31 August 2023

Bupa Aged Care

BUPA SUBMISSION: IHACPA 2024-25 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, 24 of which are outside capital cities, Bupa is the largest aged care providers in regional 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 submission sets out some of the key challenges in the proposed approach detailed in IHACPA's *Towards an Aged Care Pricing Framework Consultation Paper*. It 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 – as highlighted by the Royal Commission. Despite the recent implementation of the AN-ACC funding model, approximately two thirds of all residential aged care facilities are still operating at a loss, which is not sustainable.

Notwithstanding Bupa's significant investments in our own workforce, regional homes continue to struggle the most with insufficient funding, compounded by lower occupancy and workforce shortages, limiting new admissions. This has overflow consequences for the public health system, with regional public hospitals in particular suffering bed-block due to insufficient local aged care capacity.

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 within a broader health and care sector.

We are encouraged by IHACPA's progress and commitment to transparency and anticipate significant improvements to its costing methodology for the coming financial year, despite some limitations of its costing study. However, we are concerned about IHACPA's limited mandate in aged care costing and pricing compared to its function in the healthcare sector, which leaves the question of full care provision costs unanswered.

To support long term improvement in the delivery of residential aged care, the Pricing Framework must account for the higher costs of care delivery in regional Australia and better account for changes in prices through an improved approach to indexation.

We make five broad recommendations to IHACPA, to address the most pressing funding challenges facing the sector:

1. **Ensure that the higher cost of care provision in regional Australia is reflected in the pricing framework**: Including through changes to Base Care Tariffs for MMM1-4 areas and adjusting for unavoidable state-based costs.
2. **Ensure that prospective cost inflation is captured in the pricing framework, with potential for a reconciliation for previous years:** Given the limitations on providers' ability to set prices, this will ensure out-of-cycle cost increases are captured.
3. **Ensure the pricing framework makes a full assessment of activities involved in care provision:** Capturing the full scope of activities involved in care provision and measuring indirect care and accommodation costs to adequately inform policymakers.
4. **Ensure the pricing framework enables an integrated view the aged care and healthcare sectors:** Addressing the immediate problem of bed-block in public hospitals through the introduction and ongoing refinement of a new AN-ACC class for higher level care.
5. **Adopt a flexible pricing philosophy for respite care**: Shift from activity-based funding to a flexible pricing approach to encourage innovation, greater consumer choice, and better accessibility to respite care that is more responsive to individual preferences.

If these challenges are not addressed, there is an increased risk that the aged care sector will continue to suffer from continued underfunding. Should providers be unable to operate sustainably, the ongoing underinvestment in the sector will ultimately lead to a shortage of supply of high quality residential aged care in Australia at a time that forecast demand for aged care services is expected to grow rapidly.

Adjustments for care costs in regional Australia

Variables in the cost of care provision in regional Australia are not sufficiently reflected in the current AN-ACC system, with limited funding adjustments for regional differences in costs. 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. We note StewartBrown's findings that 74% of "inner regional" homes made an operating loss – a much higher rate than in capital cities and in rural / remote locations. This finding is reinforced by the University of Technology Sydney's report which found MMM2-4 homes suffered the greatest losses, driven by a negative "direct care" financial result.

Regional cost drivers

In general labour costs in regional homes are still much higher than their metropolitan counterparts, with local labour market dynamics exacerbating the issue in specific regions. Acute labour supply shortages have led to higher hourly rates of pay and incentives to attract staff, and a greater reliance on more expensive agency staff and overtime hours. In locations with particularly hard-to-fill roles, base rates of pay can be 30% higher to attract workers, with relocation support such as accommodation supplements also required for workers who cannot access housing in a reasonable timeframe – this is worst in regions such as northern NSW impacted by the Lismore floods. These factors, as well as travel costs, are also present in regional areas with greater reliance on agency staff.

We have also experienced higher costs for supplies and note that some GPs in regional areas are beginning to charge fees to service residential aged care residents as a capitation.

Base Care Tariffs

Adjustments to Base Care Tariffs must be made to ensure the sustainability of regional aged care homes. The lack of funding variation for MMM1-4 homes is a stark contrast to Medicare rebate arrangements for medical costs, which are much higher outside capital cities.

GP Bulk Billing incentives are 50% higher outside MMM1 and increase by 10% for each MMM region. Accurate pricing of residential care is crucial, however we are concerned that the small sample size in IHACPA's costing study may not adequately capture the cost drivers. As such we recommend a staggered increase to Base Care Tariffs for each MMM location:

- MMM2: 10% higher than MMM1
- MMM3: 20% higher than MMM1
- MMM4-5: 30% higher than MMM1

These higher BCTs could be introduced as an interim measure while a detailed costing study ascertains detailed regional cost variables to inform permanent changes to BCTs.

Other location-specific factors

Bupa also notes some limitations to the MMM system, which we appreciate are difficult to resolve without adding further complexity. We are aware of a number of geographical anomalies across our homes, which demonstrate a limitation of MMM classifications. Pottsville, a small town on the NSW North Coast has very different cost drivers to a capital city despite its MMM1 classification. Elsewhere, Woodend – a 1-hour drive from Melbourne – receives an MMM5 classification, whereas Portland (VIC) is MMM4 though it is a 4-hour drive and suffers persistent workforce shortages.

