ACCPA
Aged & Community Care Providers Association

IHACPA's Consultation Paper on the Pricing Framework for Australian Residential Aged Care Services 2024-25

Submission

September 2023

Contents

About ACCPA

The Aged and Community Care Providers Association (ACCPA) is the national Industry Association for aged care providers offering retirement living, seniors housing, residential care, home care, community care and related services.

ACCPA exists to unite aged care providers under a shared vision to enhance the wellbeing of older Australians through a high performing, trusted and sustainable aged care sector. We support our members to provide high quality care and services while amplifying their views and opinions through an authoritative and comprehensive voice to the government, community and media.

Our sector serves to make better lives for older Australians, and so do we.

Background

In 2022, the *Aged Care and Other Legislation Amendment (Royal Commission Response) Act 2022* was passed – expanding the remit of the Independent Hospital Pricing Authority to include providing costing and pricing advice on aged care to the Australian Government (the Government).

The Independent Health and Aged Care Pricing Authority (IHACPA) started providing such advice to the Government from 1 July 2023.

On 17 July 2023, IHACPA released its *Consultation Paper on the Pricing Framework for Australian Residential Aged Care Services 2024-25* (the Consultation Paper) for comment.

IHACPA is seeking stakeholders' input in relation to the pricing principles, the Australian National Aged Care Classification (AN-ACC) funding model, indexation methodologies, adjustments to the recommended price and future pricing adjustments for safety and quality.

The submissions received in response to the Consultation Paper will inform the development of the Pricing Framework for Australian Residential Aged Care Services 2024-25.

ACCPA is pleased to submit our response to the Consultation Paper.

Executive summary

ACCPA welcomes the opportunity to provide feedback on IHACPA's *Consultation Paper on the Pricing Framework for Australian Residential Aged Care Services 2024-25*.

We believe that the insights and experiences of our members will provide useful evidence to inform IHACPA's recommendations on pricing for the delivery of residential aged care services, in order to improve outcomes for older Australians.

While ACCPA is broadly supportive of the principles for activity-based funding in aged care, we recommend that there be further consideration as to whether activity-based funding is an appropriate approach to funding aged care, given the well documented differences between episodic, and long term whole person care.

Given it is nearly twelve months since the Australian National Aged Care Classification (AN-ACC) funding model was introduced, we believe it is timely to review the AN-ACC classes to ensure residents with similar care needs are grouped together and funded appropriately. In particular, we note the need to consider the classification of residents who are mobile but severely cognitively impaired, residents with mental health challenges, a history of drug or alcohol use and/or responsive behaviours. Aged care providers report that they do not receive adequate funding to meet the specialised care needs for these of these groups under the AN-ACC model, and that this can act as a disincentive to admitting residents with these care characteristics.

Aged care providers also report that there are a range of compliance and financial challenges which disincentivise offering respite care. These challenges must be addressed for it to be financially viable for aged care providers to offer respite care.

While ACCPA acknowledges the significant improvement in indexation the residential aged care sector experienced this year under IHACPA's inaugural price recommendation (based on an interim approach), there remain clear gaps regarding indexation, and ongoing work is required regarding the methodology to account for wages growth (including issues arising from the timing of key decisions such as the Annual Wage Review indexation).

ACCPA is interested in the concept of high quality care being within the strategic remit of both IHACPA and the Aged Care Taskforce and the future opportunities to look at how we define, cost and fund high quality care. We recommend IHACPA ensures as part of its 2024-25 pricing framework, that there is alignment with key aged care reforms for legislation and funding arrangements currently under development, as they relate to high quality care.

We also have serious concerns about the adequacy of the current adjustments for care-related costs impacted by service location. Residential aged care providers in rural, regional and remote areas are incurring significantly higher costs to deliver care compared to their metropolitan counterparts, often having to rely heavily on agency staff due to workforce shortages and, in some cases, having to provide accommodation for staff due to housing shortages. However, the fixed Base Care Tariff component of the AN-ACC payment currently only makes adjustment for services classified as Modified Monash Model (MMM) 5 to 7. This is resulting in many regional and rural aged care providers classified as MMM 2-4 experiencing financial stress.

ACCPA recognises that IHACPA will provide advice on refinements to the AN-ACC classification system over time, based on evidence, stakeholder feedback and cost data. However, we stress the importance of addressing the issues outlined above as a priority, as

failure will continue to put the financial viability of residential aged care services at risk, particularly those in rural, regional and remote areas. Ensuring residential aged care providers are adequately funded to deliver care is vital to ensure timely access to high quality care for older Australians.

