the BCT for permanent residents, and a **variable component** according to their respite class.

Unlike permanent residential aged care, there is no one-off adjustment payment for respite care as this cost has been reflected in the higher daily rate.

3.4.2 Pricing and costing

Data related to residential respite care and the transition of new residents into permanent residential aged care will continue to be collected in future cost collections. This will allow IHACPA to consider the provision of evidence-based pricing advice and classification refinement for respite care.

Consultation question 4

What should be considered in any future refinement to the residential respite classes and AN-ACC funding model?

a. Is the funding model approach across each respite classification adequate to incentivise services to provide a residential respite model of care?

b. What evidence is there to support this?

4 Activity and cost data collections

4.1 Activity data

Under the AN-ACC funding model, activity data from residential aged care providers is reported to the government through the Aged Care Financial Report (ACFR) and the Quarterly Financial Report (QFR).

The AN-ACC funding model also considers additional data sources, including data on the assessed AN-ACC classification of the residents as well as demographic and service data. This data will inform the basis of AN-ACC daily basic subsidies paid by the government to providers and will also be used for other reporting requirements.

IHACPA will use this data in the development of pricing and costing advice, and advice on the refinement of the AN-ACC classification of residents, over time. This activity data will help identify relevant service level variations, or costs related to a particular AN-ACC class, and recommend price adjustments that support continued provision of aged care.

4.2 Cost collections

IHACPA undertakes cost collections to gain a greater understanding of the resources used to deliver aged care services and how much they cost.

IHACPA's cost collections help to ensure that IHACPA's residential aged care pricing advice reflects contemporary cost structures, changes in costs over time and care delivery models.

To ensure that the pricing advice is reflective of the breadth of service providers and the variety in resident care requirements, a representative sample of aged care residents and providers is required to ensure the data collected reflects this variation.

IHACPA relies on numerous data sources to complete its cost collections. IHACPA requires data which addresses 3 key themes:

- the cost of resources to deliver aged care services
- the types of services delivered to consumers of aged care services
- administrative and clinical information about consumers and service providers.

How to participate in IHACPA's cost collections

IHACPA's annual cost data cycle informs annual pricing advice to the government. Participation in cost collections ensures that the costs of aged care are accurately captured and that pricing advice is directly informed by the actual costs of delivering care.

Use the QR code to express your organisation's interest in participating.

For more information, email agedcarecosting@ihacpa.gov.au or visit ihacpa.gov.au/aged-care-costing.

4.3 Costing data

To support evidence-based pricing advice, IHACPA undertakes cost data collections from residential aged care services.

IHACPA has undertaken the 2023 Residential Aged Care Costing Study (RACCS). This initial resident-level cost collection of residential aged care services included the collection of cost, time and activity data. The scope of services the RACCS assessed included:

- care – direct and indirect labour costs and resident expenses
- hotel – cleaning, catering and laundry costs
- accommodation – labour, depreciation and maintenance
- administration and overheads across care, hotelling and accommodation.

The commencement of cost data collection will support IHACPA with future AN-ACC classification and pricing refinement advice. New and emerging evidence will supplement IHACPA's cost data collections to ensure we provide evidence-based pricing advice.

5 Pricing

The core AN-ACC pricing model outputs are the recommended:

- AN-ACC price
- AN-ACC price weights, measured in national weighted activity units (NWAU).

To calculate the total payment per resident per bed day, the total AN-ACC NWAU is multiplied by the AN-ACC price (**Figure 11**).

An AN-ACC NWAU is the price of a unit of care. The NWAUs reflect variations in the cost of providing care, based on the characteristics of a service and the individual residents.