Payroll tax discrepancies also represent a significant variation from state-to-state, illustrated by the example of Albury-Wodonga. A home in Wodonga is impacted by a 2% higher payroll tax rate via the Mental Health Levy and "short-term" COVID Debt Levy, both imposed by the Victorian Government, which equate to an additional cost of approximately $4.30 per bed day in the state.

We encourage IHACPA to establish a Regional & Rural Advisory Committee with industry representation, to enable emerging pressures to be communicated in a timely fashion.

Indexation methodology and approach

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. IHACPA's transparency in its costing methodology and pricing recommendation is very positive, and we believe this can be further enhanced.

While IHACPA's interim indexation methodology for 2023-24 led to some clear funding shortfalls, we are optimistic that a full costing study and consultation period will ensure a more accurate pricing recommendation for 2024-25. However, we are concerned that routine cost increases that occur outside the pricing cycle will lead to funding lagging cost increases – this is particularly relevant with respect to the Annual Wage Review.

Funding must be indexed at a rate which at meets operating cost growth and should be set on a prospective basis to avoid persistent underfunding. IHACPA's recommendations should consider

projections on anticipated cost inflation for the following period, taking into account the time period between IHACPA's advice and the commencement of a new price.

Alternatively, a dynamic pricing component could be applied to incorporate out-of-cycle cost changes, including those caused by policy decisions such as Victoria's payroll tax, with reference to a monthly inflation-linked indexation mechanism for care inputs and supplies.

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. This will also enable appropriate scrutiny by stakeholders to help inform government decisions, which would hopefully avoid the issues identified in the 2023-24 Pricing Advice, which included:

1. *The Fair Work Commission's 5.75% wage increases awarded through the Annual Wage Review*

Most, if not all, stakeholders would have readily identified that a 5-year figure for labour indexation of 2.70% would be well below the 5.75% wage increase Awarded. It is not sustainable for pricing recommendations to omit consideration of out-of-cycle wage increases, which will occur on an annual basis through the FWC.

2. *Work Value Case*

The conflict between IHACPA's assumptions and Government requirements with respect to Registered Nurses who are already paid above new Award rates exacerbated financial pressures facing the aged care sector. Wage increases passed onto those staff, as is the expectation from Government and the practice by most providers, would translate to an NWAU increase of approximately $2.26 per bed day.

Activities covered by the residential aged care price

Bupa is supportive of IHACPA's assessment of a broader range of activities in its costing studies, which will better capture the activities involved in delivering high quality, holistic care for older Australians. We recommend that IHACPA work with the sector to determine all relevant costs involved in care provision to inform both its pricing recommendation and, where the scope of IHACPA's pricing advice is restricted, inform broader policy making.

We recommend broader consideration of:

- **Compliance costs**: Service accreditation, audit, and related processes should be within IHACPA's costing scope. The continuing high volume of reforms in the sector will carry new, unfunded compliance obligations that must be considered. This is magnified for residents under the NDIS, which are covered by duplicated regulatory schemes and associated compliance, audit, and accreditation processes.
- **Accommodation costs**: All costs associated with accommodation development and provision should be considered separately to inform government policymaking. Though this may be outside IHACPA's pricing advice, IHACPA should provide costing advice that accounts for the cost of capital, depreciation, and return on investment, as aged care requires significant expenditure to create an appropriate care environment for an ageing population.
- **Workforce development and support**: Assessment of indirect care costs should include providers' investments in their care teams. Investment in learning and development initiatives and staff relocation support (including staff accommodation and incentives) is critical to building and upskilling an aged care workforce that is crucial to providing high value care to older people.

Step-down funding to help ease hospital bed block

A higher aged care funding level is needed for higher acuity residents to address the growing issue of hospital bed-block, which is most severe in regional locations. A higher funding level, in the form of a new AN-ACC class, would help reduce preventable hospitalisations, encourage hospital discharge, and facilitate greater levels of clinical care in a home.

Step down funding could be set between the current maximum funding rate for residential aged care facilities ($362 per day) and the costs of acute hospitals (estimated over $1400 per day). As activity-based funding matures in the aged care sector, we believe IHACPA should provide greater consideration to the interaction between the health and care sectors to ensure the broader system operates effectively.

We note that Western Australia is trialling a similar concept, with additional respite subsidies from the state health department for patients transferred from hospital to residential aged care – ongoing funding is for $1575 per month ($52.50 per day) for ex-hospital patients.

Delivering flexible respite services

Highly regulated prices for respite care provision are likely to frustrate the potential to provide attractive, flexible respite care services to older people that need them. Consumer choice and flexibility will be best served by a deregulated pricing environment, enabling providers to offer innovative and unique options for people interested in respite care.

Respite care is currently burdened by minimum respite booking periods, complex admissions processes, and significant regulatory and administrative burdens, which make the provision of respite care unsustainable. We believe that older people would benefit greatly from a wider variety of options and greater freedom when accessing respite care. There is no reason that residential aged care could not provide “hotel-style” services with flexible stays or day respite services, which Bupa offers in Spain.

This would require much greater flexibility in the funding and regulatory system, allowing providers to account for seasonal cost drivers such as weekends or peak holiday periods. Pricing flexibility for providers would also enable them to adapt to costs related to individual preferences, care needs and the economics of different lengths of stay.

Given these factors, we do not believe that activity-based funding regime is suitable for pricing and funding respite care. Activity-based funding is more likely to embed standardised practices and offerings and contribute to a lack of flexibility, in direct contrast to a more flexible and innovative care that is responsive to individual preferences.