14 October 2022

Bupa Aged Care

SUBMISSION: TOWARDS AN AGED CARE PRICING FRAMEWORK

Bupa is pleased to make a submission to the Independent Hospital and Aged Care Pricing Authority (IHACPA) consultation to inform the pricing framework for Australian aged care services.

As an aged care provider of 59 homes across four states, with over 7000 team members caring for over 5000 aged care residents, Bupa is one of the largest aged care providers in Australia, and a global provider of aged care services.

Executive Summary

Bupa supports the implementation of an activity-based funding model in aged care and the aim to achieve greater alignment of funding to the true cost of care provision, which is fundamental to lifting the standards of care. We are pleased to see this is being assessed by an independent pricing authority, IHACPA, which has demonstrated extensive experience in this area.

This paper sets out some of the key challenges in the proposed approach detailed in IHACPA's *Towards an Aged Care Pricing Framework Consultation Paper*. This includes an incomplete consideration of the cost of providing care, implications for care outcomes, and the pressing sustainability challenge facing the sector.

Overview

Bupa supports IHACPA's role to ensure funding is informed by the true costs of care provision. We believe that a transparent, fair, and accountable approach underpinned by extensive consultation will enable an appropriate pricing recommendation to be made to government.

For many years, funding for residential aged care facilities has not covered the cost of providing care, which can lead to significant quality issues – a number of these highlighted by the Royal Commission. According to the latest data, approximately two thirds of all residential aged care facilities are operating at a loss, which is unsustainable.

An appropriately funded aged care system will be better prepared to provide the close clinical, daily living, and social support that older Australians need, which are all vital elements of a holistic vision of care provision.

In its current form, AN-ACC provides insufficient funding and flexibility to support long term improvement in the delivery of residential aged care in Australia. The uplift in funding taking effect in October 2022 represents a significant shortfall compared to the cost of meeting the increased care minutes requirements. This compounds the challenge caused by years of insufficient funding and inadequate indexation needed to deliver high quality care, as noted by Commissioner Pagone during the Royal Commission.

We are concerned that this problem is not addressed via the proposed pricing framework. The framework fails to take into account some critical inputs involved in providing care, which are initially out of scope for the authority.

There are six broad areas of concerns that we will detail in the following pages:

1. Incomplete consideration of relevant activities involved in care provision
2. Lack of care revenue flexibility in the proposed approach to adjustments
3. A need to assess the cost of capital and attract investment
4. Indexation methodology and approach
5. Transparency around funding rates and decision making
6. Limited incentive to innovate and deliver better quality care

This creates a risk that the aged care sector may continue to suffer from chronic underfunding. If providers are unable to operate sustainably this will lead to depressed returns, underinvestment in the sector, and ultimately a shortage of supply of high quality residential aged care in Australia while forecast demand is expected to grow rapidly.

Activities covered by the residential aged care price

IHACPA should assess a broader range of activities in its studies than simply direct care costs, which do not paint a full picture of the inputs required to truly deliver high quality, holistic care for older Australians. While we acknowledge the limited timeframes involved in the initial price recommendation for 1 July 2023, we urge the authority to work with the sector to consider all relevant costs incurred in care provision for subsequent pricing recommendations.

We recommend broader consideration of:

- **Labour costs**: The intention to only assess direct care provision is limited and fails to appreciate the important care and emotional support provided by lifestyle and wellness staff. These staff members are vital to a holistic vision of care, which includes facilitating activities, supporting their lifestyle, and providing the assistance that residents expect as part of their care.
- **Administration**: There are significant costs involved in the administration of residential aged care facilities which must be considered as part of the delivery of high-quality aged care services.
- **Infection Prevention & Control:** Many emergency measures to combat the spread of covid-19 in aged care facilities have become standard practice simply to meet a minimum quality standard of care. We recommend that the cost of all preventative IPC measures should be captured in the pricing recommendation, while allowing for costs associated with infectious disease outbreaks to be reimbursed via an efficient grant process.
- **Hotel services:** We support IHACPA's intention to assess the cost of hotel services. There is a false distinction between the provision of direct care and daily living services such as food, cleaning, and laundry services which are basic care needs.
- **Capital costs**: These should be considered as part of future pricing advice, and we recommend that IHACPA undertake work to understand capital costs and returns. As a capital-intensive sector, aged care requires significant expenditure to create an appropriate care environment, particularly in response trends such as the growing proportion of residents with dementia, which requires constant development of dementia support areas in a home.
- **Compliance costs**: New costs to meet compliance obligations are currently unfunded and expected to grow as reforms continue at a rapid pace.
- **Other costs**: Includes administration costs, allied health, technology, medical supplies, and nutritional supplements.

