

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

July 2023

Independent Health and Aged Care Pricing Authority



IHACPA

Consultation Paper on the Pricing Framework for Australian Residential Aged Care Services 2024-25 – July 2023

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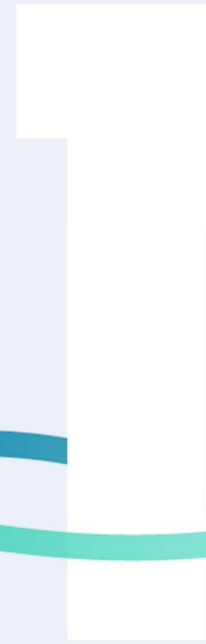
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Contents

Abbreviations.....	2
Introduction.....	3
Principles for activity based funding in aged care.....	9
The Australian National Aged Care Classification funding model	12
Developing aged care pricing advice	18
Adjustments to the recommended price.....	21
Priorities for future developments.....	25
Consultation process and next steps	29
Appendix A: Consultation questions.....	31

Abbreviations

Abbreviations	Full term
ABF	Activity based funding
ACFI	Aged Care Funding Instrument
ACFR	Aged Care Financial Report
ACQSC	Aged Care Quality and Safety Commission
AN-ACC	Australian National Aged Care Classification
BCT	Base Care Tariff
BDF	Basic daily fee
CHSP	Commonwealth Home Support Programme
IHACPA	Independent Health and Aged Care Pricing Authority
MPS	Multi-Purpose Services
NATSIFACP	National Aboriginal and Torres Strait Islander Flexible Aged Care Program
NEC	national efficient cost
NEP	national efficient price
NWAU	National weighted activity unit
QFR	Quarterly Financial Report
RACCS	Residential Aged Care Costing Study
RACPA	Residential Aged Care Price Advice
RN	Registered Nurse
STRC	Short-Term Restorative Care



Introduction

1. Introduction



The Pricing Framework for Australian Residential Aged Care Services (the Pricing Framework) is the key policy document for the Independent Health and Aged Care Pricing Authority (IHACPA) related to residential aged care and residential respite care. The Pricing Framework underpins IHACPA's approach to developing residential aged care costing and pricing advice to the Australian Government (the Government).

1.1 IHACPA's role in residential aged care and residential respite care

The *Aged Care and Other Legislation Amendment (Royal Commission Response) Act 2022 (Cwlth)* included amendments that expanded the remit of IHACPA. Commencing 12 August 2022, Schedule 8 amended the [National Health Reform Act 2011](#) (Cwlth), the [Aged Care Act 1997](#) (the Aged Care Act) and the [Aged Care Quality and Safety Commission Act 2018](#) to expand IHACPA's functions to include the:

- provision of advice on aged care pricing and costing matters
- performance of certain functions conferred by the Aged Care Act.

From 1 July 2023, IHACPA commenced providing annual advice to the Government on the costing and pricing of residential aged care and residential respite care. When developing this advice, IHACPA considered the Government's [Expectations Setting Paper](#) and IHACPA's [Statement of Intent](#), which outlined IHACPA's aged care costing and pricing functions.

IHACPA uses evidence obtained through data analysis and stakeholder engagement to make recommendations on pricing for the delivery of Australian residential aged care services, supporting better outcomes for those receiving care. Further information about IHACPA's responsibilities in providing pricing advice is outlined in IHACPA's Statement of Intent to the Minister for Health and Aged Care (the Minister).

IHACPA relies on input from stakeholders which includes, but is not limited to, residents and their representatives, aged care providers, aged care workforce organisations, aged care researchers, aged care peak bodies, individuals, governments and government agencies. Considering input from a wide range of stakeholders ensures that IHACPA's pricing advice is robust, appropriate and responsive to changes in the aged care sector.

IHACPA is also supported through advice and consideration by the Pricing Authority, the Deputy Chair (Aged Care Pricing), the Aged Care Advisory Committee, and other advisory and consultation mechanisms such as committees, working groups and conferences.

The Minister remains responsible for determining the price for aged care services, including residential aged care and residential respite care.

1.2 The role of the Department of Health and Aged Care and the Aged Care Quality and Safety Commission

The Department of Health and Aged Care (the Department) and the Aged Care Quality and Safety Commission (ACQSC) remain responsible for a range of aged care functions that are outside the scope of IHACPA's costing and pricing advice.

1.2.1 The Department of Health and Aged Care

The Department retains policy and system management responsibility for matters including:

- aged care subsidies, supplements and grants
- approval and classification of residents for care funding
- approved provider obligations and responsibilities
- quality of care
- the aged care workforce
- care minutes and 24/7 registered nurse requirements in residential aged care
- appropriate level of financial contributions by residents

- operation of the Australian National Aged Care Classification (AN-ACC), including determining how AN-ACC assessments are undertaken and reviewed, the requirements for re-classification, and contracting independent Assessment Management Organisations to undertake AN-ACC assessments
- financial viability of the sector.

