Hon Amber-Jade Sanderson MLA
Minister for Health; Mental Health

Our Ref: 76-17925

Ms Joanne Fitzgerald
A/Chief Executive Officer
Independent Health and Aged Care Pricing Authority
PO Box 483
DARLINGHURST NSW 1300

Via email: submissions.ihacpa@ihacpa.gov.au

Dear Ms Fitzgerald

Thank you for the opportunity to provide a submission to the *Towards an Aged Care Pricing Framework Consultation Paper.* The Western Australian Government's feedback on the consultation questions is attached.

I welcome the development of a robust and independent pricing framework that drives the quality of care envisaged by the Royal Commission into Aged Care Quality and Safety and improves individual choice and control. IHACPA's pricing functions must form part of a systemic Commonwealth approach to broader system reform, in concert with national strategy, policy, regulation, market stewardship and outcomes reporting.

All reforms should aim to improve the aged care system's capacity to meet the challenges and opportunities posed by demographic change and an ageing population. Over time, IHACPA's work needs to assist in reducing demand on public hospital services, promoting ongoing aged care safety and quality improvements and incentivise early intervention strategies to keep people healthier and at home longer.

I continue to advocate for Commonwealth aged care funding to cover the full cost of aged care services and complexity of care, which I expect will be reflected in IHACPA's pricing advice. It is concerning that Western Australian residential aged care providers are advising me that they are already experiencing cost growth that outstrips projected increases in funding under the new Australian National Aged Care Classification model. Failure to adequately fund the sector risks increasing the pressure on the Western Australian health system that is already under strain, and worse health outcomes for older Western Australians.

It is essential that pricing supports aged care sector sustainability and viability, particularly for smaller facilities and regional and remote services that lack economies of scale. The pricing framework should afford flexibility to providers to innovate and respond to changing circumstances, including the capacity for block funding for facilities that would otherwise be unviable under an activity-based funding approach.

Level 5, Dumas House, 2 Havelock Street WEST PERTH WA 6005 Telephone: +61 8 6552 5900
Email: Minister.Sanderson@dpc.wa.gov.au

Further, I want to highlight the importance of Multi-Purpose Services (MPS), the health and aged care providers of last resort in many Western Australian regional and remote communities. Any future IHACPA pricing of MPS services must recognise the unique context in which they operate, maintain the current flexibility in their operating model and lead to Commonwealth funding outcomes that supports ongoing MPS viability.

I recommend the IHACPA implements an adjustment to Modified Monash Model remoteness ratings for locations surrounded by remote or very remote areas (such as Kalgoorlie in Western Australia) that have lower than expected funding outcomes, in line with the Isolated Towns Adjustment applied to National Disability Insurance Scheme pricing.

I look forward to a partnership approach between the IHACPA, Commonwealth Government, Western Australia's aged care sector, and older Western Australians to deliver reform, including the development and refinement of the pricing framework.

Please refer any queries on this submission to AgedCareReform@health.wa.gov.au.

Kind regards

HON AMBER-JADE SANDERSON MLA
MINISTER FOR HEALTH; MENTAL HEALTH

Attachment A: WA submission

cc: The Hon Mark Butler MP, Minister for Health and Aged Care
The Hon Anika Wells MP, Minister for Aged Care

20 OCT 2022

ATTACHMENT A

GOVERNMENT OF WESTERN AUSTRALIA SUBMISSION TO THE *TOWARDS AN AGED CARE PRICING FRAMEWORK CONSULTATION PAPER*

The Government of Western Australia (WA) welcomes the opportunity to provide feedback to the Independent Health and Aged Care Pricing Authority's (IHACPA) *Towards an Aged Care Pricing Framework Consultation Paper.*

Consultation Questions

1. **What, if any, may be the challenges in using the Australian National Aged Care Classification (AN-ACC) to support activity-based funding (ABF) in residential aged care?**

WA is concerned that in some instances the use of AN-ACC to support ABF will not enable service providers to deliver safe quality services, particularly in regional and remote areas with higher costs and reduced economies of scale. For most facilities in regional and remote areas, an ABF model will be insufficient to support an aged care provider due to regional costs and lack of scale. Further, an ABF model may not attract new service providers to areas of unmet need and enable choice and control for older people.