Summary of recommendations

R1 **That IHACPA considers applying a National Efficient Cost approach for aged care pricing (including further engagement with the sector).**

R2 **That IHACPA amends the 'Access to care' principle to recognise that people should be able to access aged care services in or near their local community.**

R3 **That IHACPA undertakes further work in consultation with the sector to understand the price required to ensure residential aged care providers are funded to deliver quality care to a standard expected by the community**.

R4 **That IHACPA amends the 'Fairness' principle to recognise the higher costs of providing care incurred by residential aged care providers in regional, rural and remote locations and specialisations.**

R5 **That IHACPA ensures that its price recommendation for Government provides a margin that allows for investment into innovation and technology.**

R6 **That IHACPA undertakes further costing work to accurately identify the cost of providing care to residents:**

- **who are mobile but cognitively impaired;**
- **with mental health challenges;**
- **with a history or drug or alcohol issues;**
- **at risk of homelessness;**
- **who display responsive behaviours; and/or**
- **who require complex wound management.**

This work should inform IHACPA's pricing advice for the AN-ACC classes for its 1 July 2024 pricing advice, as well as future reviews of the AN-ACC classes.

R7 **That IHACPA undertakes costing studies to determine whether the current daily funding respite rates are adequate.**

R8 **That the Australian Government considers introducing a one-off cost recovery for admission of respite residents.**

R9 **That IHACPA works with the sector to identify an appropriate indexation methodology for workforce wages that can also account for the timing difference of IHACPA's annual pricing recommendation to Government and the Annual Wage Review indexation decision.**

R10 **That IHACPA reviews the use of its existing composite CPI methodology to improve its approach to determining indexation in residential aged care.**

R11 **That IHACPA considers and clarifies its role with respect to costing and pricing high quality care in alignment with other aged care reform processes, including potential definitions as part of a new Aged Care Act and considerations for funding arrangements as part of the remit of the Aged Care Taskforce.**

R12 That IHACPA considers specific strategies to cost high quality care such as comparing any proposed legislative definitions with those services rated as delivering 4 and 5 star ratings.

R13 That the fixed component of the AN-CC payment should make adjustment for services in MMM categories 2-7, not just those in MMM 5-7. These adjustments should be weighted so that services in the most remote locations receive the greatest subsidy.

R14 That IHACPA includes pharmaceutical costs for residential aged care residents as part of the *Pricing Framework for Australian Residential Aged Care Services 2024–25*, such as:

- **provision of general advice;**
- **participation in Medication Advisory Committee meetings;**
- **dispensing, including through preparation of Dosing Administration Aids;**
- **delivery of medications; and**
- **removal of medication wastage.**

Introduction

ACCPA welcomes the introduction of IHACPA's role in relation to aged care costing and pricing matters, following reforms in response to the Royal Commission into Aged Care Quality and Safety.

IHACPA's role in providing independent costing and pricing advice to the Australian Government is important. While the introduction of the AN-ACC funding model has had several benefits, aged care providers continue to experience significant financial stress due to a range of factors over time.

The most recent *Quarterly Financial Snapshot* found that residential aged care providers returned a year-to-date net loss of $674.4 million before tax, which is equivalent to a daily net loss before tax of $13.48 per resident.[1] Residential aged care service providers' average earnings before interest, tax, depreciation and amortisation (EBITDA) per resident per year have also declined over the past five years, and was negative $46 per resident per year in 2021-22.[2]

Similarly, StewartBrown's *Aged Care Financial Performance Survey March 2023 Sector Report* found that residential aged care homes were operating at a loss of $15.74 per bed per day on average.[3]

Establishing an effective pricing and costing framework which supports the delivery of high quality aged care will play a vital role in addressing these financial sustainability issues.

ACCPA supports the transparent, consultative and evidence-based approach used by IHACPA, and looks forward to continuing to engage with IHACPA to ensure the pricing and costing framework in aged care will ensure a sustainable future for quality in aged care.