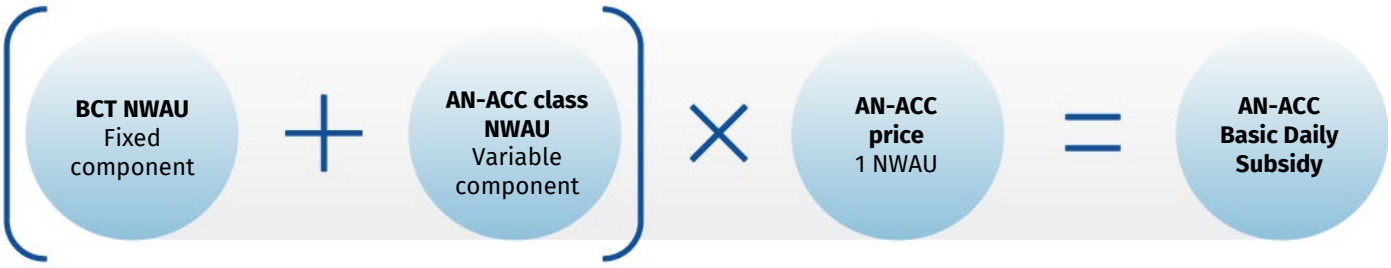
Examples

1. An NWAU of 1.2 would mean that the price of the AN-ACC class is 20% higher than the national residential aged care price.
2. An NWAU of 0.5 means that the price is 50% lower than the national price.

For residential aged care residents, the total AN-ACC NWAU per resident per day comprises:

- **Fixed component:** Called the BCT. This is paid at the service level and is dependent on the specific characteristics, such as its location and resident specialisation.
- **Variable component:** Based on the individual resident's AN-ACC class.
- **Adjustment component:** A one-off adjustment for transitioning a permanent resident into a service.

Figure 11 – AN-ACC Basic Daily Subsidy calculation



5.1 Care requirements and other related costs

5.1.1 Care minutes

The government introduced mandatory care minute requirements for residential aged care from 1 October 2023. The initial care minute requirement is a sector-wide average of 200 minutes of care per resident per day, including 40 minutes from a registered nurse (RN).

Care minutes are the amount of direct care that people living in residential care receive from:

- RNs
- enrolled nurses (ENs)
- personal care workers or assistants in nursing– also known as nursing assistants.

From 1 October 2024, there will be an increase to the mandatory care minutes to a sector-wide average of 215 minutes, including 44 minutes of RN time. This care minute requirement will apply at the service level over each quarter. Services will have the flexibility to meet up to 10% of their service-level RN targets with care time provided by ENs.

Each service has average per resident per day targets that reflect their residents' AN-ACC classifications[4].

These care minute requirements are funded through the AN-ACC funding model.

While IHACPA is not responsible for recommending the care minutes associated with each AN-ACC class, IHACPA will ensure that the pricing advice reflects the direct care minutes specified by government. IHACPA notes that some approved providers are eligible to receive the 24/7 RN supplement for residential aged care.

In addition, IHACPA, if requested, will provide data collected as part of its cost collections to the department. This will allow the government to continue to align minutes with each AN-ACC class over time.

5.1.2 Allied health

Allied health professionals play an important role in the restorative care of senior Australians in residential aged care and residential respite care.

Under AN-ACC, providers are funded for, and required to provide, allied health care services to residents[5] who require them. AN-ACC allows residential aged care services and allied health professionals to provide the treatments that are most beneficial to the resident, consistent with their individual care plan.

Although AN-ACC does not link specific allied health treatments to funding, the 2023 RACCS captured the costs of care provided by allied health. Additionally, the QFR distinguishes between allied health professions, enabling IHACPA to better understand the costs of care provided by the different types of allied health professions when undertaking future cost collections.

The AN-ACC funding model is underpinned by an explicit incentive for high quality care, with a focus on restorative care and reablement.

5.2 Developing aged care pricing advice

5.2.1 Residential aged care price definition

The recommended AN-ACC price is the price of a unit of care, or 1.00 NWAU. The funding model works by applying NWAUs to the AN-ACC price.

5.2.2 What the residential aged care price covers

The recommended residential aged care price is intended to cover the costs of care[6]. This includes administrative costs directly related to care.

4 Care minutes and 24/7 registered nurse responsibility guide.
5 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* (Cth).
6 Elements of care in-scope for the recommended AN-ACC price are specified in Part 2 and 3 of Schedule 1 – Care and services for residential care services (the Schedule) of the *Quality of Care Principles 2014* under Section 96-1 of the *Aged Care Act 1997* (Cth).

5.2.3 The pricing approach and level

For the Residential Aged Care Pricing Advice 2024–25, IHACPA recognised the need for providers to deliver services that meet the Aged Care Quality Standards.

Therefore, IHACPA's pricing advice will adopt a blended best practice and cost-based approach and be based on services meeting the standard of care required in legislation (**Figure 12**).