A key to success in regional and remote service provision is affording funding flexibility to providers to develop local solutions and draw on existing community strengths. Funding flexibility is a key advantage of current models such as the Multi-Purpose Services (MPS) model[1] (particularly through its pooled funding arrangements) and the National Aboriginal and Torres Strait Islander Flexible Aged Care Program. A rigid application of ABF will stifle the flexibility that is necessary for remote services to remain viable. Aged care services in these areas may be better supported through block funding, which is well recognised within IHACPA's public hospital pricing approach.

To de-risk the market for a provider, a level of funding certainty is necessary. An aged care provider cannot wait for residents to arrive while carrying workforce overheads and establishing service infrastructure. An aged care provider in regional areas will also need to provide services to meet the specific needs of each resident. This may require sub-contracting allied health, including pharmacy and the use of virtual health care.

The WA Country Health Service (WACHS) is a legislated provider of public hospital services and an approved provider of aged care services in WA's regional and remote areas. WACHS is not a competitive provider but operates in communities where a need is not being met by the private market. WACHS' aged care services in regional and remote areas are delivered in integrated sites that include acute and subacute services which incur substantially larger overheads above stand-alone

[1] Royal Commission into Aged Care Quality and Safety, 2019, Mudgee Hearing, Exhibit 12-23 - WIT.0535.0001.0001, Statement of Margaret Denton, available from: https://agedcare.royalcommission.gov.au/system/files/2020-06/WIT.0535.0001.0001.pdf [accessed 14 October 2022].

aged care facilities. Consistent with the experience of other regional and remote service providers, WACHS observes higher salary and operating costs compared to metropolitan services.

WACHS' financial modelling indicates the benefit of the increased revenue from AN-ACC is outweighed by the cost of meeting the new minimum care minute requirements and other compliance costs. It is anticipated that this adverse net financial impact would become unsustainable over time.

Some residential aged care providers operating in WA have raised similar concerns regarding the financial impact of the new care minute requirements, when comparing the outcomes from the previous Aged Care Funding Instrument to the AN-ACC and associated reforms. This is of concern in the wake of cumulative financial challenges for the aged care sector, driven in part by Commonwealth funding that has not kept pace with cost growth over time.[2]

IHACPA's pricing framework must ensure that the aged care sector does not face an adverse net financial impact from reforms, while continuing to drive the quality of care envisaged by the Royal Commission into Aged Care Quality and Safety (Royal Commission) in its Final Report.[3] This will require the pragmatic implementation of the care minute requirements to support residential aged care providers with the significant amount of reform transition required, with due regard to the realities of the current labour market.

2. What, if any, concerns do you have about the ability of AN-ACC to support long term improvement in the delivery of residential aged care in Australia that is efficient, sustainable and safe?

The AN-ACC needs to incentivise residential aged care providers to enter and remain in thin markets. Smaller providers that struggle for viability under an ABF methodology may choose to exit the market. Where this occurs, it could leave some regions with limited or no access to residential aged care facilities (RACFs), which in turn would increase emergency department presentations via aeromedical or road public patient transport and public hospital admissions. Noting that public hospitals are already facing chronic demand pressures, further barriers to the timely discharge from hospitals for older people requiring care at a RACF will place additional strain on the public health system.

While the IHACPA has indicated that the application of the AN-ACC to MPS sites is subject to further consideration over the medium to long term, current WACHS' modelling indicates that the introduction of the AN-ACC would result in a deficit for regional and remote small hospitals which provide aged care services at MPS sites. When coupled with Commonwealth funding not keeping pace with cost growth for MPS sites over time, there is potential for a significant funding and service delivery challenge for the State.

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[2] See Royal Commission into Aged Care Quality and Safety, 2021, *Final Report: Care, Dignity and Respect*, Vol. 1, p154; StewartBrown, 2022, *Residential Aged Care Sector Sustainability: Potential Impact of Proposed Level of AN-ACC Subsidy*, available from: https://www.stewartbrown.com.au/images/documents/Residential_Aged_Care_Sector_Financial_Sustainability_August_2022_update.pdf [accessed 11 October 2022].

[3] Royal Commission into Aged Care Quality and Safety, 2021, *Final Report: Care, Dignity and Respect*, Vol. 1-5.

