

10 October 2022

IHACPA Towards an Aged Care Pricing Framework Consultation Paper 2022

About the VHA

The Victorian Healthcare Association (VHA) is the peak body supporting Victoria's public health and community health services to deliver high-quality care. Established in 1938, the VHA represents Victoria's diverse public healthcare sector, including public hospitals, aged care, and community health services.

As well as providing a unified voice for the sector, the VHA advocates on behalf of its members on sector-critical issues by engaging and influencing key decision-makers involved in policy development and system reform.

Within our membership, aged care services are delivered by public sector residential aged care services (PSRACS) that are linked to public hospitals or small rural health services, as well as stand-alone PSRACS (public RACs not linked to a hospital) and multi-purpose services (MPS).

Understanding the Victorian context

PSRACS play a vital role in Victoria's aged care, health, and community services system. Victoria has the largest PSRACS sector in Australia, providing about 10 per cent of the state's residential aged care capacity.

On 30 March 2021, there were 5,611 operational PSRACS places across Victoria.¹ Of these:

- 87% of PSRAC places were in regional or rural Victoria
- 45% percent are Aged Persons Mental Health places.

PSRACS fill a critical gap in residential aged care service provision for vulnerable older Victorians. The PSRACS sector often provides older people who are experiencing socioeconomic disadvantage, living in remote locations, or who have complex care needs with access to services that they would otherwise have difficulty accessing in the non-government sector.

Executive summary

The following paper responds to the consultation questions outlined in the Independent Health and Aged Care Pricing Authority's (IHACPA) [Towards an Aged Care Pricing Framework Consultation Paper](#), which was released for comment on 16 August 2022.

The VHA has prepared the following response on behalf of our members to ensure that the unique value and challenges faced by Victoria's PSRACS are considered and reflected in the final aged care pricing

¹ Department of Health (2021) Strengthening Public Sector Residential Aged Care Services (PSRACS) Initiative Communique.

framework, the underlying principles for activity-based funding in aged care, and priorities for future development.

In summary, we would like to see adjustments made in line with the following recommendations:

- Ensure that the residential care framework and price reflects the cost of delivering care in PSRACS, which play a critical role in supporting older Victorians with complex care needs, that require specialist mental health services, and in rural and regional areas.
- Make sure that the wellbeing needs of older Victorians are integrated into the framework and reflected in incentives.
- Factor in the ongoing costs to services that have come with responding to the ongoing COVID-19 pandemic into the pricing framework and future costing studies.
- Account for the increased costs of delivering care associated with inflation and other emergent factors, such as rising food and fuel costs in the pricing framework and future costing studies.
- Ensure that the aged care sector is regularly updated on changes to the AN-ACC model and have clear pathways to give feedback or acquire assistance with their transition to the new model.
- Ensure that there are mechanisms to ensure that consumers and services have a voice in measuring the impacts of the transition to AN-ACC.

In line with IHACPA's submission guidance, we have only responded to the questions in the Consultation Paper that are of relevance to our members. So that it is clear which consultation questions we have responded to, we have highlighted the relevant questions in yellow below.

Section	Questions	Response
<p>Section 4: A new funding approach for residential aged care</p>	<p><i>What, if any, may be the challenges in using AN-ACC to support ABF in residential aged care?</i></p> <p><i>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?</i></p> <p><i>What, if any, additional factors should be considered in determining the AN-ACC NWAU weightings for residents?</i></p> <p><i>What should be considered in developing future refinements to the AN-ACC assessment and funding model?</i></p>	<p>The VHA is supportive of the transition to Activity Based Funding (ABF) in aged care and the intention to provide a transparent, fair, equitable and predictable approach to funding that is informed by the cost of care delivery. We do note, however, that ABF has limitations. While ABF for public health services has been successful in driving financial efficiency and improving data collection, it is increasingly seen as a barrier to providing person-centred care, particularly for complex conditions. For example, the ABF model fails to adequately capture the impact of a person’s support network – while the National Disability Insurance Scheme highlights where the focus on price-cutting inhibits effective care. Implementation of AN-ACC needs to be mindful of these external factors, and ensure they are captured in adjustments.</p> <p>While we support the model, we anticipate that the transition to AN-ACC may challenge services while they adjust to the new system, and as IHACPA refines the model and undertakes costing studies that more accurately reflect the challenges currently faced by the aged care sector.</p> <p>As part of this, we urge consideration of the increased complexities and costs involved in delivering care to residents with a higher overall level of acuity. If a facility has a higher-than-average amount of residents in complex AN-ACC classes, there is a risk that the increased funding will fail to capture the increased costs. Failure to recognise these factors would impede AN-ACC’s ability to support long-term care improvement and should be considered in determining NWAU weightings and future refinements. PSRACS have traditionally been providers of last resort, often taking more complex residents.</p>

