Government
of South Australia

Hon Chris Picton MP
Minister for Health
and Wellbeing

MHW-A22-5678

Ms Joanne Fitzgerald
A/Chief Executive Officer
Independent Hospital and Aged Care Pricing Authority
Email: secretariatihpa@ihacpa.gov.au

Dear Ms Fitzgerald

Thank you for providing me the opportunity to respond to the consultation paper that has been released to support the development of the Pricing Framework for Australian Aged Care Services (the Framework) that supports the legislative and other changes in response to the recommendations from the Aged Care Royal Commission into Aged Care Quality and Safety.

I recognise the undertaking of developing the Framework is a challenging but necessary one and that this will operate across Australia in public, private and non-government sectors. Each of these sectors supports their communities in different ways based on resources available to them, be it access to capital, staffing, volunteers and other goods and services that may be available to support their organisation's success.

The development of the Pricing Framework is a vital starting point and I recognise the directions covered by the consultation paper that are mostly focussed on operating expenditures and how this helps to inform similar pricing mechanisms currently utilised in our public hospitals.

SA Health's feedback on the Framework is prefaced by noting that much of the aged care services undertaken by SA Health occurs in regional and rural South Australia as it is not viable for private and other operators to work within these markets. This differs from metropolitan Adelaide where there is a range of private/non-government aged care operators.

In addition, across all areas of the State, SA Health works to ensure the smooth discharge of patients to aged care and to support residents when they are recovering from acute illness or have other health care needs. It does this by working closely with all sectors as a part of the patient journey, noting that each sector has its own unique place within the spectrum of services provided to the aged care sector.

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SOUTH AUSTRALIA

With the projected growth in aged care demand in the near future, SA Health is therefore concerned that the Framework does not neglect ensuring there are:

- Appropriate incentives for investment to occur in aged care that recognises:
    - Operational risk and reward,
    - A need to ensure there is effective bed development that comes from the ability to raise capital and to ensure that asset refurbishment occurs,
    - Accountability of entities that are invested in the sector, including to their clients and to the Commonwealth through applicable aged care standards
- High labour standards that are efficient and effective in providing the services and care that is required in aged care. It should be noted that SA Health employees are subject to public sector enterprise bargaining standards that are generally higher than may be afforded by the Fair Work Commission that ultimately will underpin the Aged Care Pricing Framework.
- Ongoing workforce shortages and increased costs due to the use of agency and overtime will impact the pricing over the short and medium term.

Without the Framework mechanisms to protect the sector, there is the potential for crisis in the confidence of aged care providers that could lead to shortage or at worst threaten the wellbeing of the aged care clients. Any decline in standards will take time to recover especially at a time of growth that is occurring in the sector.
SA Health would therefore not want to be compelled to become a provider of last resort to support Commonwealth policies such as the Framework that may not have served the aged care sector well.

In addition, I am concerned that the proposed Pricing Framework will establish a one size fits all for all aged care providers regardless of cost structures, labour and other standards, level of operational efficiency, and the ability to generate resident co-payments. I am therefore concerned that if these variations are not recognised within the Pricing Framework there is a high risk that residential revenue will re-balance from cost "inefficient" sites to those that are "efficient" solely on the criteria established by the Framework.

I am extremely concerned that State public aged care will face a potential reduction in revenue which will need to be supplemented by the South Australian Government in the markets in which it operates as a supplier of accommodation of last resort. To protect South Australia's interests we will closely monitor the impact of the Framework on aged care pricing by establishing and monitoring South Australia's aged care funding base.

I have enclosed a copy of the responses that have been prepared in response to the Consultation Questions.

Should you require additional information please discuss with Ms Catherine Shadbolt, Director Activity Based Management & Funding via Catherine.Shadbolt@sa.gov.au or (08) 8226 0792.

Thank you once again for contacting me about this important matter. I trust this information is of assistance.