As a starting point, WA recommends the IHACPA implements an adjustment to Modified Monash Model (MMM) remoteness ratings for towns surrounded by remote or very remote areas that lead to a lower than expected funding outcome. For example, the town of Kalgoorlie in WA has an MMM 3 rating, while being surrounded by MMM 6 and 7 areas and 600 kilometres by road from a metropolitan centre. The MMM 3 rating reduces viability in this instance because facilities will not be appropriately compensated for the additional costs of operating in such a remote location. While the MMM has widespread use within Commonwealth programs, it is primarily a workforce planning tool and not a funding instrument.

To address this issue, it is recommended that the IHACPA consider the Isolated Towns Adjustment that is applied to National Disability Insurance Scheme (NDIS) pricing. It adjusts the MMM rating for towns surrounded by very remote areas that would receive a rating that is not intuitive and thus a lower funding outcome. Within NDIS pricing, this adjustment has been applied to locations in WA (including Kalgoorlie), New South Wales and Queensland to more appropriately reflect costs.

While the AN-ACC does not prescribe the use of allied health services, the utilisation of allied health care minutes should be monitored. The AN-ACC should also address potential funding-related barriers to accessing allied health workers in the residential aged care sector, given the more competitive price rates available in the NDIS.

Pricing should incentivise supply chains and encourage other service providers across pharmacy, allied health, mental health providers and peer workers.

3. What, if any, additional factors should be considered in determining the AN-ACC national weighted activity unit (NWAU) weightings for residents?

WA recommends further consultation on regional and remote services to ensure the full range of cost drivers are understood and factored into the pricing model.

Regional and remote providers experience several unique cost drivers for social care services, and shortfalls in funding could contribute to market failure and a loss of access to services for older people in their communities.

Any weighted activity unit costs need to consider the costs incurred in regional and remote areas and the cost variation across jurisdictions in their regional and remote areas.

Further factors to consider in determining weightings include:

- Aboriginal and Torres Strait Islander care requirements and the additional cost associated with providing culturally appropriate aged care. Cost considerations include facility layouts and room design to facilitate separation of related men and women, and outdoor spaces to provide on country experiences
- high individual allied health support needs, to ensure where possible there is a focus on the maintenance of an older person's functionality and independence
- situations that require additional coordination between an aged care facility and a hospital to ensure the safe and timely discharge to residential aged care. This could include a funding contribution towards care coordination and handover.

- Provision of additional funding to support aged care providers with clinical accreditation to provide certain sub-acute care services.

4. What should be considered in developing future refinements to the AN-ACC assessment and funding model?

Future refinements to the funding model should include:

- pricing that incentivises the provision of a full suite of aged care services (including home care packages) to regional and remote areas and areas of unmet need
- arrangements to encourage entry to the market by new and emerging providers. For example, the IHACPA should consider the unique position of Aboriginal Medical Services (AMS) to provide culturally appropriate aged care services in remote communities for Aboriginal and Torres Strait Islander people aged 50 years and over. The State Government is working with five AMSs to pilot delivery of Transition Care Program places and extend the reach of the service to more regional areas.[4] This is the first initiative of its kind in Australia
- incentives to support growth in service design and capacity to incorporate dementia and culturally appropriate design principles and the delivery of appropriate virtual care.

To enable future refinements, WA strongly supports development of national guidelines and business rules to ensure consistent reporting of cost and activity data across jurisdictions.

5. What, if any, changes do you suggest to the proposed principles to guide the development and operation of the Pricing Framework for Australian Aged Care Services?

The 'access to care' principle should be strengthened. The principle should establish beyond doubt that all Australians, no matter where they live, should be able to access quality aged care services.

The access to care principle should be reframed to 'access to *person-centred* care'. This would be more consistent with overall reform directions in the Royal Commission's Final Report and broader social care reforms, including the WA Government Sustainable Health Review.[5]

6. What, if any, additional principles should be included in the pricing principles for aged care services?

IHACPA should consider an additional principle of 'sustainability'. Sustainability reflects both financial support for the ongoing future viability of RACFs, as well as

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[4] Government of Western Australia, 2022, *Innovative Aboriginal led service helping older hospital patients return to their communities*, Minister for Health media release, 18 February, available from: https://www.mediastatements.wa.gov.au/Pages/McGowan/2022/02/Innovative-Aboriginal-led-service-helping-older-hospital-patients-return-to-their-communities.aspx, [accessed 14 October 2022].