1.2.2 The Aged Care Quality and Safety Commission

The ACQSC retains responsibility for functions including:

- approval of providers to deliver aged care services
- assessing and monitoring the quality of care and services provided against the [Aged Care Quality Standards](#)
- aged care regulation including compliance, investigations and complaints resolution
- financial and prudential regulation.

1.2.3 Aged Care Taskforce

In the Federal Budget 2023–24, the Government announced the establishment of the new [Aged Care Taskforce](#) (the Taskforce). As part of their scope, the Taskforce will review funding arrangements for aged care and develop options that are fair and equitable for all Australians.

IHACPA will work with the Government to understand the principles and recommendations of the Taskforce, including any impact on IHACPA's pricing advice and pricing framework. The Taskforce is expected to consult with stakeholders through a separate process.

1.3 The role of the Consultation Paper

The *Consultation Paper on the Pricing Framework for Australian Residential Aged Care Services 2024–25* (the Consultation Paper) will inform the development of the Pricing Framework 2024–25. IHACPA is committed to ongoing, open and transparent consultation with a broad range of stakeholders in the aged care system.

This Consultation Paper will apply to residential aged care and residential respite care for the Pricing Framework for Australian Residential Aged Care Services 2024–25.

The Consultation Paper is the primary mechanism for all stakeholders to provide input into the development of the Pricing Framework. This Consultation Paper provides an opportunity for public consultation on:

- the pricing principles, which underpin the Pricing Framework
- the AN-ACC funding and classification model including:
 - a review of the AN-ACC national weighted activity unit (NWAU) values
 - a review of the Base Care Tariff NWAU
- indexation methodologies
- adjustments to the recommended price

- future pricing adjustments for safety and quality
- consideration of how AN-ACC or a modified version of it could be used for Multi-Purpose Services and the National Aboriginal and Torres Strait Islander Flexible Aged Care Program in the future.

1.4 Pricing hospital and other aged care services

IHACPA's role in pricing Australian public hospital services includes determining the annual national efficient price (NEP) and national efficient cost (NEC) for Australian public hospital services.

IHACPA releases a separate Consultation Paper and Pricing Framework for Australian Public Hospital Services each year.

The [Federal Budget 2022–23](#) announced Government reforms to in-home aged care. Reforms included development of the Support at Home program, and were intended to replace the Commonwealth Home Support Programme (CHSP), Home Care Packages (HCP), and Short-Term Restorative Care (STRC).

On 9 May 2023, the Government announced that the Support at Home program start date would be postponed to 1 July 2025 to allow for further refinement of the program design.

A separate Consultation Paper and Pricing Framework for the Support at Home program will be developed and released by IHACPA in 2024. IHACPA will provide advice to the Minister for the Support at Home program from 1 July 2025.

The passage of the *Aged Care and Other Legislation Amendment (Royal Commission Response) Act 2022* (Cwlth) also saw the transfer of functions from the former Aged Care Pricing Commissioner to IHACPA. IHACPA is responsible for the approval of prices for residential aged care accommodation and extra services. These functions are not in-scope for this Consultation Paper.

1.5 Out-of-scope areas

Areas outside the scope for IHACPA's costing and pricing advice for residential aged care and residential respite care include:

- the development of policies focused on addressing and regulating quality of care in residential aged care
- service accreditation, audit and related processes
- short-term funding arrangements for services in financial distress due to external factors
- private self-funded aged care residents
- transition care costs
- retirement village pricing and regulation
- the structure of the aged care sector, including the role of government and non-government providers, and regional and local governance
- the level and eligibility thresholds for the means-tested care fee
- appropriate wage rates for the sector
- policies and pricing adjustments for the hotelling supplement

- policies regarding the payment of resident contributions, including the basic daily fee, means-tested care fee, refundable accommodation deposits and daily accommodation payments, extra service fees and additional service fees.

1.6 Supporting documents

This Consultation Paper builds on IHACPA's previous work and should be read in conjunction with the following documents:

- [*Towards an Aged Care Pricing Framework Consultation Paper*](#)
- [*Pricing Framework for Australian Residential Aged Care Services 2023–24*](#)
- [*Towards an Aged Care Pricing Framework Consultation Report*](#)
- [*Residential Aged Care Pricing Advice 2023–24*](#).

The key dates for this consultation process are:

Process	Date
Release of the Consultation Paper	17 July 2023
Submissions close	31 August 2023
Release of a consultation report consolidating stakeholder feedback	Early 2024
Pricing Framework for Australian Residential Aged Care Services 2024-25 published	Early 2024

1.7 Submissions

IHACPA is calling for submissions on this Consultation Paper until **31 August 2023**.

A series of consultation questions that ask for feedback on specific considerations and options have been included in relevant sections of this paper, as well as in Appendix A.

While feedback is welcome on any issue, it is of particular value to receive views on the consultation questions in this paper. Stakeholders are encouraged to focus on questions and issues relevant to them, and do not need to answer every question.

IHACPA is focused on ensuring that submissions are representative of the whole system and the community. IHACPA therefore seeks submissions reflecting the diversity of stakeholders, including people receiving care, their representatives, and a wide range of organisations, roles, backgrounds and perspectives.