Yours sincerely

Chris Picton MP
Minister for Health and Wellbeing

27/10 / 2022

Encl: SA's Response to Consultation Questions regarding an Aged Care Pricing Framework

Towards an Aged Care Pricing Framework
Consultation Questions
SA Health Response

Changes to the aged care pricing and funding models are expected to have impacts across the aged care service market. This includes risks of emerging market failures for services where funding models do not support sustainability for private and NGO providers.

This will impact SA Health as both a provider of aged care services and at the health aged care interface, where the health system becomes a safety net for people whose needs are unable to be met by the aged care sector.

Work to articulate roles and responsibilities across aged care and health is currently underway between the Commonwealth and States and Territories. It will be important that the aged care pricing model reflects this work, to support health system capacity and service access.

State and territory Government

Through the process of developing pricing advice, there must be a forum for State and Territory governments that is separate to the broader sector.

- The potential impact to state health systems is significant and needs to be monitored and understood, particularly through early development of the model.
- State and Territory governments also play a critical role on the delivery of aged cares services, particularly in areas of market failure such as complex services needs or in remote areas. These services often face unique challenges which should be considered as part of a dedicated forum with State and territory governments.

Section 4: A new funding approach for residential aged care

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?*
	The paper canvasses a wide array of issues and differences that it proposes to review in finalizing a Pricing Framework that can then be applied by the Commonwealth in meeting its pricing objectives. The challenges that it proposes for the States as a major provider of Aged Care services is whether the criteria that are applied within the Pricing Framework is capable of being applied in a realistic way by the managers of an Aged Care facility or service. For example, does the additional National Weighted Activity Unit (NWAU) translate into: • Reliably measured nursing hours per day that enables a trained skill mix to support residents or • The ability for managers of remote locations to manage higher vacancy rates and balance this against the minimum facility staffing requirements. The complexity of the National Health Reform Agreement is difficult for hospital managers to effectively manage and it is therefore essential that the Aged Care Pricing Framework is able to develop in an environment that is stable and supported by managers. SA is also keen to ensure that Pricing Framework can ensure the sustainability of modelled services in the long term. With the expected growth in demand for residential and other aged care services, it is essential that the Pricing Framework does not have any introduced pricing bias that threatens the viability of services, be they provided in rural/metro settings or by public/private/NGO providers. SA Health would not want to be placed in the position of being a provider of last resort that could occur if there is failure of the Pricing Framework to protect the efficient and effective operation of all providers operating in the sector.

	The Pricing Framework should therefore support an appropriate level of revenue so that the risks and rewards support sustainable services provided by the aged care sector. This would need to be done in a way such that there is access to capital to provide further investment in assets, refurbishment of facilities and the ability for providers to improve their ongoing operations. There are pressing labour issues across the sector that include labour practices, remuneration rates, occupational health and safety, etc. It is noted that the Pricing Framework proposes the pricing of labour through the Fair Work Commission's determinations (ie the minimum legal rate). With SA Health's staff employed under its own enterprise bargaining arrangements it is argued that these arrangements are at a level higher than is priced by the Framework as provided by the Fair Work Commission. It should also be recognized that to support this initiative, aged care providers have invested in new ICT systems so that they can gather and report the new data required to support the Pricing Framework. The Pricing Framework should recognize the annual expense of operating and replacing these assets as these will be new costs to the sector. Without these mechanisms being considered within the Pricing Framework, aged care provided by non-government agencies will suffer and require a provider of last resort to step in for example through a State owned Local Health Network facility.
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?*
	<u>Risk of market failure</u> The pricing model must incentivise the market. Where pricing does not allow for providers to deliver viable services, market failure will emerge. Resulting impacts to older people and community will be heavily felt across the health system. In particular, the delivery of complex services such as behaviours supports, must be appropriately incentivised to support providers manage the cost and safety risks associated with service delivery. Where this does not occur, providers will exit the market and place greater pressures on the public Health system. Where market failure emerges, there must be mechanisms to adopt bespoke funding models which support service delivery by appropriate providers, including by State and Territory governments. Consideration should be given to block funding service components for regional areas, where fixed costs and lower demand will create risk to provider sustainability issues, similar to the model used for small rural hospitals. Activity data used for costing must consider the environment it is measuring and the outcomes of people receiving care. In many areas current workforce shortages would drive down the activity data and resulting cost model. <u>Operating Costs versus Occupancy</u> There is a minimum cost to operate a facility and in regional areas there is often low occupancy (or even available beds) which has been an increasing issue particularly with the increase in Care at Home packages that diverts patients away from higher cost residential accommodation. There is still a requirement for these small regional accommodation facilities and their services cannot be simply absorbed into another aged care service. They need to be funded in a way so that they remain viable within an activity based funding environment. Minimum cost requirements have been addressed for residents in MMM6 and 7 but not any other areas. The majority of SA's sites sit in the MMM 5 area, so there is no adjustment for small