[5] Government of Western Australia, 2019, *Sustainable Health Review Final Report to the Western Australian Government*, available from: https://ww2.health.wa.gov.au/~/media/Files/Corporate/general%20documents/Sustainable%20Health%20Review/Final%20report/sustainable-health-review-final-report.pdf

encouraging RACFs to implement improvements to environmental management practices.

7. What, if any, issues do you see in defining the overarching, process and system design principles?

Defining a set of principles is a logical step and consistent with previous IHACPA practice in developing pricing frameworks.

8. What, if any, concerns do you have about this definition of a residential care price?

WA supports the IHACPA taking a more refined approach to the development of a residential aged care price over time, in recognition of the many inherent business differences between residential aged care facilities and public hospitals. Compared to the relatively homogenous peer groups across the public hospital sector, the diversity of the aged care sector would likely make an average cost model challenging to implement. There are also major differences in average length of stay and support needs between aged care residents and public hospital patients that bolsters the case for a more nuanced approach.

9. What, if any, additional aspects should be covered by the residential aged care price?

The price must fund the full cost of services, including market-based assessment of whether pricing covers all commercial activities that contribute to the quality of services such as rent, insurance, regulation, reporting, staff attraction, supervision onboarding and development. The price provided for residential aged care services must allow providers to be competitive against other social care sectors, including disability and health, in attracting and retaining staff. Pricing cannot deliver funding outcomes that fail to meet the cost of the services provided.

IHACPA should also consider:

- how AN-ACC contributes to new providers entering the sector to address thin markets
- use of funding flexibly across aged care, disability and health in regional Australia, including through pooled funding arrangements
- short-term pricing arrangements to be enacted for services in financial distress due to external factors. This is especially pertinent in regional and remote areas, where thin markets are present and provider failure increases the risk of additional demand for public hospital services.
- upward adjustment to the AN-ACC base care tariff to support overheads incurred, if occupancy rates fall below minimum viable levels.

10. What, if any, concerns do you have about the proposed pricing approach and level of the residential aged care price?

WA supports the IHACPA's recognition in section 6.3 of the paper that some aged care providers may face funding challenges arising from reduced economies of scale and their ability to cross subsidise funding differences across residents. This must be factored into the pricing model to support ongoing viability for providers and continued market development, particularly in regional and remote areas. A

comprehensive IHACPA work plan to understand the cost of regional and remote service delivery should be developed. It is expected that over time IHACPA will develop a comprehensive understanding of the clinical needs of residents and the care profile of RACFs.

WA has been advised by local residential aged care providers that the base care tariff is insufficient to cover costs and meet incoming reform requirements, particularly the minimum care minutes. It is recommended that IHACPA consult the aged care sector closely to derive a price that will secure minimum viability on a per resident per day basis. Pricing that is insufficient risks flow-on impacts for public hospital service demand.

An issue for IHACPA's future exploration is setting a price that promotes the take-up of community-based care packages that contain a clinical component, with the aim of extending the time that older people are able to stay in their own homes before transitioning to residential aged care. This is broadly consistent with consumer preferences and the longstanding strategic direction for aged care services.

11. How should 'cost-based' and 'best practice' pricing approaches be balanced in the short-term and longer-term development path of the Independent Health and Aged Care Pricing Authority's (IHACPA) residential aged care pricing advice?

A blended approach between cost-based and best practice pricing would balance the competing imperatives to reflect the actual cost of care and drive the quality of care envisaged by the Royal Commission. RACFs must be supported to adapt and respond to incoming aged care reforms, while being funded to meet minimum quality standards and care requirements.

12. What should be considered in the development of an indexation methodology for the residential aged care price?

WA has heard from local aged care providers that indexation is a critical issue, due to historical low levels of Commonwealth indexation that has failed to reflect year on year cost growth and led to a cumulative financial impact.

Any indexation methodology for RACF must be able to adequately capture annual increases in both the price of commodities and labour cost increases, particularly in a climate of increasing staff to resident ratios.