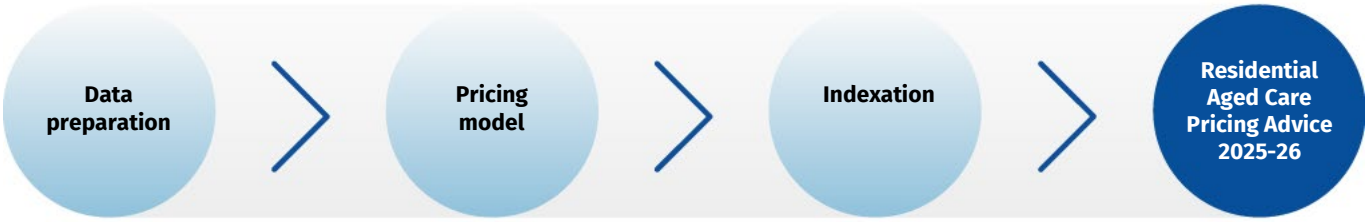
5.2.4 Indexation

IHACPA's pricing advice is based on historical cost data. Indexation is required to inflate underlying costs so that they are aligned to the expected cost of care delivery in the relevant funding year.

Specific detail on the interim indexation methodology can be found in the technical specifications that are published alongside the Residential Aged Care Pricing Advice.

IHACPA's indexation methodology will be informed by feedback from advisory committees and public consultation on the Pricing Framework for Australian Residential Aged Care Services 2025–26.

Figure 12 – Pricing advice methodology overview



5.2.5 Hotel cost gap

While the costs related to delivery of hotel services are out-of-scope for IHACPA's AN-ACC pricing advice, the government has requested IHACPA provide separate advice on the hotelling gap. This is the gap between the cost of delivering required hotel services and the specific types of revenue received.

Elements in-scope for IHACPA's advice on the hotel gap are outlined in Part 1 of the Schedule[7], with the exception of service maintenance costs, as per the advice of government.

The ACFR includes all necessary data items related to the cost for hotel services, and the revenue received for hotel related services[8].

7 Elements of in-scope hotel costs are outlined in Part 1 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* (Cth).

8 While the fees for the delivery of services in addition to required hotel services is out-of-scope for the Pricing Authority's advice on hotel funding, the costs associated with these services cannot be isolated in the data available.

6 Principles for developing residential aged care pricing and costing advice

When providing pricing advice, IHACPA balances a range of pricing policy objectives. Objectives include promoting the person-centred, quality care expected by the community in line with the Aged Care Quality Standards, while supporting improvements in the sustainability and efficiency of the aged care system over time. This is the overarching framework within which IHACPA makes its policy decisions and provides its pricing advice.

The residential aged care pricing principles signal IHACPA's commitment to transparency and accountability in making its decisions on the development of pricing advice. The residential aged care pricing principles comprise 'overarching', 'process' and 'system design' principles.

The residential aged care pricing principles do not have a hierarchy and are used to inform decision making where IHACPA is required to exercise judgement in undertaking its functions relating to residential aged care pricing and costing.

IHACPA will continue to provide clarity on how the principles have been considered and balanced to support residential aged care and residential respite care pricing and costing development.

6.1 Activity based funding

IHACPA has experience in providing expert technical advice in activity based funding (ABF) to government through the annual development of the national efficient price determination for Australian public hospital services.

The AN-ACC funding model replaced the Aged Care Funding Instrument from 1 October 2022, which introduced the concept of an ABF model into the residential aged care sector.

ABF is a system of funding service providers where providers are paid for the number and characteristics of people they provide services to. If more people are provided services, the service provider receives more funding. In consideration that some people's needs are more complex than others, ABF also takes this into account.

IHACPA recognises that there are inherent differences in applying an ABF model between the public hospital and residential aged care systems. IHACPA has considered these differences in the funding model approach through its annual residential aged care pricing advice.

IHACPA is proposing to revise the terminology used in the residential aged care pricing principles (principles excerpt **Figure 13**) to reflect a more appropriate descriptor of the model. IHACPA has determined where it is not practicable or appropriate to use ABF in providing its advice, then other alternatives that are best suited will be included in advice for adjusting the AN-ACC funding model.

Alongside the Residential Aged Care Pricing Advice, IHACPA also publishes a set of technical specifications to provide the technical detail, model and approach for how IHACPA developed the pricing advice provided to the government.

Consultation question 5

What, if any, changes should IHACPA consider for the proposed (highlighted in green) updated residential aged care pricing principles, which take into consideration a move toward revised funding model terminology (**Figure 13**)?