[1] Department of Health and Aged Care, *Quarterly Financial Snapshot: Aged Care Sector – Quarter 3 2022-23*, September 2023, p.3, https://www.health.gov.au/sites/default/files/2023-08/quarterly-financial-snapshot-of-the-aged-care-sector-quarter-3-2022-23-january-to-march-2023.pdf
[2] Department of Health and Aged Care, *Financial Report on the Australian Aged Care Sector 2020-21*, 2022, p.9, Financial Report on the Australian Aged Care Sector 2021-22 (health.gov.au)
[3] StewartBrown, *Aged Care Financial Performance Survey Report - 9 months ended 31 March 2023*, 2023, p.2, StewartBrown_-_Aged_Care_Financial_Performance_Survey_Report_March_2023.pdf

Commentary on the Consultation Paper

1. Introduction

Out-of-scope areas

IHACPA notes that 'policies and pricing adjustment for the hotelling supplement' are listed as being out of scope. ACCPA seeks clarity about this and whether it is due to the supplement already being scheduled for indexation in March and September each year or for another reason. ACCPA is also interested in the intersection of the pricing role of IHACPA for residential care and the use by Government of supplements and grants. We believe there should be a place in the framework for consideration of the holistic picture of these funding arrangements, in the context of residential aged care sustainability.

2. Principles for activity-based funding in aged care

ACCPA supports IHACPA's commitment to using the latest available cost and activity data when developing its pricing advice for residential aged care services. This is particularly important given the very fluid changes in costs experienced by the sector in recent years, such as increased compliance related costs since the Royal Commission into Aged Care Quality and Safety and costs associated with COVID-19.

While ACCPA's commentary on IHACPA's principles for activity-based funding in aged care is provided below, a more fundamental question that needs to be considered is whether activity-based funding is an appropriate approach to funding aged care. While activity-based funding is used to fund the hospital sector, there are fundamental differences between the episodic nature of hospital care, and the long term whole person care in aged care. Aged care is delivered over time, is holistic and is therefore not 'activity-based' in nature.
A National Efficient Cost approach may potentially be better suited to aged care due to the longitudinal nature of the care provided and the way in which a resident's care needs may vary over time.

Recommendation 1: That IHACPA considers applying a National Efficient Cost approach for aged care pricing (including further engagement with the sector).

Commentary on the principles

Access to care

The first overarching principle states, 'Funding should support timely and equitable access to appropriate aged care services, for all those who require them'. ACCPA supports this principle, but recommends expanding it to explicitly recognise that people should not only be able to access aged care services which meet their care needs in a timely way, but also be able to access such services in or near their local community. This is important to many older people, as it enables them to remain connected to their family, friends and community.

We also note that the objective of this principle will only be achieved if the sustainability and viability issues, which are impacting the sector, are addressed. Evidence shows that most

providers are losing money on a daily basis, with a recent report finding that 64% of surveyed providers had a negative mid-year Operating Result.[4] People will only have timely access to aged care services in the medium to longer term if funding addresses these issues.

Quality care

ACCPA supports the principle that care should meet the Aged Care Quality Standards, reflect continuous improvement, support resident wellbeing and deliver outcomes that align with community expectations. However, ACCPA also notes the need to consider the concept of high quality care (as referred to in the proposed foundations for the new Aged Care Act), as part of aged care reforms currently underway and a pricing methodology (See also Section 4).

Nonetheless, the objective of this principle is unlikely to be met if funding only addresses historical costs. As such, it is critical that IHACPA transitions to a blended funding approach – which addresses both changes in historical costs and pricing for high quality and quality outcomes. While the Consultation Paper indicates that IHACPA will transition to such an approach over time, it is unclear how IHACPA will determine what funding is required to deliver the standard of care expected by the community.

As noted in ACCPA's submission on the *Towards an Aged Care Pricing Framework Consultation Paper*, further work is needed in consultation with the sector to understand the price required to ensure providers are funded to deliver quality care and services.[5] ACCPA would be pleased to be engaged on IHACPA's work to determine where price is to be set to enable providers to deliver on quality.

Fairness

ACCPA supports having a principle around ensuring that activity-based funding payments are fair and equitable. As the cost of delivering care in rural, regional and remote areas is significantly higher than in metropolitan areas, we believe that unavoidable cost variations due to locality should be articulated in the fairness principle. Consideration of the costs that are also involved in care for specialisations is also important. ACCPA members that deliver aged care services to First Nations people, those at risk of homelessness, and culturally and linguistically diverse groups note the costs involved in ensuring specific needs are met.

Fostering care innovation

The inclusion of the fostering care innovation principle recognises the importance of not only funding direct care, but also the need to fund technology and innovation which are key enablers of efficient, high quality aged care services. ACCPA would welcome further detail about how IHACPA will determine a price recommendation for Government which provides a margin that allows for investment into innovation and technology.