Indexation applied to regional and remote services should assess contemporary cost pressures, particularly housing costs (e.g. average weekly house rental value). Adjustments need to be timely, calculated at a local government area level and be agile enough to account for changes in these cost pressures.

13. What, if any, additional issues do you see in developing the recommended residential aged care price?

Many of the key contributors to quality aged care services, such as facility management and extra services, are not funded or supported within AN-ACC base costs at present. This will either result in RACFs not delivering these services and/or alternatively passing the cost onto residents. The resultant fee increase may price people out of the market, making RACFs even less viable and frailer older people

being admitted to hospitals. Ideally, frailer older people would live in RACFs with sufficient clinical and support services to maintain their condition.

14. What, if any, changes are required to the proposed approach to adjustments?

While IHACPA may have a general preference for adjustments based on a resident's characteristics, a facility's characteristics are also important and merit consideration for adjustments. In WA, WACHS is the provider of last resort in areas where no other providers operate due to a lack of commercial viability. See comments in response to questions 17 and 18.

15. What, if any, additional adjustments may be needed to address higher costs of care related to resident characteristics?

WA would strongly support adjustments to ensure the provision of culturally appropriate services and physical environments for Aboriginal and Torres Strait Islander people, which is a critical issue for WA aged care providers in remote areas. An adjustment of this sort should also cover the costs incurred in ensuring a care plan and include broader care considerations and support for individuals; for example, to travel to country, undertake cultural activities and participate in gatherings.

Other adjustments related to resident characteristics could support access to:

- translators and maintenance of cultural connections for residents from culturally and linguistically diverse backgrounds, incentives for providers to manage more complex cases i.e. the needs of older people with mental health issues and/or disabilities.
- Alzheimer's and dementia services
- services for people with disability in the NDIS who require aged care and clinical services (noting this is a small cohort).
- potential funding to a community provider in remote locations that lack a RACF. IHACPA requires a capability to review individual cases, make allowances for location and fund accordingly

16. What evidence can be provided to support any additional adjustments related to people receiving care?

WA would be supportive of any national initiative that assesses the cost of culturally secure services and supports to individuals with complex needs.

17. What should be considered in reviewing the adjustments based on facility location and remoteness?

There should be consideration of an adjustment that recognises and remunerates appropriately for the scale of a facility. Any regional and remote location weighting must consider the additional cost of delivering services arising from provision of staff housing, staff allowances and travel. These costs adversely impact the successful recruitment and retention of staff to services located in these areas. The capacity to

work with IHACPA at a regional level would greatly support the development of location weighting.

Consideration of utilising:

- Aboriginal Medical Services (AMS) to broker solutions to support the care needs of older Aboriginal people in regional areas.
- an individual's home to provide individualise aged care supports when other care options are such as RACFs are unavailable

18. What evidence can be provided to support any additional adjustments for unavoidable facility factors?

Evidence could be gathered regarding:

- proximity to other facilities: whether there are other RACF providers that deliver services to the same catchment or region
- costs of travel, water and power provision, repairs and maintenance and disaster management requirements of remote and very remote aged care facilities
- the experience of Aboriginal Medical Services, Multi-Purpose Services and disability providers.

19. How should any adjustments for quality and safety issues be considered in the long-term development path of AN-ACC and the associated adjustments?

Adjustments for quality and safety issues should be informed by current evidence from the social care sector about how price level and structure drive performance and outcomes. The intent of pricing safety and quality is strongly supported but implementation should be phased to give the sector time to adjust to the current wave of reforms and for the pricing model and associated data collections to reach a level of maturity. This would align with the introduction of safety and quality adjustments to public hospital pricing.

Development of policy and funding framework to support adjustments that expand the quality and safety capability of virtual care.

20. Should hotel costs be incorporated into the AN-ACC funding model and what should be considered in doing this?

It would be important for hotel costs to be incorporated, on the basis that the pricing model should reflect the full cost of services.

