

Residential Aged Care Supplementary Pricing Advice 2023-24

Technical Specifications

Version 1.1
September 2023



IHACPA

Residential Aged Care Supplementary Pricing Advice 2023-24 Technical Specifications — September 2023

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1 Overview

1.1 Purpose

This document has been produced as an accompaniment to the *Residential Aged Care Supplementary Pricing Advice 2023-24* (RACSPA23) and the *Residential Aged Care Pricing Advice 2023-24 Technical Specifications* (RACPA23 technical specifications).

It details the technical specifications for how the Independent Health and Aged Care Pricing Authority (IHACPA) developed the supplementary pricing advice provided to the Australian Government (the Government) following the *National Minimum Wage Order 2023* issued by the Fair Work Commission (FWC) on 20 June 2023.

1.2 Background

The Independent Hospital Pricing Authority (IHPA) was established under the [National Health Reform Act 2011](#) (NHR Act) to improve health outcomes for all Australians.

Its primary responsibility has been to enable the implementation of national activity-based funding of public hospital services through the annual determination of the national efficient price and national efficient cost.

On 12 August 2022 amendments to the NHR Act came into effect changing IHPA's name to the Independent Health and Aged Care Pricing Authority (IHACPA) and expanding its role to include the provision of costing and pricing advice on aged care to the Australian Government.

2 Updated methods for RACSPA23

The *Residential Aged Care Supplementary Pricing Advice 2023–24* (RACSPA23) builds on the interim methodology used in the [Residential Aged Care Pricing Advice 2023–24](#) (RACPA23). The supplementary advice incorporates the Fair Work Commission’s *National Minimum Wage Order 2023* into the price per national weighted activity unit and the hotel gap analysis.

2.1 Price per national weighted activity unit

2.1.1 Annual Wage Review 2022-23

As part of its Annual Wage Review, the Fair Work Commission’s [National Minimum Wage Order 2023](#) mandated a 5.75 per cent increase to all awards from 1 July 2023. This therefore required an update to IHACPA’s forecast labour cost increase of 2.70 per cent, detailed in section 5.2 of the RACPA23 technical specifications.

IHACPA considered the relationship between previous annual wage reviews and the impact on the Wage Price Index (WPI).

Table 1: Comparison of Annual Wage Review decisions and WPI

Financial year	Annual Wage Review (A)	WPI* (B)	Pass through of Annual Wage Review to WPI C = B/A
1 July 2018	3.50%	3.01%	86.11%
1 July 2019	3.00%	3.15%	105.03%
1 July 2020	1.75%	2.25%	128.83%
1 July 2021	2.50%	2.49%	99.57%
1 July 2022	4.60%	3.40%	73.92%

*Annualised September growth of *Quarterly Index; Total hourly rates of pay excluding bonuses; Australia; Private; Health care and social assistance* (Series ID A2602929A)

Column C in Table 1 demonstrates the close relationship between the Fair Work Commission’s Annual Wage Review and the WPI. Whilst year-on-year there is some difference between the Annual Wage Review and WPI growth rates, over a longer timeframe there is a very close relationship. The average pass through over the five years (average of column C) is 98.7 per cent.

IHACPA applied 98.7 per cent of the Annual Wage Review increase of 5.75 per cent, resulting in an updated labour cost indexation rate of 5.67 per cent. Table 2 below replaces Table 11 in the RACPA23 technical specifications. In particular, the first column shows the price after adjustments for prior year inflation, the FWC work value case for aged care workers, and superannuation guarantee increases (sections 4.2, 4.4 and 4.5 of the RACPA23 technical specifications) but excludes IHACPA's previous forecast labour cost increase of 2.70 per cent. The indexation rate of 1.58 per cent for non-labour costs is unchanged from RACPA23. Details on the calculations of the first column and non-labour indexation rate shown in Table 2 are provided in the RACPA23 technical specifications.

Table 2: Updated indexation to labour and non-labour components

Price component	FWC and Superannuation Guarantee adjusted price (2022-23 dollars)	Indexation	Price after indexation (2023-24 dollars)
Labour costs (imputed)	209.88	5.67%	221.79
Non-labour costs	27.13	1.58%	27.56
Total*	237.01	5.21%	249.34

*Components may not add to total due to rounding.

This results in an updated residential aged care price for RACSPA23 of \$249.34 per national weighted activity unit.

2.2 Hotel cost gap

As part of RACPA23, IHACPA provided analysis on the gap between the costs of delivering required hotel services, and the revenue received from the basic daily fee (BDF).

The Aged Care Financial Report (ACFR) 2020-21 includes aggregate expenditure related to hotel services, and revenue received for hotel related services. These items together allow the gap between hotel costs and revenue to be calculated.