Figure 13 – Proposal to revise terminology – residential aged care pricing principles related to activity based funding

Overarching principles

Existing text	Proposed text
Fairness: Activity based funding (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.	The AN-ACC funding model generated payments should be fair and equitable, based on resident needs, promote the provision of appropriate care to residents with differing needs, and recognise the ~~legitimate and unavoidable~~ cost variations associated with this care. Equivalent services should otherwise attract the same price across different provider types.
Efficiency: ABF should facilitate the sustainability of the aged care system over time and optimise the value of the public investment in aged care.	The funding model should facilitate the sustainability of the aged care system over time and optimise the value of the public investment in aged care.
Maintaining agreed roles and responsibilities: ABF design should recognise the complementary responsibilities of each government agency and department in the funding and management of aged care services, as well as recognise the role of providers in delivering aged care services and residents as contributors to their care.	The funding model design should recognise the complementary responsibilities of each government agency and department in the funding and management of aged care services, as well as recognise the role of providers in delivering aged care services and residents as contributors to their care.

Process principles

Existing text	Proposed text
Principles that guide the implementation of activity based funding and any fixed funding arrangements.	**Principles that guide the implementation of the funding model and any fixed funding arrangements.**
Stability: The payment relativities for ABF should be consistent over time.	The payment relativities of the funding model should be consistent over time.
Transparency: All steps in the development of advice for ABF and fixed funding should be clear and transparent.	All steps in the development of advice for the AN-ACC funding model and fixed funding should be clear and transparent.

System design principles

Existing text	Proposed text
Principles that articulate the detailed elements of activity based funding design.	**Principles that articulate the detailed elements of the AN-ACC funding model design.**
Using ABF where practicable and appropriate: ABF should be used for funding aged care services wherever practicable and compatible with delivering value in both outcomes and cost.	The AN-ACC funding model should be used for funding aged care services wherever practicable and compatible with delivering value in both outcomes and cost.

7 Priorities for future developments

7.1 Adjusting for safety and quality

Adjustments for safety and quality through an AN-ACC funding model can encourage good quality care, where payment captures not only the cost and complexity of care, but also the safety and quality of the care delivered.

IHACPA considers safety and quality adjustments to be a long-term objective due to its complexity within residential aged care. IHACPA also recognises the roles of the Aged Care Quality and Safety Commission and the Australian Commission on Safety and Quality in Health Care, and the need for pricing adjustments to complement and support their roles.

IHACPA will continue to engage with stakeholders through advisory committees, working groups and public consultations to determine priorities and develop a plan for providing advice on safety and quality pricing adjustments.

IHACPA will provide an update on any changes in response to the proposed new Aged Care Act and ongoing reforms in the aged care sector. IHACPA intends to consider quality and safety adjustments in the future once the AN-ACC funding model is further established.

7.2 Pricing and costing for other aged care programs

The government currently provides program funding grants to a range of aged care programs, including the Multi-Purpose Services (MPS) program and National Aboriginal and Torres Strait Islander Flexible Aged Care Program (NATSIFACP).

As part of broader funding and regulatory reforms to the aged care system, the government has requested IHACPA undertake an assessment, over the coming years, to determine if and how these services might be funded through the AN-ACC funding model or a modified version of it.

7.2.1 Multi-Purpose Services

The MPS program provides health and aged care services for small regional and remote communities.

MPS are not currently funded using the AN-ACC funding and classification model.

MPS providers receive a combination of funding, including:

- a flexible aged care subsidy from the government for aged care services
- state and territory government funding for health services, capital and infrastructure costs.

A payment agreement covering the aged care funding component of MPS exists between the government and MPS providers, with most MPS providers being state or territory governments.

The flexible aged care subsidy for each MPS is calculated based on the number of allocated places, daily funding, including relevant supplement equivalent amounts, and the number of bed days where care has been provided to an individual.

IHACPA will continue to work closely with the government 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.

7.2.2 National Aboriginal and Torres Strait Islander Flexible Aged Care Program

The NATSIFACP provides aged care services to older Aboriginal and Torres Strait Islander peoples. These aged care services are mainly delivered in rural and remote areas and funded by the department, subject to parliamentary appropriation.

Payments are provided under a 'cashed out' model, based on an agreement with the service and not on the occupancy of the service. Aged care providers receive a daily base rate depending on whether the person receiving care is allocated to a residential place or a home care place.

NATSIFACP residential aged care providers additionally receive the following supplement equivalent amounts:

- Veterans' Supplement
- Residential Concessional Supplement
- Respite Supplement
- Residential Aged Care Viability Supplement.

