Towards an Aged Care Pricing Framework Consultation Paper

Catholic Health Australia (CHA) thanks the newly renamed Independent Health and Aged Care Pricing Authority (IHACPA) for the opportunity to provide a submission to the above consultation process.

As Australia's largest non-government provider grouping of health and aged care services, providing care to all those who seek it in fulfilment of the Catholic Church's mission, Catholic health and aged care providers have a vital interest in ensuring the sustainable provision of aged care services that meet community expectations for safety and quality of care and quality of life.

To prepare for the new funding changes and ongoing reform in the sector, CHA commissioned EY Port Jackson Partners to:

- Synthesise insights from modelling prepared by StewartBrown on the financial impacts of the new AN-ACC classifications and minimum care minute policies on CHA providers
- Identify potential implications of these policies and financial impacts for future workforce models, models of care, service availability and aged care investment attractiveness
- Identify short to medium risks for CHA providers and their residents, especially in the context of growing workforce pressures
- Identify options to work constructively with the Australian Government Department of Health and Aged Care and the Independent Health and Aged Care Pricing Authority to monitor identified risks and contribute to ongoing policy development.

The CHA-commissioned analysis included insights from 85 aged care providers, including 11 for-profit and 74 not-for-profit. These providers cover 924 facilities, 79,069 operational beds and around 37% of the residential aged care market.

This submission highlights below some of the challenges and opportunities identified in the analysis. **CHA would welcome an opportunity to present to IHACPA and provide greater details of the analysis and its conclusions.**

Financial impacts of aged care funding reforms

Aggregate assessments of financial impacts of AN-ACC funding structure and care minute requirements mask the extent of change for a significant proportion of residential aged care providers.

The analysis highlighted many potential financial impacts of these reforms that will need to be monitored and addressed to support the overarching principles of the funding reform, in particular fairness and efficiency.

- The operating result per bed per day is forecast to further deteriorate from FY22 to FY24 as providers adapt their workforce to meet increased care minute requirements and confront direct care staff wage growth.
- Staff wage growth on top of adjustments to care minutes will cost surveyed providers significantly more than the funding they receive under AN-ACC, potentially impacting on future care models, innovation and investment.
- There are financial risks for a number of these providers, particularly in metropolitan and medium sized regional towns, given:
    - The initial aged care pricing process was completed in a compressed period following the release of recommendations from the Royal Commission and the introduction of AN-ACC funding reforms, with variable quality of cost data available
    - Workforce costs have been escalating due to growing reliance on agency staff and staff working overtime to cover roster vacancies
    - A large proportion of provider costs are fixed, and it will be difficult to dynamically adjust staffing mix as resident acuity fluctuates (with one-off transition funding for new residents insufficient to fill this funding gap)
    - A high level of skill is required to support restorative care and re-enablement in the delivery of respite care, but successful re-enablement will lead to a lower level of funding for those services
    - Accommodation costs are not fully recouped under existing models, with the Australian government covering the contribution for those residents unable to meet the financial costs themselves
    - The analysis found that this is particularly a risk in the MMM 3 and MMM 4 geographic locations.
- Resident care weightings in an activity-based funding model should reflect the relative differences between residents in actual costs to provide care, however our preliminary analysis shows that the AN-ACC model displays significant variation in the proportion of direct care costs covered by funding and further cost studies are required to calibrate the National Weighted Activity Unit (NWAU).
- Providers are likely to dip into retained earnings or reduce maintenance spending to fill funding gaps – risking the longer-term quality and investment attractiveness for facilities.

Workforce and models of care

The new AN-ACC funding structure and care minute requirements may have unintended consequences for the industry and residents. This may impact the principle of quality care for clients.