These costs do not appear to be fully captured in AN-ACC. We also believe IHACPA should assess the financial impacts of artificially sequestering hotel services and accommodation costs away from what is considered 'direct care provision'.

The activities defined by "direct care" are a central but limited part of what Australians expect would be provided in a holistic care environment. A fair pricing recommendation cannot be made without adequate consideration of the way in which revenues are currently capped by government, leaving providers unable to fully recover these costs.

IHACPA should determine whether AN-ACC funding should consider these care-related costs, or make a clear recommendation to government that providers be allowed to set fees and charges at a rate that allows them to recoup costs and receive a reasonable rate of return on investment.

Proposed approach to adjustments

The costs of providing care vary based on changes in non-wage input costs such as the costs of food and medical supplies, and regional labour market dynamics. We do not believe that AN-ACC offers sufficient flexibility to account for these variations.

The activity-based funding approach considers costs retrospectively. However, the AN-ACC prices are set on a prospective basis. As such, the prices may not reflect the true current costs of providing services, potentially leading to a funding shortfall. This risk is heightened in an inflationary environment with associated wage growth for staff.

Funding adjustments for regional differences in costs are also limited. Though funding is set at different levels based on a facility's MMM rating, this fails to fully consider all variables. As a provider of residential aged care services across multiple metropolitan and regional sites, our organisation has observed that the range of facilities located with an MMM category of 1-4 will have substantial differences in costs. For example, labour costs per bed day in regional homes are still much higher than their metropolitan counterparts. Some of contributing factors to elevated costs include acute labour supply shortages, which result in higher hourly rates of pay and incentives to attract staff, reliance on more expensive agency staff, and a greater reliance on overtime hours. These variances are not currently accounted for and are expected to persist according to government modelling predicting a significant shortage in the care and support sector workforce.

IHACPA should consider suitable alternatives for measuring adjustments, such as a more nuanced approach in account for differences in regional labour costs and the cost of supplies.

Attracting a sustainable level of investment

The aged care sector must be funded to deliver a safe and high quality of care that meets standards, and facilitates the ongoing development of the sector. The pricing recommendation should take into account profitability across the sector to encourage growth and sufficient capital investment in facilities, innovation, and technology to improve the quality of care while providing a reasonable return on investment.

Returns from aged care operations must exceed a provider's cost of capital in order to attract further investment, in what is a highly capital-intensive sector. The funding model for aged care must incorporate some form of monitoring and assessment of the sector's return on investment. Funding rates should ultimately be set with reference to return on investment based on the cost of capital. Without sufficient funding, the sector will experience underinvestment which will ultimately lead to a shortage of supply of high-quality aged care beds in Australia.

Indexation and transparency in price-setting

The residential aged care sector has experienced several years of unpredictable funding which has grown at a rate materially lower than growth in operating costs. The process of setting funding must be transparent so that investors and providers will have confidence to invest in the sector. Funding must be indexed at a rate which at meets operating cost growth. The growth in operating costs considered must include inflation of existing costs as well as new costs which will be required in order to meet compliance requirements. An appropriate indexation methodology could include reference to a monthly inflation-linked indexation mechanism for care inputs and supplies.

Noting that recommendations on funding indexation will by necessity be based on past data, it is also important that IHACPA's recommendations consider projections of likely cost inflation for the following period. Additionally, we recommend that IHACPA's recommendations to government be made public at the same time they are made to government, to ensure full transparency of the decision-making process. Without transparency around the setting of funding and adequate indexation to keep pace with operating costs, the sector will not attract investment required to serve Australia's ageing population demographics.

A pricing model that encourages innovation

There is a broader concern that the activity-based funding approach could itself act as a disincentive to innovation. The funding model prescribes the revenue which a provider can generate according to an expected level of activity, to the exclusion of consideration of resident outcomes. This limits the incentive for a provider to innovate in the way they deliver care or achieve improvements to efficiency, and lead to a lost opportunity to improve care outcomes.

The cost of investing in innovation is not explicitly funded, nor is there any revenue benefit for delivering better care outcomes as a result of those innovations under the AN-ACC model. An alternative solution would be to incorporate a mechanism to increase funding according, potentially through a grant process with monitoring for performance, for innovations. Alternatively, providers could be allowed to charge additional fees to residents where they are delivering a better standard of care.