Residential aged care places under NATSIFACP also receive 'frailty indexation', which is a financial supplement provided to address the disparity in funding per residential aged care place funded under the program as compared with mainstream residential aged care services operating under the *Aged Care Act 1997.*

In addition to the daily funding rate, services with an allocation of home care places may also receive the following supplement equivalent amounts:

- Dementia and Cognition Supplement for home care
- Veterans' Supplement for aged care
- Home Care Viability Supplement.

Where requested, IHACPA will, over the coming years, undertake an assessment to see if and how the NATSIFACP could be funded through the AN-ACC or a modified version of it.

7.2.3 Grants, subsidies and supplements

Separately to AN-ACC funding, the government pays a range of grants, subsidies and supplements[9] to residential aged care providers to deliver aged care.

The government pays subsidies to providers on behalf of each person receiving government-subsidised aged care and supplements to help with the cost of meeting specific care needs.

9 Funding for aged care service providers

The government also make available a number of grant funding opportunities. Eligibility to apply and receive grant funding is determined on a round-by-round basis.

IHACPA will continue to work with the department, as the system operator, to understand the diversity of the existing grants, subsidies and supplements for residential aged care, and how these may be factored into the pricing advice.

7.3 Thin markets and rural regions

For residential aged care and residential respite care, thin markets are typically where there is an inadequate number of people requiring care and care providers to drive efficiency. Thin markets can exist in certain populations or in certain remote or rural regions. In thin markets, there may be inadequate services for people requiring care. In thin markets, provision of adequate services may not be sustainable in the current market conditions.

The final report of the Aged Care Taskforce made several recommendations on the delivery of aged care services in thin markets and indicated that certain thin markets may require specialist funding arrangements.

IHACPA will continue to work with government to understand the principles and recommendations of the Aged Care Taskforce and any decisions of government, including those that impact on IHACPA's future pricing and costing advice.

8 Consultation process and next steps

IHACPA is calling for submissions on this consultation paper until **20 September 2024**.

Key dates

Release of the consultation paper	14 August 2024
Submissions close	20 September 2024
Release of the consultation report consolidating stakeholder feedback	2025
Pricing Framework for Australian Residential Aged Care Services 2025-26	2025

Why your opinion is important

The public consultation for the pricing framework is open to a wide range of individuals and organisations, as well as people receiving care and their families and representatives.

It is important that everyone with an interest in residential aged care has the opportunity to have their say on the pricing framework. This will support IHACPA's approach in developing residential aged care pricing and costing advice, now and into the future.

While feedback is welcome on any issue, it is of particular value to receive views on the consultation questions asked in this paper. Stakeholders are encouraged to focus on questions and issues relevant to them, and submissions do not need to answer every question.

Have your say

Submissions close 5pm AEST 20 September 2024

Submissions can be:

- completed via the online submission form
- completed and emailed to: submissions.ihacpa@ihacpa.gov.au
- mailed to: PO Box 483 Darlinghurst NSW 1300

Enquiries

Enquiries related to this consultation process should be sent to: submissions.ihacpa@ihacpa.gov.au

How will your information be used?

All submissions will be published on the IHACPA website unless you specifically identify any sections that you believe should be kept confidential, due to commercial or other reasons.

Your submission will be carefully considered and IHACPA may contact some individuals or entities that make submissions for further information or insights. IHACPA will not contact everyone who makes a submission, but we will ensure that all submissions are recorded, reviewed and used to inform the development of the Pricing Framework for Australian Residential Aged Care Services 2025–26.

