Submission to the Independent Hospital and Aged Care Pricing Authority

by

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Introduction

This submission is in response to the Independent Health and Aged Care Pricing Authority (IHACPA) document: Consultation Paper on the Pricing Framework for Australian Residential Aged Care Services 2024-25. The submission discusses the following five aspects: pricing principles underpinning the introduction of activity based funding (ABF) in residential aged care, the Australian National Aged Care Classification (AN-ACC) system, indexation, adjustment for safety and quality of care, and potential unintended consequences of ABF.

We recommend that IHACPA should:

(1). clarify how ABF supports key policy goals and improves the aged care system while addressing diverse pricing principles;

(2). develop a robust system to collect data that tracks cost variations within AN-ACC classes, including provider types, for refining the classification and informing pricing adjustments;

(3). use a flexible indexation method that combines historical and forward-looking components that can adapt to expected and unexpected factors, and conduct in-depth studies to guide adjustments.

(4). monitor ABF's impact on aged care quality and adjust national pricing or classification based on research collaborations that provide evidence-based advice.

(5). monitor potential spill-over effects of pricing decisions.

The pricing principles

The overarching principles guiding the development of ABF for aged care services, as stated in the Consultation document (p.11), include access to care, quality and safety of care, fairness, efficiency, and maintaining agreed roles and responsibilities. There is, however, little elaboration on how ABF support the aged care system to align with these principles. In particular, there is no mention of potential conflicts among some of these

objectives (e.g., the trade-off between efficiency and quality, which we discuss below) and how IHACPA intends to enhance the working of ABF to avoid potential conflicts.

Recommendation 1 *We recommend that IHACPA elaborates its vision of how ABF would work toward supporting the key policy intent behind its development, and how the aged care system would improve, in principle, along with the diverse and potentially conflicting objectives that underpin the pricing principles.*

AN-ACC classification

The current AN-ACC classification comprises 13 classes of activity. It is based on the costing study undertaken by the University of Wollongong in 2017–18. It is unclear whether it remains appropriate for the post-pandemic era given that COVID-19 has brought major disruptions to aged care services and some of these disruptions, such as infection controls, are more likely to be permanent rather than transitory in nature.

In addition, several recent developments are expected to impact the cost of care delivery, these include high inflation, persistent labour shortages, legislated care minute requirements, and the Fair Work Commission's decision on aged care wages. These events may have differential impacts on costs across different AN-ACC classes. For example, AN-ACC classes that are relatively more labour-intensive will likely experience larger cost increases due to rising wage costs. Likewise, small providers may be impacted more than large providers due to the presence of fixed costs.

The commissioning of the RACCS costing study is both a timely and useful undertaking. While an improvement over the Wollongong study, the RACCS still has a relatively small sample size of about 120 providers. Moreover, the data collection is costly and time-consuming, and can be a burdensome imposition on providers and residents. In the longer term, IHACPA should consider developing a more streamlined data collection and reporting infrastructure that can be incorporated within the current Aged Care Financial Report (ACFR) or the Quarterly Financial Report (QFR) processes. In this regard, a system modelled along the National Hospital Cost Data Collection (NHCDC) system for hospital costing could be a useful addition to the current aged care data infrastructure.

Recommendation 2 *We recommend that IHACPA develop an enhanced data collection and monitoring system that tracks the costing variation within and between AN-ACC classes, leveraging on the current ACFR and QFR reporting processes. The system should be able to provide regular and timely information for fine-tuning the classification system. In addition, the system should also be capable of tracking costing variation within AN-ACC classes across different provider types, e.g., small vs. large providers, for-profit vs not-for-profit providers, etc. The information should serve to inform future developments and adjustments to ABF.*

Indexation

Indexation is necessary to the extent that historical cost data are used in aged care pricing formulation. Currently, in formulating the pricing for 2023-24 (RACPA23), IHACPA has developed an interim methodology that makes use of various ABS indices for different cost components to extrapolate costs forward from 2022-23 to 2023-24. The approach makes use of historical index numbers of the previous five years to establish a trend, which is then projected forward by one year. Given its reliance on historical data, the methodology will lack forward-looking capability. This is particularly notable in times of rapid cost changes due to unanticipated external events, such as the recent cost pressure brought about by COVID-19 and high inflation. The historical data approach will also be unable to adjust for differences in cost growth across regions, e.g., due to state-level legislation changes.