2.2.1 Hotel costs

This section should be read alongside section 5.4 and section 6 of the RACPA23 technical specifications. For RACPA23, IHACPA calculated a composite hotel index including labour cost increases. In order to reflect the *National Minimum Wage Order 2023*, IHACPA separated out hotel labour and non-labour expenditure and forecast labour and non-labour costs separately. Labour costs were adjusted to include the Annual Wage Review increase of 5.75 per cent. The full amount was passed on, in contrast to the methodology for indexing care labour costs described in subsection 2.1.1, to account for the fact that hotel staff are more likely to be on awards whereas care staff may be employed on EBAs.

Non-labour hotel index

To calculate a hotel non-labour index, IHACPA has used quarterly index numbers from *6041.0 Consumer Price Index, Australia, December 2022* to construct a composite index for non-labour hotel expenditure. With the exception of labour being included in the RACPA23 hotel index, the selected indexes are the same as those used for RACPA23 and as outlined in Table 12 in the RACPA23 technical specifications.

After re-referencing to equal 100.0 in the December 2022 quarter as described in the RACPA23 technical specifications section 5.3, a composite index was constructed and weighted according to the cost proportions in the ACFR, summarised in Table 3.

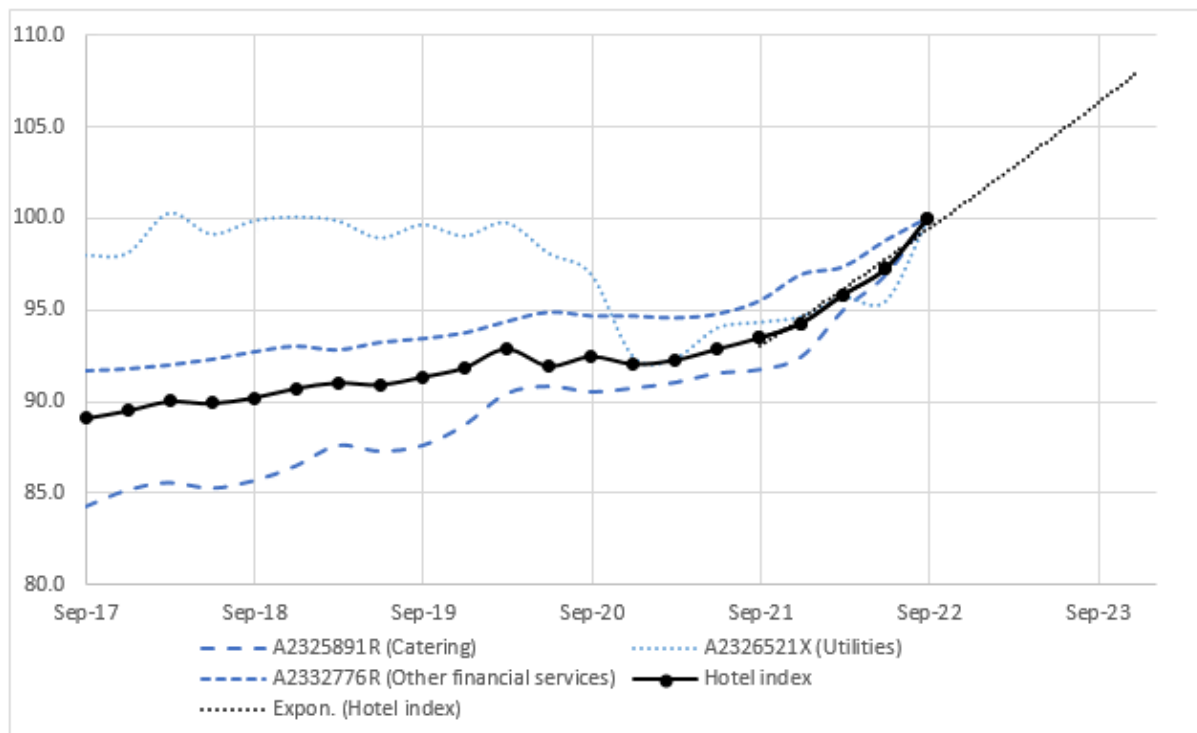
Table 3: Hotel non-labour cost proportions in the trimmed, adjusted ACFR 2020-21

Hotel cost component	Total (ACFR 2020-21, \$m)	Percentage / weight
Catering consumables and contracts	492.5	39.25%
Cleaning consumables and contracts	110.2	8.78%
Laundry consumables and contracts	54.7	4.36%
Utilities, including electricity, gas, council rates and rubbish removal	220.7	17.59%
Motor vehicle operation, maintenance, and repair	6.3	0.50%
WorkCover premiums and insurance	19.8	1.81%
Other administrative expenses	340.3	27.12%
Other hotel expenses not covered above	30.6	0.81%
Total*	1,275.2	100%

*Components may not add to total due to rounding.