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		<p>More broadly, the initial Resource Utilisation and Costing Studies, which underpins AN-ACC, failed to appropriately analyse PSRACS. This needs to be considered in future studies and refinements to ensure effective implementation of AN-ACC.</p>
<p>Section 5: Principles for activity-based funding in aged care</p>	<p><i>What, if any, changes do you suggest to the proposed principles to guide the development and operation of the Pricing Framework for Australian Aged Care Services?</i></p> <p><i>What, if any, additional principles should be included in the pricing principles for aged care services?</i></p> <p><i>What, if any, issues do you see in defining the overarching, process and system design principles?</i></p>	<p>The VHA are satisfied with the principles for ABF outlined in the background paper. The only addition we would like to see made is a commitment to ensuring there are mechanisms in place so that older Australians and their families have a voice in assessing the success of the transition to ABF.</p>
<p>Section 6: Developing aged care pricing advice</p>	<p><i>What, if any, concerns do you have about this definition of a residential aged care price?</i></p> <p><i>What should be considered in the development of an indexation methodology for the residential aged care price?</i></p> <p><i>What, if any, concerns do you have about the proposed pricing approach and level of the residential aged care price?</i></p>	<p>The VHA supports this overall approach to defining the residential aged care price, including recognition of the need for greater nuance in the proposed pricing approach. However, we believe there is a need to consider additional costs and issues in developing the price.</p> <p>For instance, the COVID-19 pandemic has presented the aged care sector with the biggest challenge it has ever faced. On Friday 23 September 2022, there was a cumulative total of 4,012 deaths in residential aged care in Australia that were the result of COVID-19 infection.² In addition, the ongoing pandemic has come at a</p>

² [COVID-19 outbreaks in Australian residential aged care facilities – 23 Sept 2022 \(health.gov.au\)](https://www.health.gov.au/news/media-releases/covid-19-outbreaks-in-australian-residential-aged-care-facilities-23-sept-2022)

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	<p><i>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?</i></p> <p><i>What, if any, additional issues do you see in developing the recommended residential aged care price?</i></p>	<p>significant cost to services. Many of our members have reported that they have had to find additional funds within existing budgets to source and dispose of PPE other medical waste (where state and federal resources were inadequate) and to address workforce challenges.</p> <p>Further to the costs associated with the COVID-19 pandemic, residential aged care services have also been impacted by mounting inflation as well the rising cost of food and fuel, which have increased the cost of delivering care, particularly since the release of the initial price. In developing an indexation methodology, there needs to be a process for in-year adjustments to meet such unexpected factors – otherwise, services will be punished for the reliance on old data. The focus should be on ensuring the best care rather than waiting on accurate numbers.</p> <p>In line with this approach, there should be an emphasis on 'best practice' over 'cost-based' approaches across every stage of development of IHACPA's pricing advice.</p>
<p>Section 7: Adjustments to the recommended price</p>	<p><i>What, if any, changes are required to the proposed approach to adjustments?</i></p> <p><i>What, if any, additional adjustments may be needed to address higher costs of care related to the resident characteristics?</i></p> <p><i>What evidence can be provided to support any additional adjustments related to people receiving care?</i></p>	<p>The VHA supports the proposed approach to adjustments, which is line with their use in hospital pricing.</p> <p>The Royal Commission into Aged Care Quality and Safety highlighted the role of residential aged care services in ensuring that older Australians have both the care that they need, as well as the resources and conditions they need to have quality of life.</p> <p>The VHA would like to see provisions made within the final framework and future costing to ensure that services are adequately funded to provide care that is</p>