All submissions will be published on the IHACPA website, unless respondents specifically identify any sections that they believe should be kept confidential due to commercial or other reasons.

A consultation report consolidating stakeholder feedback will be published in early 2024.

Have your say

- Submissions close at 5:00pm AEST on 31 August 2023
- Submissions can be:
 - completed via the [online submission form](#)
 - completed via the downloadable submission form
 - emailed to submissions.ihacpa@ihacpa.gov.au
 - mailed to:
PO Box 483
Darlinghurst NSW 1300
- All submissions will be published on the [IHACPA website](#), unless respondents specifically identify sections that they believe should be kept confidential due to commercial or other reasons
- The Pricing Framework for Australian Residential Aged Care Services 2024–25 will be published in early 2024.

Enquiries

- Enquiries related to this consultation process should be sent to: submissions.ihacpa@ihacpa.gov.au.



Principles for activity based funding in aged care

2. Principles for activity based funding in aged care

The decisions made by the Independent Health and Aged Care Pricing Authority (IHACPA) in developing pricing advice for residential aged care and residential respite care services are evidence-based and use the latest available cost and activity data.

When providing pricing advice IHACPA balances a range of policy objectives. Objectives include promoting the person-centred, quality care expected by the community in line with the Aged Care Quality Standards, while supporting improvements in the sustainability and efficiency of the aged care system over time. This is the overarching framework within which IHACPA will make its policy decisions and provide its pricing advice.

The residential aged care pricing principles, outlined in **Figure 1**, signal IHACPA's commitment to transparency and accountability in making its policy decisions. The residential aged care pricing principles comprise 'overarching', 'process' and 'system design' principles.

The residential aged care pricing principles do not have a hierarchy and are used to inform decision making where IHACPA is required to exercise policy judgement in undertaking its functions relating to residential aged care costing and pricing.

IHACPA will seek to provide clarity on how the principles have been considered and balanced to support residential aged care and residential respite care costing and pricing development.

Following the *Towards an Aged Care Pricing Framework Consultation Paper* released in 2022, IHACPA reviewed and updated the principles in response to stakeholder feedback. IHACPA will continue to review the principles annually and make further amendments as needed, including refinements in response to regulatory reform.

Consultation question

- What, if any, changes do you suggest IHACPA consider for the residential aged care pricing principles?

Figure 1: The residential aged care pricing principles

Overarching principles that articulate the policy intent behind the introduction of funding reform for aged care services:

- **Access to care:** Funding should support timely and equitable access to appropriate aged care services, for all those who require them.
- **Quality care:** Care should meet the Aged Care Quality Standards, reflect continuous improvement, support resident wellbeing and deliver outcomes that align with community expectations.
- **Fairness:** Activity based funding (ABF) payments should be fair and equitable, based on resident needs, promote the provision of appropriate care to residents with differing needs, and recognise legitimate and unavoidable cost variations associated with this care. Equivalent services should otherwise attract the same price across different provider types.
- **Efficiency:** ABF should ensure the sustainability of the aged care system over time and optimise the value of the public investment in aged care.
- **Maintaining agreed roles and responsibilities:** ABF design should recognise the complementary responsibilities of each government agency and department in the funding and management of aged care services, as well as providers in delivering aged care services.

Process principles that guide the implementation of activity based funding and any fixed funding arrangements:

- **Administrative efficiency:** Funding arrangements should promote effective and efficient processes and should not unduly increase the administrative burden on aged care providers.
- **Stability:** The payment relativities for ABF should be consistent over time.
- **Evidence based:** Funding should be based on best available information.
- **Transparency:** All steps in the development of advice for ABF and fixed funding should be clear and transparent.

System Design principles that articulate the detailed elements of activity based funding design:

- **Fostering care innovation:** Pricing of aged care services should respond in a timely way to the introduction of evidence-based, effective new technology and innovations in the models of care that improve resident outcomes and service efficiency.
- **Promoting value:** Pricing should support innovative practices and systems that deliver efficient, person-centred care.
- **Promoting harmonisation:** Pricing should facilitate best practice, person-centred provision of care in the appropriate setting.
- **Minimising undesirable and inadvertent consequences:** Pricing should minimise susceptibility to gaming, inappropriate rewards and perverse incentives.
- **Using ABF where practicable and appropriate:** ABF should be used for funding aged care services wherever practicable and compatible with delivering value in both outcomes and cost.
- **Person-centred:** Pricing adjustments should be, as far as is practicable, based on characteristics related to people receiving care, rather than those of providers.



The Australian National Aged Care Classification funding model

3. The Australian National Aged Care Classification funding model



The Australian National Aged Care Classification (AN-ACC) replaced the Aged Care Funding Instrument (ACFI) from 1 October 2022, which saw the introduction of activity based funding in the residential aged care sector. A key part of this residential aged care funding reform was the introduction of independent assessments of residents using the AN-ACC tool to assess each resident's characteristics that drive the costs of care and assign them an AN-ACC class.

More detailed information about AN-ACC, including its development, is available on the [Department of Health and Aged Care's \(The Department\) website](#).