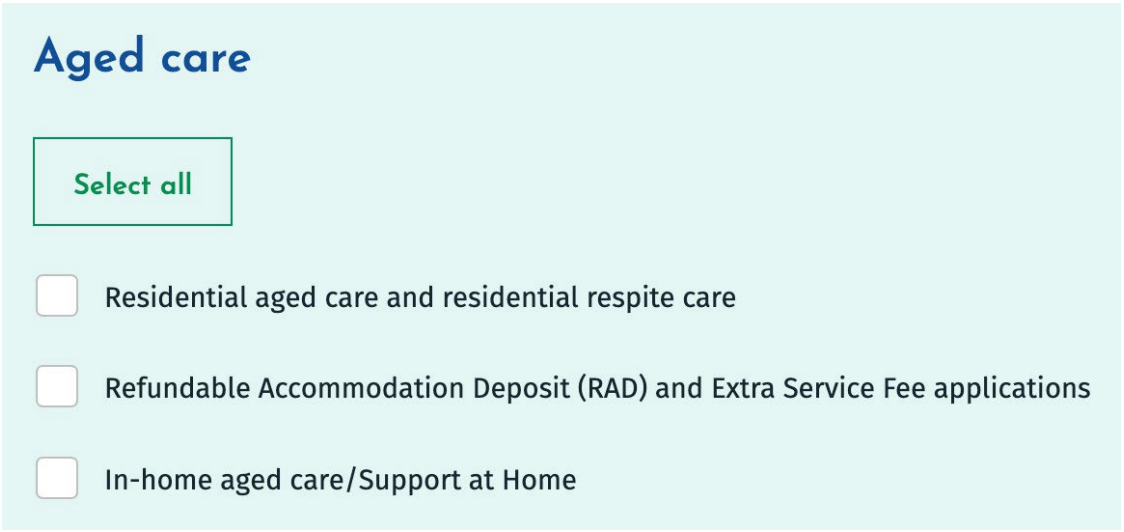
The Pricing Framework for Australian Residential Aged Care Services 2025–26, along with a consultation report consolidating stakeholder feedback, will also be published in 2025.

Stay updated

To stay up to date on the latest aged care news, alerts and consultations from IHACPA, subscribe to our mailing list.

Connect with us

Subscribe to our mailing list to receive updates on our work developing aged care pricing advice.



Abbreviations

Abbreviations	Full term
ABF	Activity based funding
ACFI	Aged Care Funding Instrument
ACFR	Aged Care Financial Report
AN-ACC	Australian National Aged Care Classification
BCT	Base care tariff
BDF	Basic daily fee
Consultation paper	Consultation Paper on the Pricing Framework for Australian Residential Aged Care Services 2025–26
Commission	Aged Care Quality and Safety Commission
Department	Department of Health and Aged Care
EN	Enrolled nurse
Government	Australian Government
IHACPA	Independent Health and Aged Care Pricing Authority
MPS	Multi-Purpose Service
NATSIFACP	National Aboriginal and Torres Strait Islander Flexible Aged Care Program
NEC	National efficient cost
NEP	National efficient price
NWAU	National weighted activity unit
Pricing framework	Pricing Framework for Australian Residential Aged Care Services 2025–26
QFR	Quarterly Financial Report
RACCS	Residential Aged Care Costing Study
RN	Registered nurse
Royal Commission	Royal Commission into Aged Care Quality and Safety

Glossary

Aged Care Financial Report (ACFR)	The ACFR enables the Australian Government to collect approved provider data (and parent entities where applicable). Residential aged care providers report: • income and expenses on care services and other activities, for each individual service • approved provider level balance sheet, income statement and cash flow statement (non-government) • a residential aged care segment note covering all residential services • an Annual Prudential Compliant Statement.
Aged Care Funding Instrument (ACFI)	Residential aged care providers previously used ACFI to claim residential care subsidy for each resident that permanently entered their care. ACFI was based on a provider's assessment of the resident's ongoing care needs.
Approved provider	An approved provider is a person or body that has been approved as a provider of aged care. The Aged Care Quality and Safety Commission is responsible for assessing applications from organisations wanting to become approved providers. Approved providers can receive an Australian Government subsidy under the *Aged Care Act 1997*, this includes the Australian National Aged Care Classification basic daily subsidy.
Australian National Aged Care Classification (AN-ACC) funding model	The AN-ACC funding model is designed to provide subsidies to residential aged care providers. This is based on: • the type of care required (permanent resident or residential respite) • the location of the service • each residents' care needs. AN-ACC consists of the AN-ACC assessment of a resident's characteristics, the AN-ACC Assessment Tool, the AN-ACC class and class subsidy, the AN-ACC base care tariff care category and subsidy and the AN-ACC price.
Basic daily fee (BDF)	The BDF is paid by all residential aged care residents and is independent of income or assets. It is paid by the resident to cover hotel services such as meals, electricity, cleaning, maintenance and laundry. The BDF is set at 85% of the basic aged care pension and changes with the pension amount in March and September every year. Some people may be eligible for financial hardship assistance with their BDF.
Basic Daily Fee Supplement (BDF Supplement)	The Australian Government previously provided 2021 BDF Supplement for eligible aged care providers to support the delivery of better care and services to residents, with a focus on food and nutrition. In July 2023, this supplement was replaced by the hotelling supplement (see Hotelling supplement).
Daily accommodation payments (DAP)	Instead of a lump-sum residential accommodation deposit (RAD), residents can pay a rental-style DAP. This DAP is calculated by applying the maximum permissible interest rate, set by the Australian Government, to the RAD associated with the room in an accommodation group.
Determinations	IHACPA's role in health care is to determine the annual national efficient price (NEP) and national efficient cost (NEC) to enable activity based funding for public hospital services. These are known as the NEP and NEC determinations. The annual NEP sets the Australian Government payments for in-scope public hospital services that are funded on an activity basis. The annual NEC provides for services that are block funded, such as for small rural hospitals.