	facilities that was previously addressed in the viability supplement under the Aged Care Funding Instrument funding model. By adopting the Fair Workplace Commission determinations, the Pricing Framework takes on remuneration outcomes of this determination, however provisions that deal with labour standards will need to be closely monitored so that changes can be adequately implemented in the current year of the change in the Pricing Framework. Adverse audit findings The Pricing Framework will not account for services that provide high quality care from those that may be subject to adverse audits and outcomes. When establishing prices the Pricing Framework should be conscious of these variations so that the Pricing Framework support the sector as a whole to adapt to quality care. It is concerning that the Pricing Framework envisages pricing safety and quality measures after a number of years. Whilst it is accepted that this is reflecting a number of practical issues, it is felt that there are some high level measures that could be introduced earlier for example where they involve nursing care. The ability to manage safety and quality within the Pricing Framework should consider the ability to manage resident infection, bed sores and drug dosing errors as priorities.
3	*What, if any, additional factors should be considered in determining the AN-ACC national weighted activity unit (NWAU) weightings for residents?*
	Although facility size is not a factor that is linked to the demographic to describe the resident, this should be recognized as a factor for facilities in the MMM5 regions. This should also be considered especially for respite residents, as under the current model, our facilities in the MMM5 areas will be worse off under the AN-ACC model. Once cost data systems are fully established other factors may be evident eg patient transport to access hospital services Otherwise the Pricing Framework appears to adequately recognize patient differences and also provides a basis for a consultative approach to reviewing and evaluating other adjustment factors that may be presented in the data.
4	*What should be considered in developing future refinements to the AN-ACC assessment and funding model?*
	As above in 3

Section 5: Principles for activity based funding in aged care

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?*
	SA do not see any changes needed to the three types of principles within the framework and the layered approach to policy, process and system design provides sound guidance to the pricing framework.
6	*What, if any, additional principles should be included in the pricing principles for aged care services?*
	There should be a principle focused on the pricing framework being resident centred. A number of the principles discuss that care should be accessible and in the right setting, but this should be established as a key principle. It is argued that mechanisms that support safety and quality care of residents should be implemented earlier than envisaged by the discussion in the Consultation Paper. Nursing measures should be an initial key area of focus.