Recommendation 2: That IHACPA amend the 'Access to care' principle to recognise that people should be able to access aged care services in or near their local community.

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[4] UTS Ageing Research Collaborative (UARC), *Australia's Aged Care Sector: Mid-Year Report 2022-23*, p.11, https://opus.lib.uts.edu.au/bitstream/10453/170529/2/UARC_Aged%20Care%20Sector%20Mid%20Year%20Report%202022-23.pdf

[5] ACCPA, Submission to IHACPA's *Towards an Aged Care Pricing Framework Consultation Paper*, October 2022, p.13-14, https://www.accpa.asn.au/wp-content/uploads/2022/10/ACCPA-Submission-on-IHACPA-Consultation-Paper_19-Oct-2022.pdf

Recommendation 3: That IHACPA undertakes further work in consultation with the sector to understand the price required to ensure residential aged care providers are funded to deliver quality care to a standard expected by the community.

Recommendation 4: That IHACPA amends the 'Fairness' principle to recognise the higher costs of providing care incurred by residential aged care providers in regional, rural and remote locations and specialisations.

Recommendation 5: That IHACPA ensures that its price recommendation for Government provides a margin that allows for investment into innovation and technology.

3. The Australian National Aged Care Classification funding model

Adequacy of the current AN-ACC classes

Although the AN-ACC classification system seeks to group residents in a way which is relevant to care and is resource homogenous, ACCPA members report that funding for some residents is insufficient. This acts as a disincentive for providers admitting residents with these care characteristics, and may therefore limit access to care for vulnerable cohorts of older Australians.

One such example are residents who are mobile but who are severely cognitively impaired (e.g. residents with advanced dementia) and who display disruptive behaviours. Members report that managing such residents require higher levels of staff input that is not recognised in the current classes. This creates a possible disincentive for residential aged care homes to accept prospective residents with these characteristics.

This is likely to be become an increasingly significant issue for providers due to the growing prevalence of dementia, with the number of older Australians with dementia expected to increase from 401,300 in 2022 to 849,300 by 2058.[6] It is therefore critical that IHACPA recommends refinements to the AN-ACC model to ensure the amount of funding provided to aged care providers for residents with dementia reflects the actual cost of meeting their care needs.

ACCPA members also report that the AN-ACC model does not provide adequate funding for residents with other specific care needs, such as residents with mental health challenges, a history of drug or alcohol use, at risk of homelessness and/or who display responsive behaviours. Supporting residents with these characteristics is significantly more time and staff resource intensive for aged care providers. These considerations may affect whether residential aged care homes are willing to admit people with such needs. It is therefore important that IHACPA ensures that its costing studies capture accurate data regarding the costs of providing care for residents in regional, rural and remote areas who require specialised services, such as mental health care services or support to manage drug and alcohol issues.

Aged care providers also report that there are high costs associated with providing care for residents who require complex wound management, and that these are not adequately covered by AN-ACC funding. As a result, in some instances, some residential aged care

[6] Australian Institute of Health and Welfare, *Dementia in Australia*, 23 February 2023, https://www.aihw.gov.au/reports/dementia/dementia-in-aus/contents/summary

homes have not accepted prospective residents who need complex wound management. Supplementing wound management as part of the pricing framework could improve access to care by removing a disincentive for aged care providers to take on residents who require complex wound management.

Recommendation 6: That IHACPA undertakes further costing work to accurately identify the cost of providing care to residents:

- **who are mobile but cognitively impaired;**
- **with mental health challenges;**
- **with a history or drug or alcohol issues;**
- **at risk of homelessness;**
- **who display responsive behaviours; and/or**
- **who require complex wound management.**

This work should inform IHACPA's pricing advice for the AN-ACC classes for its 1 July 2024 pricing advice, as well as future reviews of the AN-ACC classes.

Costs associated with respite care

ACCPA notes that under the former funding tool, the Aged Care Funding Instrument, funding for respite care was inadequate and did not incentivise provision of respite beds. The AN-ACC has attempted to address this by incorporating a daily funding respite rate, which includes a component to compensate for the accommodation component that is lost. While we welcome the introduction of respite rates, further work needs to be undertaken to determine whether the current rates are adequate to cover the cost of providing care to respite residents.

Residential aged care providers report a range of challenges, which act as disincentives for offering respite care. The admission process for respite residents is the same as for a permanent resident, however it is more costly for providers due to the high turnover rate in respite residents. Introducing a one-off cost recovery for admission of respite residents may help address this issue.