- There is a risk that funding reforms do not realise the Royal Commission's intention to preserve and grow restorative care and re-enablement and improve safety and quality of life for residents:
    - Funding incentives and potential short falls arising from staff wage cost growth on top of the 200-minutes policy, AN-ACC pricing and the current accommodation charging model may lead to a reduction in social components of models of care
    - Reliance on more generalist roles may reduce expertise in resident engagement and re-enablement

    - The exclusion of Allied Health disciplines in care minutes along with a variety of workers such as lifestyle or diversional therapy fails to appreciate the crucial contributions of Allied Health staff to the plan of care created in response to the assessed needs of the resident.
    - The proposed allocation excludes significant lifestyle and pastoral care activities that may be seen in a residential care service. The type of activities in this category that should be recognised include coordination and assistance in meaningful engagement (social, entertainment or spiritual) or tailored exercise.
- There is also a risk that the Royal Commission's intention to increase nursing care is compromised:
    - The lack of recognition of enrolled nurses in care minutes may result in either substitution for registered nurses (RNs) or enrolled nurses (ENs) fulfilling personal care duties
    - EN roles within the Aged Care sector provide an important development pathway. A reduction in the number of ENs or use of their skills would erode this pathway over time and may lead to less satisfaction (and retention of) ENs retained in the sector
    - RNs may then be required to perform functions that could be more efficiently delivered by ENs – also leading to less satisfaction and retention challenges
    - Given competition for experienced RNs in adjacent health and disability sectors, compromising the EN pathway and the employee value proposition for RN and EN roles risks a continued increase in less experienced nurses in aged care.
- A significant number of additional Registered Nurses will be required to meet the new care minute targets at a time that the industry is experiencing workforce shortages.

Service Availability

Provider responses to manage new funding arrangements and market conditions may combine to create gaps in service access. This impacts the funding reform principles of access to care, quality care, fairness and efficiency.

- If residential aged care providers are unable to increase their workforce, they may be required to reduce capacity in order to meet new care requirements with their existing workforce.
- Providers will need to develop sophisticated models to determine the optimal equilibrium of workforce mix and availability, bed capacity and revenue to ensure financial sustainability and comply with care minute rules.
- There is a risk that gaps in workforce availability and decisions about the optimal bed capacity and resident mix create access gaps in particular locations and for particular types of residents
- Capacity gaps may in turn push demand onto hospitals and exacerbates delays in discharging patients.

Aged care sector investment

CHA's study predominantly focused on care funding policies, however, there is also a risk of a capital strike if returns on investment drop too sharply. This could impact the principle of efficiency through a necessary over-reliance on constrained public funding for the sector.

- The Royal Commission showed that provider cost growth was running significantly ahead of Commonwealth Own Purpose Outlays Indexation between FY2000 and FY2020. Reports from the Aged Care Financing Authority show a near halving of Earnings Before Interest, Taxes, Depreciation, and Amortisation per bed per annum in the period FY2017 to FY2020.
- The financial position of residential aged care providers, and their capacity to attract investment and reinvest in facility and service development, will be further impacted by continuing policy

work on reporting and compliance, accommodation charging models and minimum liquidity arrangements.
- There is a concern that some providers don't have the capacity to accurately measure their staff rosters to efficiently comply with new care minute allocations. This will require significant further investment to address.
- Providers currently have a reliance on Refundable Accommodation Deposits (RAD) to service debt, fund development and build new facilities. This creates a significant cash flow risk that will restrict further investment.
- And this risk is realised in the context of the Royal Commission recommendation to set minimum liquidity thresholds for aged care providers, placing further barriers to investment in quality care.

Next Steps for IHACPA and the Sector

CHA and its members are seeking to work constructively with Department of Health and Aged Care (DOHAC) and IHACPA to monitor financial, access and quality risks and contribute to ongoing policy development, recognising that:

- The DOHAC have critical responsibilities for market oversight and stewardship
- The IHACPA consultation process will be important for developing an accurate pricing framework, supported by the planned Aged Care Advisory Committee and Aged Care Sub-Committee.

An extended lag in adjusting the new funding model to real costs will be problematic to an industry that is already facing headwinds, particularly for smaller operators.