3.1 Residential aged care

3.1.1 Classification system

Classification systems enable the bundling of various services into predefined classes. This allows the output of service providers to be measured to inform pricing, funding, budgeting and benchmarking.

The AN-ACC classification system aims to group residents in a manner that is both relevant to care and resource homogenous. Homogenous resource resident groups comprise individuals who have varied diagnoses, attributes or needs, but require the same degree of resources to support their care delivery.

The Independent Health and Aged Care Pricing Authority (IHACPA) will aim to support a consistent method of collecting data and classifying all types of aged care residents, their care, and associated costs. The collection of this data will, over time, support the development of advice on the AN-ACC class price weights that effectively group residents with similar care needs, and will enable pricing to be more closely aligned to the actual care costs for residents in each group.

Independent assessors use the AN-ACC assessment tool to evaluate a resident's functional, cognitive and physical capabilities¹. Based on the scores and outcomes of the assessment, residents are assigned into one of 12 classes. This does not include class 1 – 'admit for palliative care', where services are instead required to submit a Palliative Care Status Form. Information on the AN-ACC assessments and the 13 AN-ACC classes can be found on the [Department's website](#).

¹ [Department of Health and Aged Care AN-ACC Reference Manual and AN-ACC Assessment Tool](#)

In addition to the 13 AN-ACC classes for permanent residents, there are default classes for new permanent residents who do not have an existing AN-ACC classification. The default classifications are:

- Class 98: Residents entering permanent care to receive palliative care
- Class 99: Residents entering for permanent care (other than entry for palliative care)
- Class 100: Residents entering for respite care.

Once assessed, the resident's actual classification will replace the default classification, and payment will be adjusted and backdated to the resident's date of entry.

In the *Towards an Aged Care Pricing Framework Consultation Paper* released in 2022, IHACPA received a range of feedback from stakeholders, including that IHACPA consider future refinements to the AN-ACC classes and branching structure.

Given the lack of resident-level data, IHACPA's initial pricing advice for 1 July 2023 did not make recommendations to change the AN-ACC structure of weightings.

For the 1 July 2024 pricing advice, IHACPA proposes consideration of pricing advice for AN-ACC classes but will not provide advice on the AN-ACC branching structure (that groups residents with specific characteristics). The Australian Government's (the Government's) introduction of mandatory care minutes for residential aged care from 1 October 2023 will also be considered by IHACPA for any recommendations regarding price weights. This is further explained in section 3.1.5.

IHACPA aims to provide advice on refinements to the classification system based on evidence, stakeholder feedback and cost data, such as from IHACPA's Residential Aged Care Costing Study (RACCS) as it becomes available. This will be an extended and evolving process.

Consultation questions

- Do the current AN-ACC classes group residents in a manner that is relevant to both care and resource utilisation? (that is, require the same degree of resources to support their care delivery). What evidence is there to support your answer?
- What, if any, factors should IHACPA consider in future reviews of the AN-ACC classes?

3.1.2 Activity data

Under the AN-ACC funding model, activity data from residential aged care providers is reported to the Government. This includes data on the assessed AN-ACC classes of the residents, as well as demographic and service data. This data will form the basis of AN-ACC daily basic subsidies paid by the Government to providers and be used for other reporting requirements.

IHACPA will use this data in the development of costing and pricing advice, and advice on the refinement of AN-ACC over time. This activity data will help identify relevant unavoidable service level costs, or costs related to a particular AN-ACC class.

3.1.3 Costing data

IHACPA has commenced the RACCS, which will collect cost data from a range of residential aged care services. The RACCS aims to understand the costs incurred by providers, changes in these costs over time, and the drivers of these costs.

The scope of services the RACCS will assess include:

- care – direct and indirect labour costs and resident expenses
- hotel – cleaning, catering and laundry costs
- accommodation – labour, depreciation and maintenance
- administration and overheads across care, hotelling and accommodation.

The commencement of cost data collection will support IHACPA with future AN-ACC classification and pricing refinement advice. New and emerging evidence will supplement IHACPA's cost data collections to ensure evidence-based pricing advice. This process will occur across multiple years and will be multi-faceted, as costing practices and datasets grow and are refined over time.

IHACPA will also use the Aged Care Financial Report (ACFR) and the Quarterly Financial Report (QFR) data along with other data to support costing and pricing work.

IHACPA has published its first [Residential Aged Care Pricing Advice Technical Specifications 2023–24](#), detailing the methodology and data sources used to develop its pricing advice for the [Residential Aged Care Pricing Advice 2023–24](#). These documents will be updated annually with the Pricing Framework for Australian Residential Aged Care Services.

3.1.4 Pricing

The core AN-ACC pricing model outputs are the recommended:

- AN-ACC price
- AN-ACC price weights, also called national weighted activity units (NWAU).

To calculate the total payment per resident per bed day, the total AN-ACC NWAU is multiplied by the AN-ACC price.