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	<p><i>What should be considered in reviewing the adjustments based on facility location and remoteness?</i></p> <p><i>What evidence can be provided to support any additional adjustments for unavoidable facility factors?</i></p> <p><i>How should any adjustments for quality and safety issues be considered in the long-term development path of AN-ACC and the associated adjustments</i></p>	<p>culturally appropriate, that supports access to lifestyle enhancements and diversional therapy, provides for the provision of high-quality and nutritious food, and that enables older people’s independence and mobility.</p> <p>As outlined earlier, we would also urge consideration of an adjustment to recognise the increased complexities and costs involved if a facility’s residents have a higher overall level of acuity. A more complex cohort is likely to mean increased costs that are not recognised in the increased level of funding. Utilising this adjustment would mean that a service is not punished when they take on more complex residents and enable them to meet demand. Having a greater number of high acuity residents can particularly lead to issues around attracting and retaining staff, particularly in rural and regional areas.</p> <p>While we are mostly satisfied that the consultation paper speaks to the increased costs associated with the delivery of care in rural and regional areas, we would like to see the vital role of PSRACS in providing access to care in rural and regional areas where there is low demand (also known as thin markets) more clearly acknowledged. Providers of last resort should be supported in these communities. There should also be consideration of expanding the Modified Monash Model (MMM) range eligible for support – Victoria, and its services, have traditionally been penalised for being a smaller state.</p> <p>We would also urge consideration of additional adjustments for PSRACS in recognition of the long-term penalisation of their provider structure. Due to being Government-owned, PSRACS were being penalised through the Adjusted Subsidy Reduction (ASR). The VHA welcomed the removal of the ASR through the recent Royal Commission legislation. The ASR has unfairly penalised PSRACS for years,</p>

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		<p>leading to an unjustified funding shortfall of approximately \$4,800 per bed per year, and has been a key policy recommendation for the VHA, including in our Royal Commission submissions (where more evidence is available).</p> <p>While the removal of the ASR is positive moving forward, its legacy of underfunding public aged care providers has left them far behind equivalent services in the private and not-for-profit sectors – yet the Royal Commission and the pandemic response highlight the need for funding equity, not disparity based on ownership. This unavoidable facility factor was utilised to impede their development. With IHACPA’s interest in fairness and transparency, a short-term adjustment should be utilised to create a level playing field with other provider structures.</p>
<p>Section 8: Priorities for future developments</p>	<p><i>Should hotel costs be incorporated into the AN-ACC funding model and what should be considered in doing this?</i></p> <p><i>What should be considered in future refinements to the residential respite classification and funding model?</i></p> <p><i>What are the costs associated with transitioning a new permanent resident into residential aged care?</i></p> <p><i>How might workforce challenges present in the implementation and refinement of AN-ACC for the aged care system?</i></p>	<p>The workforce challenges currently faced by the aged care sector may have an impact on the cost of delivering services, as well as services ability to deliver high-quality and safe care. Further to this, the demands on the sector may limit services’ ability to meaningfully engage with the implementation and refinement of AN-ACC for the aged care system. Struggles to attract appropriately trained workforce, particularly in rural and regional areas, may require refinements to enable services to attract the right staff through increased pay to meet the complex needs of their clients. Failure to address and support workforce challenges through pricing and costs risks undermining the principles of the AN-ACC reform.</p> <p>Markers of success in IHACPA’s aged care and pricing work may include: reduced administrative burden and ease of use reported by services; measurable increases</p>

Section	Questions	Response
	<p><i>What areas should be included in the proposed five-year vision for IHACPA's aged care pricing advice?</i></p> <p><i>What would be considered markers of success in IHACPA's aged care costing and pricing work?</i></p>	<p>in the quality and safety of care as measured by the Aged Care Quality and Safety Commission; increased accuracy of assessment; and decreased financial losses reported by services. While the reform focus is on person-centred care, person-centred care cannot be delivered unless the aged care facilities are supported and sustainable, which makes their success a key benchmark for the reform.</p>

Conclusion

The VHA is largely satisfied with IHACPA's thorough and well-considered consultation paper, and we welcome the commitment to refining the AN-ACC over time. We also appreciate the Authority's stated plans to undertake further costing studies in partnership with Wollongong University to better understand the true cost of delivering aged care in coming years.

In the Victorian context, it will be essential for future studies and versions of the pricing framework to reflect the vital role that PSRACS play in providing care to older Victorians with complex care needs, as well as those that require special mental health supports, or care in rural or regional areas.

If the aged care sector is to meet the recommendations of the Royal Commission into Aged Care Quality and Safety, it is also essential that funding to support residents' quality of life is integrated into future versions of the pricing framework.

We are satisfied with proposed principles for activity-based funding in aged care outlined in Section 5 of the consultation paper and support the priorities for future development outlined in Section 8.

Furthermore, the VHA can support IHACPA's studies into the feasibility of the AN-ACC model within multi-purpose services through consultation with our members.

We wish to thank IHACPA for the opportunity to provide feedback on the new framework and are available should you require any more information about the points raised in our submission.



For further information contact

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