Recommendation 3 *We recommend that IHACPA adopt a flexible indexation approach by incorporating both a historical cost component and a forward-looking component in its methodology. The forward-looking adjustment can be tuned to account for anticipated changes, such as legislated care requirements and announced wage increases, as well as unanticipated events such as the cost pressure brought about by COVID-19 and macroeconomic shocks. In addition, it can also adjust for jurisdictional differences in cost growth that are beyond the control of providers, such as costs impacted by state-level legislation changes. We further recommend that IHACPA undertake regular studies to assess the cost implications of anticipated and unanticipated events to inform the indexation adjustment.*

Adjustments for safety and quality

By design, ABF promotes efficiency through the classification system and the setting of a national efficient price. In this system, providers with higher than average costs will face a deficit and have an incentive to lower their costs, while providers with below average costs will enjoy a surplus and will have an incentive to maintain or lower their costs even further to capture a bigger surplus. In this way, ABF improves the overall efficiency of the system over time.

It is less clear, however, whether ABF promotes access to care, and quality and safety of care, given that these are not aspects of the classification system, nor are they formulated into the national efficient price. A key issue, one that concerns not only providers and users of aged care but also the community at large is whether the emphasis on efficiency would compromise access, quality and safety.

In the case of hospital ABF, the trade-off between efficiency and quality has been studied over several decades and across many countries. The review by Palmer et al. (2014) of 65 articles covering 10 countries showed mixed evidence. The authors concluded that hospital readmission rates may have increased, suggesting that quality may have been impacted.

This issue is particularly salient for residential aged care services given that the industry has a mix of for-profit, not-for-profit and government-owned providers. Currently, about 30% of providers are for-profit. For these providers, the trade-off between efficiency and quality may become a stark commercial reality. Evidence from our previous studies (Yang et al., 2021; Yong et al., 2021) suggested that, among all provider types, for-profit providers had the lowest quality of care. The studies were conducted using a dozen quality measures collected before the introduction of ABF. For fine tuning the design of ABF to support quality and safety of care, it is important to keep track of how providers respond to ABF and the extent to which different types of providers, whether by ownership type, rurality, or size, are affected. We note that ABF was introduced around the same time as the five-star quality ratings system, this means that careful research designs will be required to separately identify the effects of the two policy initiatives.

Recommendation 4 *We recommend that IHACPA monitor the impact of ABF on aged care quality to adjust the national efficient price or the AN-ACC classification system to support high-quality care and access. The impact on quality may potentially be different across provider types (for-profit, not-for-profit, and government-owned), geographic regions (rural vs. urban) and size. We recommend that further studies be conducted in collaboration with University-based researchers to study the causal effects of ABF on quality of care.*

Unintended consequences: Pricing of aged care services

The price of aged care comprises two main components: daily care costs and accommodation costs. The current pricing advice put forth by IHACPA concerns mostly about the former. IHACPA's pricing advice excludes accommodation costs, neither does it include extra and additional services, which can include better rooms, higher quality food, and additional personal care such as hairdressing, etc. Providers are free to set their prices and make changes to the quality and quantity of these services. They are also free to set prices for individuals not qualified for Australian government subsidies or, for those partially subsidised, on the out-of-pocket components of fees.

It is conceivable that, following the introduction of ABF, providers may adjust their quality and/or prices while also attempting to improve their efficiency. The ease with which these adjustments can be done is likely to vary with providers. Some providers may find it easier to improve efficiency while others may prefer to adjust quality and/or prices. There is a limit on how far the quality of care can be lowered, given various aspects of quality are subject to regulatory requirements and oversight. In comparison, there are few restrictions on making changes to service components that are excluded from ABF pricing. The aim of ABF to improve efficiency will be thwarted if providers can engage in 'cost-shifting' by adjusting their pricing structure, or shifting services previously included under ABF pricing to extra or additional services. Our current research suggests that, in an unregulated environment, for-profit providers may have an incentive to charge higher prices but not offer higher-quality services (Yang and Yong, 2023).

Recommendation 5 *We recommend that IHACPA monitor potential spill-over effects of its pricing advice. Prices of items and services that are excluded from IHACPA's pricing advice, such as extra and additional services, and accommodation costs, should be regularly reviewed and analysed. Wide-ranging changes in the list of items included in extra and additional services should be documented and comparisons be made across provider types and over time. The information should serve to inform IHACPA on the scope and design of ABF in future revisions.*

References

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