	Care close to home for rural and remote Australians is something that is not universally available to all families. Clearly the reasons for this are not always the result of bed planning decisions however the Pricing Framework should be capable of supporting incentives that ensure residents have access to the right bed at the right time according to their condition. The principles largely focus on operating expenses when a comprehensive system of design principles should encompass all funding in a balanced way. For example, how do you balance lack of access to capital and opportunity for better management of risks and rewards of the proposed funding system to address undesirable and in advertent consequences. It is therefore noted that some of the design principles present risk to SA Health in the event that we need to support the provision and development of aged care facilities and services, particularly in rural areas.
7	*What, if any, issues do you see in defining the overarching, process and system design principles?*
	In relation to the overarching principles, having efficiency as a driving principle will not support market growth. It is also not clear that efficiency is an appropriate principle for social service delivery of care and support. This principle is at odds with funding models for the NDIS, which seek to drive market growth and service access. There is a risk that in pursing efficiency, high-cost providers will exit the market, increasing pressure on public health services as a safety net, and drive down the overall quality of aged care services or reduce access to complex care services. There must be more emphasis on achieving outcomes for older people and communities, with funding models seeking to drive improved outcomes for people. In regard to quality care, the Quality Standards are a minimum baseline for provider accreditation, they do not reflect ambitious aims to improve outcomes for older people. While it is important that funding supports providers requirements for meeting minimum quality standards, it should not be considered a substitute for quality, person centred outcomes. The Commonwealth as the funder of services is in a very powerful position and there does not appear to be mechanisms that supports monitoring of the overarching principles except by significant investment in data monitoring systems and an appointed auditor of the aged care system. In relation to process principles they should support an equitable and simple ABF model. It is noted that an ABF system will by its nature, present providers with a range of incentives that promote Commonwealth policy objectives over time. But, although stated that the implementation of ABF should have minimal impost with new data collections and costing studies, to ensure these process principles are met there will need to be an initial investment in effective systems and costing processes to be able to align the price of care to costs. There will also need to be strong engagement with providers of care to ensure that these systems work. It is noted that system design principles support the statement “Care delivery is not a static system” and SA believes this is a key to the system design principles. With these principles should come flexibility to meet the ever changing needs of care, with the focus on right care at right setting at the right time. These may vary in rural and remote where accessibility to services is limited and innovative solutions, including funding solutions should be considered.

Section 6: Developing aged care pricing advice

8	*What, if any, concerns do you have about this definition of a residential care price?*
	SA does not have any concerns with the definition of a residential care price, noting that it will be an extended process, developing as there is refinement in technical models and costing data. The paper notes that it will be feasible for greater efficiencies to be driven through pricing reform. The process to prepare data for pricing should be capable of ensuring that the price is unbiased and can ensure that undesirable and inadvertent consequences are minimized. Pricing should not in itself contribute to an escalation of risk such that there is a detriment to services and providers make the choice to withdraw from the sector.
9	*What, if any, additional aspects should be covered by the residential aged care price?*
	Training and administration hours for capturing documentation requirements for accreditation purposes should be included in the price. Accreditation visits are a key aspect in ensuring quality care is provided to residents, but these accreditation visits put additional burden on staff during these periods. This should be funded so additional staff can be on site during these visits specifically to assist accreditors and not take away from care time. This will ensure all documentation is completed. A quality assurance cost should be included. The funding should account for the significant cost of establishing, maintaining and responding to quality care and continuous improvement. Whilst this is a recognised ongoing cost of service delivery, the constant change, alignment or fragmentation with NDIS and hospital accreditations means that resources to manage this process must be considered in the overall pricing model. Providers are exiting the system due to the complexity and challenges of maintaining high quality care with such chronic workforce shortages; so funding that recognises the need to support continuous improvement and review are essential Recruitment – as new national regulation and screening requirements come into being, the process to recruit may become more complex and time consuming. Consideration of the cost of recruitment and retention in this high turnover environment should be considered. Any cost increases required to implement the additional requirements of the pricing and costing frameworks should also be included.
10	*What, if any, concerns do you have about the proposed pricing approach and level of the residential aged care price?*
	It is our assessment that the proposed price established from the Pricing Framework will create a minimum service expectation however given the desire to achieve greater efficiencies within the sector through pricing, there will be pressure for more to be provided through client co-payments where this is possible to implement (eg to ensure there are good residential social environments, food, etc). The ability for co-payments to be generated within settings in which SA Health's residential settings are located will be subject to retirement incomes generated throughout the resident's life as well as policies that are operated by the Commonwealth such as superannuation accounts that may be exhausted. This is also occurring at a time of increased life expectancy increases the prospect of retirement assets being exhausted. Again, this may require the State to support good aged care in its facilities.