Recommendation 7: That IHACPA undertakes costing studies to determine whether the current daily funding respite rates are adequate.

Recommendation 8: That the Australian Government considers introducing a one-off cost recovery for admission of respite residents.

4. Developing aged care pricing advice

Indexation

ACCPA acknowledges the significant improvement in indexation the residential aged care sector experienced this year under IHACPA's inaugural price recommendation. We support the continued refinement of IHACPA's indexation methodology, including identifying appropriate indices to capture growth in costs related to workforce wages.

ACCPA also notes the challenges presented by the timing of the Annual Wage Review decision regarding wages indexation being released mid year, well after IHACPA's pricing recommendation is submitted to Government and considered as part of the May budget process. The shortfall that occurred between IHACPA's projected indexation figure and the

actual figure for the 2023 residential aged care price is yet to be addressed by the Government, despite clear evidence highlighting the gap.

We therefore recommend that IHACPA works with the sector and the Government to identify an appropriate indexation methodology and/or process for annual wage reviews.

Finally, regarding indexation, we note that composite CPI indices currently used do not appropriately index increases in aged care costs. Aged care providers, much like health services, have cost increases well beyond CPI. IHACPA's use of composite CPI indices from the Australian Bureau of Statistics as described in its *Residential Aged Care Pricing Advice 2023-24 Technical Specifications* may need to be refined or supplemented.

Recommendation 9: That IHACPA works with the sector to identify an appropriate indexation methodology for workforce wages that can also account for the timing difference of IHACPA's annual pricing recommendation to Government and the Annual Wage Review indexation decision.

Recommendation 10: That IHACPA reviews the use of its existing composite CPI methodology to improve its approach to determining indexation in residential aged care.

Defining, costing and funding high quality care

ACCPA is interested in the concept of high quality care being within the strategic remit of both IHACPA and the Aged Care Taskforce and the future opportunities to look at how we define, cost and fund high quality care. We also note that the current consultation by the Department of Health and Aged Care (DoHAC), regarding a proposed approach and definition of high quality care for the new Aged Care Act.[7]

The Royal Commission into Aged Care Quality and Safety brought into sharp focus the community's expectation that Australia should be able to deliver high quality aged care to older people.

They also sought to articulate what should be considered as high-quality care saying, *'High quality' care puts older people first. It means a standard of care designed to meet the particular needs and aspirations of the people receiving aged care.*[4]

Recommendations 13 and 14 of the Final Report seek to ensure certain characteristics of high-quality care are included in legislation as a 'general, positive and non-delegable statutory duty.'

However, the DoHAC Consultation Paper on the foundations of the new Aged Care Act proposes an 'aspirational' approach to high quality care provision, to be distinguished from the requirement to deliver to the Aged Care Quality Standards (also under review and are anticipated to be subject to the same legislative process).

Priorities for high quality care (subject to further consultation) are proposed as (page 27):

- *'delivery of funded aged care services with compassion and respect for the individual, their life experiences, self-determination and dignity, and their quality of life,*
- *providing funded aged care services that are trauma aware and healing informed,*
- *providing funded aged care services that are responsive to the person's expressed personal needs, aspirations, and their preferences regarding the manner in which services are delivered to them,*

[7] Department of Health and Aged Care, *A new Aged Care Act: the foundations*, p.26-28, https://agedcareengagement.health.gov.au/images/agedcareact/aca/consultation_paper.pdf

- *facilitating regular clinical and non-clinical reviews to ensure that the services and supports delivered continue to reflect their individual needs,*
- *supporting the person to enhance their physical and cognitive capacities and mental health, and*
- *supporting the person to participate in cultural, recreational, and social activities, and remain connected and able to contribute to their community.'*

ACCPA believes that any inclusion of a definition of high-quality care – whether connected in legislation to a general duty of care or otherwise – must also require consideration by Government regarding the relationship between high quality care, pricing and costing, and ultimately funding and delivery.

As part of a key recommendation for a new Aged Care Act, the Royal Commissioners recommended that the Australian Government fund the aged care system at the level necessary to deliver high quality and safe aged care and ensure the aged care system's sustainability, resilience and endurance.