The following recommendations support the funding reform process principles of administrative ease; stability, evidence based; and transparent.

1. Transition support for the sector

- There are several mechanisms to support aged care providers transition through the significant changes to funding and care requirements over the next two years:
  - Capability support: Provide specialist business consulting to providers to help them transition to new workforce mix, including support on efficient rostering
  - ICT systems: Financial and technical support to uplift ICT systems for improved staff rostering and compliance with care minute reporting
  - Alignment of costs and funding: Implement a "true up" mechanism for to reconcile funding based on actual costs incurred for the period.
  - The viability of these mechanism would rely upon an efficient method for providers to report their cost variances and timely funding payments in recognition of the operating budgets constraints of many smaller providers
  - Care minute target amnesty: Allow flexibility in care minute target in recognition of tight current labour market
  - Transition funding: Increase duration or level of transition funding period to assist financially vulnerable facilities

2. Areas for investigation during consultation period

- Adjust the NWAU weightings to increase funding for resident classes that are economically unviable under the current AN-ACC system.

- Separation of MMM3 and MMM4 from MMM1-2 areas and provide higher funding to recognise the increased operating costs in these regions.
- Fix the direct care component of AN-ACC funding with wage growth to address the widening gap observed in recent years.
- Increase the one-off transition payment to better reflect the costs associated with onboarding a new resident.
- Initiate studies into respite care to align funding with the costs to provide care, incentivising providers to increase respite resident function and recognise the resources required to achieve these improved outcomes.

3. Supporting monitoring of key risks during transition

- A new advisory committee would enable DOHAC and IHACPA to engage with industry stakeholders throughout the transition period to monitor key risks and support continuing policy development.
- CHA and its members would welcome the opportunity to participate in a joint department/industry forum (which might be auspiced by the National Aged Care Advisory Council) to support the Minister and senior officials to:
  - Track progress of funding reforms
  - Monitor market development in response to these reforms, including trends in workforce supply and mix, provider finances and service access
  - Contribute to ongoing policy development
- CHA proposes that such a forum is co-chaired by the DOHAC and the sector and could meet quarterly during the transition period.

4. Continued policy co-design between government agencies, providers, consumers and other stakeholders

- There are opportunities to continue to enhance workforce and care models and deliver improved client outcomes throughout the larger reform. Several possibilities are listed below.
- Broadening the general care classification to include reablement and social activities as part of an increased minutes target.
- Explicitly recognising Enrolled Nurses in care minutes, with targeted support for upskilling to strengthen career pathways for ENs as recognised in current awards.
- Advancing broader reforms to funding accommodation and services:
  - Address system inequality with those paying upfront (RAD) able to recoup the full amount, while there is no reimbursement for (often lower income) residents making Daily Accommodation Payment (DAP) contributions
  - Consider allowing residents to access additional care services beyond those already provided at their own expense
  - Allow flexibility in liquidity requirements for smaller providers to ensure that they can effectively deploy their capital

Conclusion

Australia has an ageing population with >21% of the population projected to be over 65 years by 2067. The Australian Government provides significant funding for residential aged care services and this is expected to grow significantly to meet this demand. Significant capital investment will be

required to meet forecast demand and reconfigure existing facilities to improve operation efficiency over the next decade.

This is in an environment where funding indexation has not kept pace with the growth of provider costs over the last 20 years and reductions in resident occupancy through the impact of COVID-19 pandemic has placed further pressure on the industry

It is critical that the IHACPA develop a rigorous and responsive pricing framework to address these concerns. CHA and its members are ready to collaborate to achieve better outcomes for aged care residents.

For further information contact:

- **Pat Garcia**, Chief Executive Officer, Catholic Health Australia, patg@cha.org.au
- **Jason Kara**, Director Aged Care, Catholic Health Australia, jasonk@cha.org.au

Catholic Health Australia

19 October 2022