An AN-ACC NWAU is the price of a unit of care. The NWAUs reflect variations in the cost of providing care, based on the characteristics of a service and the individual residents. For example, an NWAU of 1.2 would mean that the price of the AN-ACC class is 20 per cent higher than the national residential aged care price. An AN-ACC of 0.5 means that the price is 50 per cent lower than the national price.

For residential aged care residents, the total AN-ACC NWAU per resident per day comprises:

- **Fixed component:** Called the Base Care Tariff (BCT). This is paid at the service level and is dependent on the service level and is dependent on the specific characteristics, such as its location and resident specialisation
- **Variable component:** Based on the individual resident's AN-ACC class
- **Adjustment component:** A one-off adjustment for transitioning a permanent resident into a service.

The Government has set the initial BCT, AN-ACC class, and one-off adjustment NWAUs from 1 July 2023. Further information on these values can be found in their [AN-ACC funding guide](#).

3.1.5 Care requirements

The Government introduced mandatory care minute requirements for residential aged care from 1 October 2023. The initial care minute requirement is a sector-wide average of 200 minutes of care per resident per day, including 40 minutes from a registered nurse (RN). From 1 October 2024, there will be an increase to the mandatory care minutes to a sector-wide average of 215 minutes, including 44 minutes of RN time². These care minutes are funded through the AN-ACC funding model.

This care minute requirement will apply at the service level over the quarter. Each service has average per resident per day targets that reflect their residents AN-ACC classifications. This target is fixed for the quarter based on the mix of residents' AN-ACC classifications in the previous three months.

This service level target is set based on the care minutes associated with each AN-ACC classification. The minutes associated with each AN-ACC class reflect the varying care needs across AN-ACC classes of different complexity, and can be found on the [Department's website](#).

At the service level, this results in a care minute target that is adjusted according to the number and AN-ACC classes of residents at the service.

Providers report their care staffing time in their QFR, which is used to determine each service's performance against their care minute requirements. Care minute reporting is also used to inform the star rating system on the [My Aged Care website](#).

Any shift in class and funding level is accompanied by a change in the required care minutes that must be provided by a service. As a result, funding should remain closely aligned to the care that is required and provided.

While IHACPA is not responsible for recommending the minutes associated with each AN-ACC class, IHACPA, if requested, will provide data collected as part of its costing studies to the Department. This will allow the Government to continue to align minutes with each AN-ACC class over time, as the funding changes through adjustments to the NWAUs or AN-ACC classes themselves.

Consultation question

- Are there any other legitimate or unavoidable costs associated with a permanent resident's stage of care? For example, entry into or departure from a service.

² [Care minutes | Australian Government Department of Health and Aged Care](#)

3.2 Residential respite care

3.2.1 Classification system

The residential respite funding model is aligned to the AN-ACC and replaced the Respite Subsidy and Respite Supplement.

There are three respite classes reflecting residents who are assessed to:

- be independently mobile (Respite Class 101)
- have assisted mobility (Respite Class 102)
- have limited mobility (Respite Class 103).

Residential respite funding comprises a fixed component that is the same as the BCT for permanent residents, and a variable component according to their respite class. Unlike residential aged care, there is no one-off adjustment payment for respite care, as this cost has been reflected in a higher daily rate.

3.2.2 Costing and pricing

Data related to respite care and the transition of new residents into permanent residential aged care will be collected in the RACCS, allowing IHACPA to consider the provision of evidence-based pricing advice from 1 July 2024.

Consultation question

- Are there any other legitimate or unavoidable costs associated with a respite resident's stage of care? What evidence is there to support your answer?



4

Developing aged care pricing advice

4. Developing aged care pricing advice

4.1 Residential aged care price definition and scope

The recommended Australian National Aged Care Classification (AN-ACC) price is the price of a unit of care, or 1.00 national weighted activity unit (NWAU). The funding model works by applying NWAUs to the AN-ACC price (discussed in 3.1.4).

The Independent Health and Aged Care Pricing Authority's (IHACPA) annual recommended AN-ACC pricing advice to the Australian Government (the Government) will be evidence-based, reflecting the available cost and activity data and outcomes from the Residential Aged Care Costing Study (RACCS), as well as using the Aged Care Financial Report (ACFR) and Quarterly Financial Report (QFR).

Additionally, IHACPA recognises the significant differences in activity based funding between the public hospital and residential aged care systems, and that these require specific considerations in IHACPA's annual residential aged care pricing advice.

4.2 What the residential aged care price covers

The recommended residential aged care price is intended to cover the cost of care. Elements of care in-scope for the price are specified under Parts 2 and 3 of the [Schedule of Specified Care and Services](#).

Costs excluded from IHACPA's residential aged care pricing advice include:

- capital, depreciation and leasing costs, which are funded through refundable accommodation deposits and daily accommodation payments
- extra services which are funded through extra service fees
- costs for additional services, which are funded through additional service fees.

4.2.1 Hotel costs

Hotel costs are outlined in Part 1 of Schedule 1—Care and services for residential care services (the Schedule) of the *Quality of Care Principles 2014* under section 96-1 of the *Aged Care Act 1997* (Cwlth).