In relation to funding of high-quality care, the Royal Commissioners were emphatic, saying:

> *'Funding for aged care is insufficient, insecure, and subject to the fiscal priorities of the Australian Government of the day. For several decades, one of the priorities for governments dealing with the aged care system has been to restrain the growth in aged care expenditure in light of demographic changes. This priority has been pursued irrespective of the level of need for care, and without sufficient regard to whether the funding is adequate to deliver high quality and safe care. The consequence of these funding arrangements for older people is that they may not be able to access care when they need it due to rationing of services, and when they do access care, funding may not be sufficient to meet the cost of providing the high quality care they need. The current state of Australia's aged care system is a predictable outcome of these measures to limit expenditure and ignore the actual cost of delivering aged care.'*[5]

Furthermore, it is critical that the legislative reform aligns with funding reform. The *Aged Care Taskforce Terms of Reference* state in regard to their three objectives, that advice should support 'high quality care and an innovative and vibrant aged care sector that is driven to respond to the needs of older Australians.'[6]

ACCPA contends that the Aged Care Taskforce (Taskforce) should explicitly consider and report on the distinction between high quality care and quality care, if any, as part of its deliberations. As part of the recent consultation on its six draft funding principles, ACCPA (in its submission to the Taskforce) noted that it is vital that the Taskforce aligns its principles with those to be incorporated into new Aged Care Act, to ensure funding is matched with high quality care provision as intended in the new Act.

The role of IHACPA is also pivotal. Since IHACPA took on its aged care function, ACCPA has consistently advocated that the pricing and costing approach should consider what we *want* to deliver, as compared to what we *have* delivered/or are delivering.[7]

IHACPA's own vision is for Australians to have fair access to transparent, sustainable and high-quality health and aged care. Further, a 2023-24 IHACPA Key Performance Indicator includes recognition of designing pricing systems that promote sustainable and high-quality care.[8]

The challenge for IHACPA will be to develop a pricing framework and costing methodology around a legislative definition. The current proposal of several 'priorities', or the Royal Commission's expression of 'characteristics' for high quality care, bring into question what

activity it takes to deliver such care. For example, what are reasonable activities that support an older person being 'connected' to one's community? What does the future of more compassionate aged care look like for consumers? How does a pricing system reflect a definition that seeks to ensure tailored and individualised care?

Further, the proposed draft funding Principle 1 of the Taskforce being 'The aged care system should enable and encourage participants to remain in their home for as long as they wish and can do so', suggests that IHACPA may need to consider (as part of its methodology) what activities are required to create a 'home' like environment in residential aged care (such as recreation and lifestyle provision).

A way forward may be for IHACPA to undertake specific costing studies of 4 and 5 star rated aged care providers, to ascertain what factors are differentiating them from an 'acceptable' standard of 3 stars (including distinguishing what factors relate to staffing). This would need to be done in conjunction with sector consultation and comparison with any legislated definitions and/or standards.

Finally, the sector must be supported to delivery high quality care. This will necessitate an understanding of the inter-relationship of the key factors in aged care such as workforce, regulation, innovation and quality measurement. How do they all come together to impact on a provider's capacity to deliver high quality aged care and how do we know it's actually being delivered.

It is imperative that the Australian Government is able to clearly articulate the level(s) of care that the Australian community are to expect from a future funding system and, if high quality care is to be universal, that the architecture be established so that it can be defined, costed and funded. The costing and pricing mechanisms under consideration as part of this consultation also must be understood in this context.

Recommendation 11: That IHACPA considers and clarifies its role with respect to costing and pricing high quality care in alignment with other aged care reform processes, including potential definitions as part of a new Aged Care Act and considerations for funding arrangements as part of the remit of the Aged Care Taskforce.

Recommendation 12: That IHACPA considers specific strategies to cost high quality care such as comparing any proposed legislative definitions with those services rated as delivering 4 and 5 star ratings.

5. Adjustments to the recommended price

ACCPA strongly supports IHACPA's intention to continue to engage with stakeholders to look at new and emerging evidence-based cost and activity data to inform its recommendations on price.

Additional cost variations associated with provision of care to residents requiring specialised services

As noted earlier in this submission, ACCPA members report that there are additional costs associated with providing care to residents with additional needs. These include residents who are mobile but cognitively impaired, residents with mental health issues or who demonstrate responsive behaviours and residents with drug and/or alcohol use issues. As per recommendation 5, ACCPA therefore suggests that IHACPA undertakes further costing work to accurately identify the cost of providing care to residents who are mobile but

cognitively impaired, with mental health challenges, with a history or drug or alcohol issues or who display responsive behaviours.