21. What should be considered in future refinements to the residential respite classification and funding model?

The funding model for residential respite must provide an incentive for RACFs to offer this care option and support quality handover and care planning. Currently, many RACFs prioritise permanent residential places over respite places, as permanent places provide a more secure and longer-term funding stream. The Royal Commission noted that respite is primarily used as a "try before you buy" test

before entering permanent care, rather than a break from usual care arrangements.[6] Based on consultation with WA aged care providers, it appears there is insufficient funding to support clients on a respite basis unless they are likely to become a permanent resident.

Under the AN-ACC, the one-off adjustment payment for new permanent residents is not applied to residential respite recipients. This one-off payment covers costs related to the initial care planning and monitoring required within the first month of entering the service. It is not clear why this payment is not applied to respite clients. All older people in the care of a residential aged care facility, including respite clients, are deserving of care planning, quality handover and monitoring. Without this, the risk of deconditioning and deterioration in function will increase. These activities should be undertaken for respite clients and should be reflected in aged care pricing for respite.

The State Government would welcome the opportunity to work with the IHACPA and the Commonwealth Government to incentivise and support the full use of patient centred respite for Western Australians, including those in the community or in hospital who are medically fit for discharge but their supports at home are insufficient and/or time is required to establish these supports.

22. What are the costs associated with transitioning a new permanent resident into residential aged care?

Supporting older hospital patients to transition to residential places incurs significant administrative and compliance costs, and often requires the prioritisation of individuals.

WA would welcome the opportunity to contribute to more detailed consultation on the analysis of the cost of transitioning from hospital to residential aged care, given the costs incurred by the public hospital system.

23. How might workforce challenges present in the implementation and refinement of AN-ACC for the aged care system?

Competition between sectors for workers, particularly in thin markets, may result in reduced access to allied health services in some sectors. This has been evident in the rollout of the NDIS through high pricing limits for therapies attracting allied health professionals away from other sectors as well as care workers in NDIS, especially for participants who self-manage. Future refinement of the AN-ACC should require consideration of the impact of pricing changes in other sectors, including potential future resourcing boom and the consequent workforce impacts.

As per recommendation 75 of the Royal Commission's Final Report, aged care workforce data requires significant development. The limitations of this data may affect IHACPA's cost modelling, at least until this data reaches a level of maturity.

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[6] Royal Commission into Aged Care Quality and Safety, 2021, *Final Report: Care, Dignity and Respect*, Vol. 2, p21.

24. What areas should be included in the proposed five-year vision for IHACPA's aged care pricing advice?

WA supports IHACPA developing a five-year vision that is forward-looking, subject to rolling annual updates informed by public consultation, and sends clear signals to the sector about future pricing developments.

The vision should refer to the capacity of the pricing framework to support timely access to residential aged care for individuals in their local community, improve the sustainability of the aged care sector, stimulate market development and reflect the cost of regional and remote aged care delivery.

25. What would be considered markers of success in IHACPA's aged care costing and pricing work?

Indicators of success would include:

- aged care pricing supports service provision in thin markets and aged care services are available to all Australians, regardless of where they live
- capacity to drive improved quality and safety outcomes
- predictability and consistency of funding for individuals
- ease of use and interpretation of the pricing framework by end users
- support regional and case by case solutions. IHACPA should collaborate with State and Territory governments, the Department of Health and Aged Care, the National Disability Insurance Agency and the Department of Veteran Affairs to examine regional areas on a case by case basis to support existing provider viability or support new providers enter the market
- Allowing for innovation. As an example, provision of individualised funding similar to NDIS participant funding to support individuals in the home when a RACF is not available and admission to hospital would be the only alternative.

26. Any other comments:

Regarding Figure 3 on the AN-ACC structure and classes (page 23), consideration should be given to changing some of the class names to reflect a strengths-based approach to resident capacity. As an example, classifying someone as 'Low Cognitive Ability' as per AN-ACC Class 8 is not strengths-based and could be stigmatising.

With regard to priorities for future development, it is noted that the IHACPA will investigate whether the AN-ACC can be applied to MPS residential aged care services over the medium to long term (section 8.2). WA would expect a partnership approach across governments to be taken to this matter, given the significant State funding contribution to MPS sites, their presence as a workforce hub in small communities and their criticality to regional and remote health and aged care services in this State. MPS sites provide integrated health and aged care services in small regional and remote communities and are therefore distinct from residential aged care facilities. An ABF model would likely be inefficient when applied to MPS services.