Hotel costs for residents are currently aligned under the payment of the basic daily fee (BDF). The BDF is set at up to 85 per cent of the basic aged care pension. All residents are required to pay a BDF or apply for hardship or alternative payment options.

While initially consolidated into the AN-ACC price, the Government has removed the BDF supplement from within AN-ACC and will instead deliver this as a \$10.80 per resident per day [hotelling supplement](#).

4.3 The pricing approach and level

For the Residential Aged Care Pricing Advice 2023–24 (RACPA23), IHACPA recognised the need for providers to deliver services that meet the Aged Care Quality Standards. Therefore, IHACPA’s pricing advice will adopt a blended best practice and cost-based approach, and be based on services meeting the standard of care required in legislation.

4.4 Indexation

RACPA23 used an interim methodology developed by IHACPA, applying a range of Australian Bureau of Statistic indexes to separately index each labour and non-labour component of the aged care starting price. More information on the interim methodology can be found in the Residential Aged Care Pricing Advice 2023–24 Technical Specifications.

IHACPA also accounted for the Interim Wage Rise for direct care workers, in accordance with the decision of the Fair Work Commission.

For the Residential Aged Care Pricing Advice 2024–25 (RACPA24), IHACPA’s indexation methodology will be refined to account for greater availability of relevant data on cost growth over time and will consider the following:

- stakeholder feedback
- relevant information on cost growth
- time series cost data collected through the RACCS
- the ACFR
- the QFR
- any available Fair Work Commission decisions on wage rises and annual wage growth trends.

IHACPA will continue to review the indexation methodology for pricing advice, taking into account maturing data collections and costing study data.

Consultation question

- What, if any, considerations should IHACPA seek to review in its indexation methodology for its residential aged care pricing advice?



Adjustments to the recommended price

5. Adjustments to the recommended price

5.1 Approach to adjustments

Adjustments refer to additional elements within the funding model that are intended to account for legitimate and unavoidable variations in the cost of delivering care for particular cohorts. Adjustments can assist in addressing systematic cost variations that cannot be effectively captured and priced through the classification model.

The Independent Health and Aged Care Pricing Authority (IHACPA) prefers to base adjustments on the characteristics of a person receiving care, rather than service-related adjustments. This is because adjustments related to people receiving care are more clearly outside the control of a service.

IHACPA did not recommend any new pricing adjustments or changes to the Base Care Tariffs (BCTs) and their national weighted activity unit values for the *Residential Aged Care Pricing Advice 2023–24* (RACPA23). This was because at the time, the Australian National Aged Care Classification (AN-ACC) funding model had only been introduced from 1 October 2022 and there was no clear evidence to support the introduction or refinement of adjustments.

Feedback from stakeholders in response to the *Towards an Aged Care Pricing Framework Consultation Paper* released in 2022 noted the importance of ongoing collaboration with the sector when IHACPA reviews adjustments to the recommended price.

IHACPA will continue to engage with stakeholders and advisory committees, and look to new and emerging evidence-based cost and activity data in its approach to making recommendations on adjustments.

5.2 Adjusting for factors related to people receiving care

The AN-ACC model considers the impact of two specific resident-related factors that significantly influence the costs of their care. These are the provision of care to:

- Aboriginal and Torres Strait Islander peoples in remote areas
- people at risk of or experiencing homelessness and have a relevant behavioural diagnosis.

While being related to resident characteristics, these additional costs were initially captured in the AN-ACC model through differential BCT categories at the service level. This is because the provision of specialist care to these groups often occurs in combination with other service characteristics that may impact fixed cost drivers.

The [AN-ACC – specialised status guide for residential aged care approved providers](#) published by the Department of Health and Aged Care (the Department) provides further information on this.

In response to the *Towards an Aged Care Pricing Framework Consultation Paper* released in 2022, stakeholders recommended adjustments for residents, including those with dementia and cognitive impairments, complex care requirements, specialised equipment, and residents with specific needs (for example, refugees and veterans).

As part of IHACPA's annual pricing advice, refinements for residents who require specialised services continue to be considered based on new and available evidence-based costing and activity data. This will be an ongoing refinement over time.

Consultation question

- What, if any, additional cost variations are associated with the provision of care to residents who require specialised services? What evidence is there to support this?

5.3 Adjusting for unavoidable service factors

5.3.1 Location

Two adjustments have been included in the AN-ACC model BCTs to support stable funding of services with unavoidable service factors that have a significant impact on the cost of delivering care.

The fixed BCT component of the AN-ACC payment makes adjustment for services with [Modified Monash Model](#) categories five to seven. This is combined with resident factors where the service provides specialist care to Aboriginal and Torres Strait Islander peoples.

In addition, remote services receive a BCT based on approved beds, rather than per occupied bed day due to their low and variable occupancy. In combination, these adjustments will provide a degree of block funding that is independent of actual activity, while retaining the pre-eminence of activity based funding (ABF) and ongoing focus on the efficient funding of aged care.

In response to the *Towards an Aged Care Pricing Framework Consultation Paper* released in 2022, stakeholders recommended IHACPA consider regional services that do not currently receive a higher BCT weighting, but may have higher costs than metropolitan services, particularly where they may be categorised as regional services but are still relatively isolated. Section 6.4 outlines grants announced by the Department that address this.