Care-related costs impacted by service location

As noted in the Consultation Paper, the AN-ACC model includes adjustments for unavoidable service factors, including location. The fixed component of the AN-ACC payment makes adjustment for services with Modified Monash Model (MMM) categories 5 to 7. Remote services also receive a base care tariff (BCT) based on approved beds rather than occupancy.

ACCPA strongly supports adjustment to recognise the higher costs incurred by residential aged care homes in rural, regional and remote areas, but is concerned that in some instances the use of MMM classifications to determine BCT subsidy categories results in anomalies. We are aware of example of providers which are located significantly further away from capital cities, and who therefore incur higher costs to deliver care, receiving the same BCT as those which are much closer to capital cities. For example, Mount Gambier, Murray Bridge and Mount Barker are all classified as MMM 3, despite significant differences in their distance from Adelaide (436km, 76km and 34km respectively).

In addition, while adjustment for services with MMM categories five to seven are welcome, many services classified as MMM 2-4 also incur higher costs to deliver care due to their location, and yet do not receive an adjustment. Services classified as MMM 2 to MMM 4 are located in regional centres, large rural towns or medium rural towns which are being impacted by chronic workforce shortages. Many services in such areas are therefore incurring higher costs to deliver care, such as the costs associated with engaging agency staff, to be able to continue operating.

Another concern, which has been raised by ACCPA members, is that services may cease to be eligible for the adjustment if MMM boundaries change based Census results. This is because analysts from the Department of Health and Aged Care review and update the MMM following the Census. As a result, services may go from being classified as MMM 5, and therefore eligible for adjustment, to being classified as MMM 4 and no longer eligible for adjustment, despite the cost of delivering care remaining unchanged. Such changes may be difficult for providers to anticipate and may have a significant impact on their financial viability, as this can result in a significant reduction in funding.

ACCPA recommends that the fixed BCT component of the AN-ACC payment should not only make adjustment for services with MMM categories 5 to 7, but also services with MMM categories 2 to 4. These should be weighted so that services in the most remote locations receive the greatest BCT subsidy.

Recommendation 13: That the fixed component of the AN-CC payment should make adjustment for services in MMM categories 2-7, not just those in MMM 5-7. These adjustments should be weighted so that services in the most remote locations receive the greatest subsidy.

IHACPA's development path for safety and quality of AN-ACC and its adjustments

ACCPA supports the IHACPA's proposed approach to explore safety and quality adjustments in the longer-term and in consultation with stakeholders. We are also pleased that the Consultation Paper recognises the complexity of safety and quality within residential aged care.

As noted in ACCPA's submission on the *Towards an Aged Care Pricing Framework Consultation Paper*, although we support future reviews considering additional payments or penalties based on quality or clinical events, IHACPA will need to develop a good understanding of the aged care environment before the introduction of risk-adjusted pricing.[8] In a hospital environment, it is relatively straight forward to identify a hospital acquired complication or identify where a sentinel event has occurred (e.g. a surgeon amputates the wrong limb). However in aged care in many cases the situation may be less clear. For example, if a person in aged care enters with a chronic long term wound or develops a health complication from a long-term disease these cannot be attributed to the quality of care provided by the facility.

When considering quality and safety adjustments in future, it will also be critical for IHACPA to consider the dignity of risk and the right to self-determination. For example, if a person chooses to ambulate (even though there is some risk to doing this unassisted) and they subsequently fall and sustain an injury, will the provider experience a risk-adjusted funding adjustment for that resident because they have supported the resident's right to self-determination? Although adjustments for safety and quality through activity-based funding have the potential to encourage good quality care, we must guard against the potential negative unintended consequences of a risk-adjusted funding approach for residents, as highlighted by the example above.

Having said this, ACCPA believes there is a place for such an approach to funding where it is demonstrated a provider was negligent in their care and this negligence directly resulted in injury or harm. An approach to risk-adjusted payment adjustments must be linked to 'open disclosure' requirements. We therefore support IHACPA exploring this matter over time and recommend sector stakeholders are engaged in consultation.

6. Miscellaneous

Compliance related costs

The Royal Commission into Aged Care Safety and Quality recommended a wide range of reforms, many of which were aimed at improving accountability and transparency. The Australian Government supported most of these recommendations, including several which impose new compliance reporting requirements on providers. These cover a range of matters, including serious incident reporting, new financial reporting requirements, additional quality indicator reporting, proposed monthly care statements and changes to governance arrangements. While ACCPA recognises the importance of accountability and transparency, these reforms are resulting in significant additional compliance costs for aged care providers which are not adequately funded. It is therefore critical that IHACPA's costing studies address and account for the cost of compliance and that these costs help inform its price recommendations.