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?*
	In the medium term the pricing approach would lean more heavily on a higher percentage of best practice pricing compared to cost based to reflect the need to ensure that pricing supports any increases needed to met minimum care standards. As costs increase over time the move would be to a cost based approach as the minimum standards should be met. This is similar to what occurred with the implementation of hospital efficient pricing. Cost based outcomes will need to be informed by the quality of care and services that are provided. Once this standard of care has been established, the cost model that is used for pricing should exclude data that is not capable of meeting the required standard. It is noted that the Commonwealth's priorities have not supported the formation of more efficient aged care services except to allow market forces to make these judgements in the private sector, including through the ability to access aged care deposits.
12	*What should be considered in the development of an indexation methodology for the residential aged care price?*
	It is noted that the model for the indexation of public hospital costs could be applied to Aged Care however changes to labour standards are a risk area noting that the Fair Work Determinations are at a material variation from wages outcomes that have occurred in the public sector. As the aged care sector already suffers from not being able to attract appropriate staffing, there will be pressure on the indexation method that is applied. As labour standards mature within aged care, the Pricing Framework will need to assess any shortfall to consider whether labour costs should be supplemented to deliver permanent increases in staffing costs.
13	*What, if any, additional issues do you see in developing the recommended residential aged care price?*
	As a Government organisation, we are required to pay staff under the various state awards and agreements that are not in line with the Fair Work Commission prices. The current difference for the base hourly rate for an RN1 nurse is almost $15 an hour. This gap increases significantly for weekend and public holiday shifts. There is also a large nursing shortage currently with facilities utilizing large amounts of overtime and agency staff. This puts additional pressure on the viability of these services if this is not factored into the aged care price. The Pricing Framework should therefore consider whether a universal price is appropriate in a national system that is operating under very different labour standards and cost structures. If the proposed Pricing Framework is adopted there is a risk that any top-up currently provided by the State to support its own services will need to supplemented in the event that the Pricing Framework does not recognize this. There needs to be recognition that regional and remote providers are often required to provide residential, RAC or MPS, services to communities where no other providers exist and where GP support is often only available via telehealth. The resident level of complexity plus the chronic workforce shortages makes working to a mandated model of care very difficult. Providers may be disadvantaged by the Star rating as a result of caring for complex consumers using innovative and flexible workforce models that may not always conform to the mandated on-site nursing model.

Section 7: Adjustments to the recommended price

14	*What, if any, changes are required to the proposed approach to adjustments?*
	SA would support adjustments for items such as oxygen, enteral feeding, hardship requirements, and veteran mental health.
15	*What, if any, additional adjustments may be needed to address higher costs of care related to resident characteristics?*
	Regional LHNs have advised that an adjustment should be available for residents that potentially pose a risk to other residents. Often these residents require one on one care to minimise the risks to other residents. These residents still require a quality of life, and as there are limited alternative facilities equipped to deal with some of these behavioural issues residential aged care facilities will have to accept the costs and risks of these clients. If additional funding was available for extreme behaviors, this could also assist the safety of other residents.
16	*What evidence can be provided to support any additional adjustments related to people receiving care?*
	Staff feedback and care notes have been suggested for individual patients and would therefore need to be considered under other special adjustments that could be applied. The cost of system integration is complex for providers and with added complexity when a state and territory provider also needs to deliver and report upon health related activity
17	*What should be considered in reviewing the adjustments based on facility location and remoteness?*
	It is believed that MMM4 facilities should include a higher allowance for facility remoteness noting that there are residents who have to travel several of hours to get to their nearest facility (i.e. Peterborough and Orroroo).
18	*What evidence can be provided to support any additional adjustments for unavoidable facility factors?*
	In a number of areas there is aged infrastructure and conditioned based assessments would have to be prepared and additional funding sought to maintain bed plans. There is the potential need for additional or purpose-built equipment for resident safety and to support safe manual handling of residents. It is argued that this equipment should be capable of being purchased through the Pricing Framework and not be subject to limited or no capital funding.
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?*
	We have noted earlier in our comments that nursing measures of safety and quality should be considered a priority. This would include incentives to support the implementation of practices and provide contingency in the event there is a need to prevent infection outbreaks or to support hospital avoidance and reduced acquired complications (eg bed sores).