Over the medium to long-term, IHACPA will examine evidence arising from costing studies and continue to engage with stakeholders to identify legitimate and unavoidable costs associated with particular types of services and potential options to address this.

Consultation question

- What, if any, care-related costs are impacted by service location that are not currently addressed in the BCT weighting?

5.3.2 Costs due to provider structure

A diverse range of providers deliver services across the residential aged care system nationally. These providers include government, not-for-profit and private operators of varied sizes. Under the principles of ABF, IHACPA is committed to the principles of fairness and transparency. Additionally, an ABF model should be impartial of provider business and financial structures, enabling neutrality in pricing guidance.

5.3.3 Adjusting for safety and quality

Adjustments for safety and quality through ABF can encourage good quality care, where payment captures not only the cost and complexity of care, but also the safety and quality of care delivered.

For example, IHACPA introduced pricing adjustments for hospital-acquired complications. This was done through strong collaboration across relevant agencies, the development of supporting data collections, extensive clinical and stakeholder input, and the development of risk-adjusted price reductions that are fair and minimise undesirable consequences.

In response on the *Towards an Aged Care Pricing Framework* Consultation released in 2022, stakeholders were generally supportive of the introduction of quality and safety adjustments as part of AN-ACC, and provided a variety of recommendations regarding the scope, nature, timing and phasing of such adjustments.

IHACPA considers safety and quality adjustments to be a longer-term objective due to the complexity of safety and quality within residential aged care. IHACPA also recognises the role of the [Aged Care Quality and Safety Commission](#), and the need for adjustments to complement and support their role. IHACPA intends to consider quality and safety adjustments in the future through a phased approach. IHACPA supports ongoing consultation with stakeholders, working groups and advisory committees to inform priorities and a longer-term development path for the introduction of safety and quality adjustments.

Consultation question

- What, if any, evidence or considerations will support IHACPA's longer-term development path for safety and quality of AN-ACC and its associated adjustments?



Priorities for future developments

6. Priorities for future developments

6.1 Multi-Purpose Services

The [Multi-Purpose Services](#) (MPS) program provides health and aged care services for small regional and remote communities.

MPS are not currently funded using the Australian National Aged Care Classification (AN-ACC) funding and classification model.

MPS providers receive a combination of funding, including:

- a flexible aged care subsidy from the Australian Government (the Government) for aged care services
- state and territory government funding for health services, capital and infrastructure costs.

A payment agreement covering the aged care funding component of MPS exists between Government and MPS providers, with most MPS providers being state or territory governments.

The flexible aged care subsidy for each MPS is calculated based on the number of allocated places, daily funding, including relevant supplement equivalent amounts, and the number of bed days where care has been provided to an individual.

The Independent Health and Aged Care Pricing Authority (IHACPA) will, over the coming years, undertake an assessment to determine if and how MPS could be funded through the AN-ACC or a modified version of it.

IHACPA will, in the initial stages, work closely with the Government to understand the implications of any changes to MPS residential aged care funding in the medium- to long-term, and what adjustments or refinements may be needed to ensure a potential funding model is fit-for-purpose.

Consultation question

- How could, or should the AN-ACC model be modified to be used for MPS and are there any factors that aren't accounted for under the AN-ACC model?

6.2 National Aboriginal and Torres Strait Islander Flexible Aged Care Program

The [National Aboriginal and Torres Strait Islander Flexible Aged Care Program](#) (NATSIFACP) provides aged care services to older Aboriginal and Torres Strait Islander peoples. These aged care services are mainly delivered in rural and remote areas and are funded by the Department of Health and Aged Care (the Department), subject to parliamentary appropriation.

Payments are provided under a 'cashed-out' model, based on an agreement with the service and not on the occupancy of the service. Aged care providers receive a daily base rate depending on whether the person receiving care is allocated to a residential place or a home care place. Residential aged care providers additionally receive the following supplement equivalent amounts:

- the Veterans' Supplement
- the Residential Concessional Supplement
- the Respite Supplement
- the Residential Aged Care Viability Supplement.

Residential aged care places under NATSIFACP also receive 'frailty indexation', which is a financial supplement provided to address the disparity in funding per residential aged care place funded under the program as compared with mainstream residential aged care services operating under the *Aged Care Act 1997*.

In addition to the daily funding rate, services with an allocation of home care places may also receive the following supplement equivalent amounts:

- the Dementia and Cognition Supplement for home care
- the Veterans Supplement for aged care
- the Home Care Viability Supplement.

IHACPA will, over the coming years, undertake an assessment to determine if and how the NATSIFACP should be funded through the AN-ACC or a modified version of it.

IHACPA will also consult with Aboriginal and Torres Strait Islander stakeholders to inform considerations, data collection and analysis relevant to the potential use of AN-ACC, or a model based on AN-ACC, for NATSIFACP services in the medium- to long-term.

