

**ACCPA's submission  
in response to  
IHACPA's  
Consultation Paper  
on the Pricing  
Framework for  
Australian  
Residential Aged  
Care Services  
2025-26**

September 2024

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## About ACCPA

The Aged & Community Care Providers Association (ACCPA) is the national Industry Association for aged care providers offering retirement living, seniors housing, residential care, home care, community care and related services.

ACCPA exists to unite aged care providers under a shared vision to enhance the wellbeing of older Australians through a high performing, trusted and sustainable aged care sector. We support our members to provide high quality care and services while amplifying their views and opinions through an authoritative and comprehensive voice to the government, community and media.

Our sector serves to make better lives for older Australians, and so do we.

# Background

On 14 August 2024, IHACPA released its *Consultation Paper on the Pricing Framework for Australian Residential Aged Care Services 2025-26* (Consultation Paper) for comment.

IHACPA is inviting feedback about its role in residential aged care and residential respite care. In particular, they are seeking stakeholders' views on:

- the Australian National Aged Care Classification (AN-ACC) branching structure and funding model,
- Aboriginal and Torres Strait Islander specialisation and base care tariffs,
- homeless specialisation and base care tariffs,
- residential respite care, and
- proposed changes to IHACPA's residential aged care pricing principles.

The submissions received in response to the Consultation Paper will inform the development of the Pricing Framework for Australian Residential Aged Care Services 2025-26.

ACCPA is pleased to submit our response to the Consultation Paper.

## Executive summary

ACCPA welcomes the opportunity to provide feedback on the Consultation Paper. This submission draws on the experience and expertise of our members, which include over 500 residential aged care providers across Australia.

We support IHACPA's role in providing independent pricing advice to Government for residential aged care, which commenced in 2023. However, we believe that IHACPA's role should be expanded to determining aged care pricing. In our *2024-25 Pre-Budget Submission*, we recommended implementing independent pricing determinations for aged care to ensure pricing is transparent and evidence-based, and not impacted by changes in government.<sup>1</sup> ACCPA believes that this should be actively considered for immediate implementation.

We also note that the timing of the Australian National Aged Care Classification (AN-ACC) price announcement continues to present challenges for aged care providers. In December 2023, the Government announced that moving forward the AN-ACC price would be announced in August and come into effect from 1 October. Although this change in timing enables IHACPA to account for any cost increases from 1 July in its advice,<sup>2</sup> it significantly limits providers' ability to budget and undertake business planning. This determinant impact was exacerbated in 2024, as the AN-ACC price was not announced until mid-September.

It is critical that providers are adequately funded under the AN-ACC funding model to support the delivery of quality services to all residents. ACCPA members report that the level of funding for residents who are mobile but severely cognitively impaired is inadequate to meet the level of care they require. In light of this, we were pleased by the recent announcement that funding for AN-ACC class 3 residents will increase from 1 October 2024. We will be seeking feedback from our members over the coming months about whether this increase is sufficient to meet the needs of such residents. Aged care providers also report that they do not receive adequate funding under the AN-ACC model to meet the needs of residents with complex healthcare needs, such as mental health challenges or with a history of drug or alcohol use.

We welcome the focus in IHACPA's Consultation Paper on funding for residential respite care, which is another significant area of concern for many ACCPA members. Despite increasing demand for respite care, several providers report that they have either ceased or reduced their respite care services due to their significant impact on financial viability. There is a clear need for the Australian Government to explore options for incentivising services to provide a residential respite model of care. This will be increasingly important as Australia's ageing population grows and more people age in their home.

The adequacy of the current adjustments for care-related costs impacted by service location has also been an ongoing concern for the sector, as discussed in the Appendix. For this reason, ACCPA welcomed the recent announcement that revisions are being made to the Base Care Tariff structure for services in MMM 1 to 5 to better reflect the higher costs incurred by services in MMM 2 to 4 compared to metropolitan services.

## Recommendations

- R1 That IHACPA undertakes further costing work to accurately identify the cost of providing care to residents:**
- with mental health conditions, and/or
  - have experienced or are at risk of homelessness, and/or
  - with a history of drug or alcohol issues
  - who have had bariatric surgery.
- This work should inform IHACPA's pricing advice for 2025-26, as well as future reviews of the AN-ACC classes.
- R2 That IHACPA undertakes a costing study to better understand whether there are additional costs of providing care to culturally and linguistically diverse residents.**
- R3 That IHACPA undertakes a costing study midway through the financial year to determine whether the increases to respite funding announced in September 2024 accurately reflect the cost of delivering respite care. This costing study should inform IHACPA's pricing advice to Government for 2025-26.**
- R4 That the Australian Government considers options for supporting providers to offer residential respite care. This could include, for example, introducing an adjustment payment to cover the costs associated with admission for respite residents.**
- R5 That IHACPA:**
- a) works with the sector and the Government to review the timing and process for the provision of IHACPA's pricing advice and the AN-ACC price announcement; and
  - b) considers, as part of this review, releasing non-wage related AN-ACC pricing by May annually, with additional IHACPA pricing advice sought on wages/indexation following the Annual Wage Review decision.
- R6 That the Government expand the role of IHACPA to include determining aged care pricing.**
- R7 That IHACPA's pricing advice reflect the cost of delivering the desired quality of future aged care services.**
- R8 That IHACPA actively considers the differences between acute care and longitudinal care, and whether current approaches to hospital pricing and costing are fit for purpose in aged care (particularly the distinction between National Efficient Price (NEP) and National Efficient Cost (NEC)).**
- R9 That IHACPA explores options for supporting residential aged care services to participate in cost collection studies.**