Section 8: Priorities for future developments

20	*Should hotel costs be incorporated into the AN-ACC funding model and what should be considered in doing this?*
	Hotel services should be included, but there does need to be consideration of variables in sites and that one size may not fit all. An example may be a shared kitchen between sites with the need to transport food. Consideration of Hotel services are resident centred and therefore vary for residents depending on their care needs.
21	*What should be considered in future refinements to the residential respite classification and funding model?*
	Consideration needs to be given to the higher incidence of Dementia, the higher level of care required during respite due to more high care packages and later stage dementia being able to be cared for at home for longer. The time taken and consumer interactions to undertake a respite care period for a potential resident is significant and the funding to support this should match that of a permanent resident workflow. Consumers are choosing to try before they buy, and this respite service is likely to grow.
22	*What are the costs associated with transitioning a new permanent resident into residential aged care?*
	This cost does vary with each resident as the diversity of culture and family requirements needs to be considered, along with time for information sharing, discussion and decision making.
23	*How might workforce challenges present in the implementation and refinement of AN-ACC for the aged care system?*
	The current shortage of nursing is possibly going to impact on the mandatory RN minutes, especially in smaller facilities. Labour practices and systems should be considered as a high priority across the sector to protect consumers. Costing advice needs to consider the workforce environment and support opportunities for flexible workforce use and service access. To align with SA Government awards, stated based aged care providers pay on average 15% more than the not-for-profit sector averages and this needs to be reflected in costing. Resident profiles change over time and therefore the workforce model will need to have the ability to flex up and down as the consumer complexity is constantly changing. This needs to be considered and included in the ongoing pricing. The framework needs to be simple and adaptable to these workforce changes which have the ability to impact cost. In many instances, particularly in regional areas, the workforce is shared across aged care, health and disability services. Funding models that put these sectors into competition will ultimately see people with support needs losing out on service access. Funding models should also provide for appropriately supported training, supervision and development. This will be critical for recruiting, developing and retaining skilled workforces.
24	*What areas should be included in the proposed five-year vision for IHACPA's aged care pricing advice?*
	For the five-year vision there needs to be potential for limited available workforce and the need for workforce reform together with potential for increased Nurse Agency usage to address nursing hours needs. There will be an increased need for specialty medical services to address health services needs for residents (eg virtual care services that offer services equivalent to an emergency department in a hospital) Pricing advice should consider the future ambitions of aged cares services and integrate work emerging through research and future policy directions.

	• A clear barrier to the sustainable development of health service innovation has been sustainable and fit for purpose funding models, which often lag and hinder progress. • This should be factored into the establishment of the aged care model, with pricing advice which incorporates future focused options for growth and innovation, supported by person centred outcomes. <u>Innovation</u> There needs to be incentives for providers to develop and deliver innovative care and lifestyle models that better support the remote monitoring, care and engagement via technology is essential. Face to face models, whilst always preferred, must be supplemented by virtual models as workforce shortages and consumer preferences change. This will be particularly important in the Support at Home models of the future.
25	*What would be considered markers of success in IHACPA's aged care costing and pricing work?*
	Viability of aged care services of all sizes, in all locations and improved care.

It is noted that the Commonwealth does not have mechanisms to ensure service improvements are implemented prior to the implementation of the new Pricing Framework (eg to address provider inefficiency). It is assumed that the services providers will need to either raise capital to support this or reinvest any accumulated surplus in the absence of a direct Commonwealth strategy.