An exponential growth curve was fitted to this non-labour hotel cost index to estimate annual growth. The non-labour hotel cost index series along with the highest contributing index series are shown in Figure 1.

Figure 1: Index series used for non-labour hotel cost growth



The hotel cost index series shows that more recent observations reflect the higher inflation rate observed in the Australian economy. For this reason, IHACPA has used only the most recent year of the index series when fitting the growth model for hotel costs. This ensures that the model captures recent inflation rates more accurately.

The resulting model is

$$\text{index}_n = 99.3763 \times 1.0181^n.$$

This model gives an annual hotel cost indexation rate i_H of

$$i_H = 1.0181^4 = 1.0745.$$

For the RACSPA23, the total labour and non-labour components of hotel costs were disaggregated and indexed separately. Due to a lack of available data, the impact from the FWC decision related to head chefs/cooks under the Aged Care Award was not included. A summary of estimated 2023-24 hotel costs is shown in Table 4.

Table 4: Hotel cost estimate using the ACFR 2020-21

Hotel cost component	2020-21 expenditure per occupied bed day (\$)	Hotel costs per bed day estimate (2023-24 dollars)
Labour*	29.29	33.21
<i>Catering</i>	17.41	19.74
<i>Cleaning</i>	6.10	6.92
<i>Laundry</i>	2.59	2.94
<i>Corporate administration</i>	3.19	3.61
Non-labour*	38.67	47.98
<i>Catering</i>	15.09	18.72
<i>Cleaning</i>	3.71	4.60
<i>Laundry</i>	1.81	2.24
<i>Utilities</i>	6.67	8.27
<i>Motor vehicles</i>	0.23	0.28
<i>Other</i>	1.60	1.98
<i>Corporate administration</i>	9.58	11.88
Total*	67.97	81.19

*Components may not add to total due to rounding.

2.2.2 Hotel revenue

IHACPA updated the forecast of hotel revenue following the release of RACPA23. For RACPA23, hotel revenue amounts were indexed by the hotel cost index constructed in section 5.4 of the RACPA23 technical specifications. This methodology has been updated to including the new hotelling supplement (formally the BDF supplement) and to more accurately reflect expected revenue from the BDF and other fees.

Hotel costs for residents are primarily funded through payment of the BDF. The BDF is up to 85 per cent of the single basic aged pension with all residents required to pay or apply for hardship or alternative payment options. The remainder of hotel revenue is through the hotelling supplement, additional services fees (ASF), and extra services fees (ESF).

The aged pension is indexed once or twice each year, which can happen in March and September. The average BDF for each financial year, weighted by how many days the rate was charged in each year is seen shown in Table 5.

Table 5: Average BDF rates by financial year

Financial year	Average BDF (\$)	Growth
2020-21	52.38	-
2021-22	53.69	2.5%
2022-23	56.98	6.1%

The aged pension is indexed using the maximum of CPI and the ABS Pensioner and Beneficiary Living Cost Index (PBLCI) over the most recently published two quarters. The latest published CPI forecast table from the Reserve Bank of Australia (RBA) at the time RACSPA23 was developed indicates that growth in CPI is likely to slow from 7 per cent down to 4.5 per cent in December 2023.

IHACPA have translated the RBA CPI forecasts to estimate the aged pension indexation, and hence BDF, for September 2023. This gives an estimate of growth in BDF for 2023-24 to be 6.1 per cent over the 2022-23 average. This figure, together with those in Table 5, are used to estimate 2023-24 residential aged care hotel revenue, as shown in Table 6.

Table 6: Hotel revenue estimate using ACFR 2020-21

Hotel revenue component	Total revenue	
	2020-21	2023-24 (estimate)
Basic daily fees	\$52.67	\$60.79
Extra services fees	\$1.88	\$2.17
Additional services fees	\$1.99	\$2.30
Other hotel revenue	\$0.33	\$0.38
Supplement [^]	N/A	\$10.80
Total*	\$56.87	\$76.44

*Components may not add to total due to rounding.

[^]The Government introduced a \$10 basic daily fee supplement on 1 July 2021. This was replaced with a \$10.80 hotelling supplement on 1 July 2023.

2.2.3 Hotel gap

The information on estimated hotel costs and revenue from Table 4 and Table 6 results in a gap of \$4.75 per resident day in 2023-24, excluding all maintenance costs. Maintenance costs for 2023-24 are estimated to be \$10.53 per occupied bed day, applying a similar method to the hotel cost estimation.