Glossary (continued)

Extra services	Some residential aged care rooms have extra service status. This means that they can charge residents a regular extra service fee to provide residents with a bundle of higher standard hotel-type services. Examples include specialised menus, higher quality linen or particular room furnishings.
Hotelling supplement	The Australian Government provides a hotelling supplement for residential aged care. This supplement is paid to residential aged care providers to help meet hotelling costs from 1 July 2023, this includes costs such as employing staff for services such as catering, cleaning and gardening.
Modified Monash Model (MMM)	The MMM is a geographical classification system that categorises metropolitan, regional, rural and remote locations into 7 levels according to geographical remoteness and population size.
Multi-Purpose Service (MPS)	The MPS program provides integrated health and aged care services to regional and remote communities in areas that cannot support both a separate aged care home and hospital. MPS are funded through Australian Government grants.
National Aboriginal and Torres Strait Islander Flexible Aged Care Program (NATSIFACP)	The NATSIFACP provides Australian Government funding for aged care services to deliver culturally appropriate care to older Aboriginal and Torres Strait Islander peoples and allow them to remain close to home and community. Most of these services are in rural and remote areas. NATSIFACP aged care services are funded through Australian Government grants.
National weighted activity unit (NWAU)	In the context of aged care services, an AN-ACC NWAU is a measure of relative price.
Person/people receiving care	A person who receives aged care or support services in their own home or in a residential aged care service. This care may include support to take part in social activities, help with physical tasks and/or medical and personal care.
Residential Aged Care Costing Study (RACCS)	IHACPA has undertaken the *2023 Residential Aged Care Costing Study* (RACCS). This initial cost collection of residential aged care services included the collection of cost, time and activity data.
Refundable accommodation deposit (RAD)	Residents can pay a lump-sum for their accommodation in the form of a RAD, which provides a significant source of funding for capital investment and acts as an interest-free loan to providers. The RAD is fully refundable to the resident when they leave the provider or is returned to the estate if they pass away.
Residential aged care	Personal and/or nursing care that is provided to a person in a residential aged care service, in which the person is also provided with accommodation that includes meals, cleaning services, furniture and equipment. To receive Australian Government funding and government subsidy under the *Aged Care Act 1997*, a person or body must be an approved provider of residential aged care and they must meet certain building standards and appropriate staffing to supply that care and accommodation.
Schedule of Specified Care and Services	The care and services that aged care homes must provide to any resident as needed, under the *Quality of Care Principles 2014*.

Appendix A: Consultation questions

Number	Question	Page
1	Do the current AN-ACC classes in Figure 10 group independently mobile residents in a manner that is relevant to both care and resource utilisation (that is, require the same degree of resources to support their care delivery)? a. What factors should be taken into consideration in developing any future refinement to the AN-ACC branching structure for independently mobile residents? b. What evidence is there to support this?	13
2	What, if any, factors should IHACPA consider when looking at specialised BCT rates for Aboriginal and Torres Strait Islander peoples? What, if any, additional cost variations and eligibility requirements are associated with the provision of care for Aboriginal and Torres Strait Islander residents?	15
3	What, if any, factors should IHACPA consider when looking at specialised BCT rates for specialised homeless status? What, if any, additional cost variations and eligibility requirements are associated with the provision of care for these residents?	15
4	What should be considered in any future refinement to the residential respite classes and AN-ACC funding model? a. Is the funding model approach across each respite classification adequate to incentivise services to provide a residential respite model of care? b. What evidence is there to support this?	16
5	What, if any, changes should suggest IHACPA consider for the proposed updated residential aged care pricing principles, which take into consideration a move toward revised funding model terminology?	22

IHACPA

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