Consultation question

- How could, or should the AN-ACC model be modified to be used for NATSIFACP and are there any factors that aren't accounted for under the AN-ACC model?

6.3 Costing studies

The establishment of IHACPA's aged care costing and pricing functions will enable aged care pricing advice to be informed by regular cost data collection and independent, evidence-based advice on contemporary cost structures and care delivery models.

IHACPA's pricing advice is determined based on the best quality data available. IHACPA will support pricing recommendations with regular cost data collection and utilise other available, complementary data that can support costing and pricing advice.

IHACPA commenced the Residential Aged Care Costing Study (RACCS) in 2023 as an initial broad, residential aged care costing study to produce a dataset including cost, time, and activity data.

The scope of services included in the RACCS are outlined in section 3.1.3

IHACPA aims to build upon and refine this initial data set over time, with supplementation from additional costing studies to ensure IHACPA's pricing advice uses relevant, evidence-based data.

6.4 Grants

The Department has announced the following grants, relevant to residential aged care and residential respite care. IHACPA will seek to understand revenue sources such as grants and their associated costs.

6.4.1 Leave liability grant

As part of the Federal Budget 2023–24, a one-off grant opportunity for leave liability provisions was announced for \$98.7 million over four years from 1 July 2023 to provide one-off funding for residential aged care providers to meet historical leave liabilities.

6.4.2 The AN-ACC transition fund

The Department established the [AN-ACC Transition Fund](#), which commenced on 1 October 2022 to provide financial support to eligible residential aged care providers to transition their business operations from the Aged Care Funding Instrument to AN-ACC, with no impact on their funding during the first two years of transition.

The Federal Budget 2023–24, saw an additional \$6 million for a new grant opportunity under the AN-ACC transition fund to support services in isolated communities and larger services in remote and very remote locations. This is to provide temporary support from 1 July 2023 to 30 June 2024.

7

Consultation process and next steps

7. Consultation process and next steps

The Independent Health and Aged Care Pricing Authority (IHACPA) is calling for submissions on this consultation paper until **31 August 2023**.

The key dates regarding this consultation are:

Process	Date
Release of the Consultation Paper	17 July 2023
Submissions close	31 August 2023
Release of a consultation report consolidating stakeholder feedback	Early 2024
Pricing Framework for Australian Residential Aged Care Services 2024–25 published	Early 2024

7.1 How your information will be used

All submissions will be published on the [IHACPA website](#) unless you specifically identify any sections that you believe should be kept confidential due to commercial or other reasons.

Your submission will be carefully considered and IHACPA may contact some individuals or entities that make submissions. IHACPA will not contact everyone who makes a submission, but will ensure that all submissions are recorded, reviewed and used to inform the development of the Pricing Framework for Australian Residential Aged Care Services 2024–25.

A consultation report consolidating stakeholder feedback will also be published in early 2024.

Have your say

- Submissions close at 5:00pm AEST on 31 August 2023
- Submissions can be:
 - completed via the [online submission form](#)
 - completed via the downloadable submission form
 - emailed to submissions.ihacpa@ihacpa.gov.au
 - mailed to:
PO Box 483
Darlinghurst NSW 1300
- All submissions will be published on the [IHACPA website](#) unless respondents specifically identify sections that they believe should be kept confidential due to commercial or other reasons
- The Pricing Framework for Australian Residential Aged Care Services 2024–25 will be published in early 2024.

Enquiries

- Enquiries related to this consultation process should be sent to: submissions.ihacpa@ihacpa.gov.au.



Appendix A: Consultation questions

Appendix A:

Consultation questions

Question		Page
1	What, if any, changes do you suggest the Independent Health and Aged Care Pricing Authority (IHACPA) consider for the residential aged care pricing principles?	10
2	Do the current Australian National Aged Care Classification (AN-ACC) classes group residents in a manner that is relevant to both care and resource utilisation? (that is, require the same degree of resources to support their care delivery). What evidence is there to support your answer?	14
3	What, if any, factors should IHACPA consider in future reviews of the AN-ACC classes?	14
4	Are there any other legitimate or unavoidable costs associated with a permanent resident's stage of care? For example, entry into or departure from a service.	16
5	Are there any other legitimate or unavoidable costs associated with a respite resident's stage of care? What evidence is there to support your answer?	17
6	What, if any, considerations should IHACPA seek to review in its indexation methodology for its residential aged care pricing advice?	20
7	What, if any, additional cost variations are associated with the provision of care to residents who require specialised services? What evidence is there to support this?	23
8	What, if any, care-related costs are impacted by service location that are not currently addressed in the Base Care Tariffs (BCT) weighting?	23
9	What, if any, evidence or considerations will support IHACPA's longer term development path for safety and quality of AN-ACC and its associated adjustments?	24
10	How could, or should the AN-ACC model be modified to be used for Multi-Purpose Services (MPS) and are there any factors that aren't accounted for under the AN-ACC model?	26
11	How could, or should the AN-ACC model be modified to be used for National Aboriginal and Torres Strait Islander Flexible Aged Care Program (NATSIFACP) and are there any factors that aren't accounted for under the AN-ACC model?	27



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