In addition, from 1 December 2020 all residential aged care providers with clients who received National Disability Insurance Scheme (NDIS) funding support (referred to as dual participants) were automatically registered with the NDIS. While these providers are now required to meet additional registration, regulatory, compliance and reporting requirements as a result, funding was not provided to help aged care providers cover the costs associated

[8] ACCPA, Submission to IHACPA's *Towards an Aged Care Pricing Framework Consultation Paper*, October 2022, p.13-14, https://www.accpa.asn.au/wp-content/uploads/2022/10/ACCPA-Submission-on-IHACPA-Consultation-Paper_19-Oct-2022.pdf

with these additional compliance requirements. To address this issue, IHACPA should consider the costs providers experience in meeting these dual compliance activities.

The compliance requirements for aged care providers are likely to grow as the Department continues to roll out the reforms outlined in the Aged Care Reform Roadmap. It is therefore critical that the increasing compliance costs being experienced by aged care providers are part of the cost structure that is considered in IHACPA's costing studies.

Increased costs associated with engaging general practitioners

Several ACCPA members report that the costs of attracting general practitioners to look after their residents has increased significantly, particularly for aged care providers in regional areas. This is likely to be a consequence of competing demands on general practitioners' time due to the current shortage in Australia, which is expected to exceed 10,600 general practitioners by 2031-32.[9] It is therefore important that IHACPA's pricing recommendation factors in the increased costs being incurred by residential aged care providers to attract general practitioners to look after their residents.

Pharmacy costs may increase in the near future

Residential aged care homes are required to assist residents to take medication and ensure they do so in line with the directions of health professionals. These costs are reflected in the AN-ACC funding, are the responsibility of the approved provider and cannot be passed onto the resident.

However, there is member concern that the introduction of the 60-day prescribing rule which will commence on 1 September 2023 may lead to a reaction from community/retail pharmacies to increase costs for certain services to residents. With more than 50% of providers operating at a loss, they cannot afford to pay more should pharmacies refuse to continue to support Dosing Administration Aids and/or charge more.

The Department of Health and Aged Care have advised providers of their legal obligations in relation to medication management and that costs associated with medication management are included in the AN-ACC model.

ACCPA therefore recommends that IHACPA includes review of pharmaceutical costs for residential aged care residents as part of the *Pricing Framework for Residential Aged Care Services 2024–25*, including:

- provision of general advice
- participation in Medication Advisory Committee meetings
- dispensing including through preparation of Dosing Administration Aids
- delivery of medications
- removal of medication wastage.

The costing methodology will need to be considered carefully as the potential impact of community pharmacies charging residential aged care facilities for such services when they have not done so in the past, may emerge and be variable over the coming months.

[9] Australian Medical Association, *The general practitioner workforce: why the neglect must end*, 2022, https://www.ama.com.au/sites/default/files/2023-01/AMA-Research-and-Reform-General-practitioner-workforce-why-the-neglect-must-end-final%20%282%29_0.pdf

Recommendation 14: That IHACPA includes pharmaceutical costs for residential aged care residents as part of the *Pricing Framework for Australian Residential Aged Care Services 2024–25*, such as:

- **provision of general advice;**
- **participation in Medication Advisory Committee meetings;**
- **dispensing, including through preparation of Dosing Administration Aids;**
- **delivery of medications; and**
- **removal of medication wastage.**

Other contributors to high quality care must also be adequately funded

Currently the Australian Government's funding for the aged care sector is largely focused on direct care. While funding for direct care undoubtedly important, there are also other aspects of the aged care system which must also be adequately funded to enable aged care providers to deliver high quality care. This includes funding for education and leadership training to develop a highly skilled and sustainable aged care workforce.

Aged care providers also need sufficient funding to be able to invest in the systems and technology needed to support a robust residential aged care facility. These are particularly important in light of the increasing reporting and compliance obligations which residential aged care providers are now required to adhere to. Many ACCPA members report that currently there is insufficient capital to enable providers to enhance their technology and reporting tools.

In light of the above, ACCPA is pleased to see the inclusion of a residential age care pricing principle on fostering innovation. We would welcome further detail about how IHACPA will determine a price recommendation for the Australian Government which actively incentivises the uptake of technology and promotes innovation.