# Introduction

ACCPA strongly supports IHACPA's role in providing independent costing and pricing advice to the Australian Government. We also note that this is only the second year in which IHACPA has provided pricing advice for aged care, and that its pricing framework and residential aged care pricing advice will be refined over time based on data collections and stakeholder feedback.

Despite some improvement over the past year, many residential aged care providers continue to experience financial strain, with around half continuing to report a loss. StewartBrown's *Aged Care Financial Survey Report March 2024* found that mature residential aged care homes had an average operating result of \$0.64 per bed day deficit (which equates to an annual operating loss of \$218 per bed).<sup>3</sup> It also shows accommodation losses at \$10.16 per bed per day and everyday living losses at \$5.62 per bed per day overall.<sup>4</sup>

ACCPA anticipates that a number of significant recent developments should improve the financial viability of the sector. These developments include:

- the funding provisions of the Aged Care Bill 2024, which enact many of the Aged Care Taskforce's recommendations (subject to its passage through Parliament)
- the Government announcing that the 2024025 AN-ACC price will be \$280.01 (an increase from the 2023-24 AN-ACC price of \$253.82)
- changes to the AN-ACC BCT structure and funding for services operating in MMM 1 to 5.

However, having an effective pricing and costing framework in place is also vital to ensure residential aged care services are adequately funded to deliver care to the standard expected by the community. We will continue to engage with IHACPA to ensure the pricing and costing frameworks in aged care will support a sustainable aged care sector which is equipped to meet future demand and expectations of high quality care.

# The AN-ACC funding model

## The classification system

ACCPA welcomes the focus in the Consultation Paper on the classification system, including seeking feedback on whether the current AN-ACC classes group independently mobile residents in a manner that is relevant to both care and resource utilisation.

Since the AN-ACC model was introduced, ACCPA members have expressed concerns that it does not adequately fund the cost of delivering care to residents who are mobile but cognitively impaired. These commonly include residents with dementia and who display responsive behaviours. Providing the level of care these residents need requires higher levels of staff input that is not recognised in the current classes. Combined with significant workforce supply constraints in the sector, this may act as a disincentive for residential aged care homes to accept prospective residents with these characteristics. This, in turn, may limit access to care for vulnerable cohorts of older people in Australia.

ACCPA was therefore pleased to see the recent announcement that from 1 October 2024, funding for AN-ACC class 3 residents (independent mobility with compounding factors) will increase from \$78.60 per resident per day to \$103.60.<sup>5</sup> We will be engaging with our members over the coming months to understand the impact of this increase and, in particular, whether it is adequate to cover the cost of delivering care to this cohort. Another area of concern raised by ACCPA members is that the AN-ACC model does not provide adequate funding for cohorts of residents with complex healthcare needs, such as mental health conditions, who have experienced or are at risk of homelessness, a history of drug or alcohol use and/or who have had bariatric surgery. Supporting residents with these characteristics is significantly more time and staff resource intensive for aged care providers than what is funded.

In addition to having higher care needs, other additional indirect costs can also be incurred by residential aged care providers with residents who have complex needs. These may include, for example, more reportable incidents and greater interaction with the Aged Care Quality and Safety Commission. These, particularly when combined with higher care costs which are not adequately funded under the AN-ACC model, create a significant barrier to providers accepting prospective residents with certain characteristics.

It is therefore critical that IHACPA's costing studies capture the true cost (both direct and indirect) of providing care for older people with mental health conditions, who have experienced or are at risk of homelessness, have a history of drug or alcohol use and/or who have had bariatric surgery.

**Recommendation 1: That IHACPA undertakes further costing work to accurately identify the cost of providing care to residents:**

- with mental health conditions, and/or
- have experienced or are at risk of homelessness, and/or
- with a history of drug or alcohol issues
- who have had bariatric surgery.

**This work should inform IHACPA's pricing advice for 2025-26, as well as future reviews of the AN-ACC classes.**

## Adjustments for factors related to people receiving care

As noted in the Consultation Paper, the AN-ACC model makes adjustments to account for the additional costs of providing care to:

- Aboriginal and Torres Strait Islander people in remote and very remote locations; and
- people at risk of, or experiencing, homelessness and have a relevant behavioural diagnosis.

Some providers have reported that there are higher costs associated with providing care to Aboriginal and Torres Strait Islander people compared to the general resident population, regardless of location. This suggests that there is a need to consider whether specialised BCT rates should apply for all Aboriginal and Torres Strait Islander people, rather than only those who are accessing services in MMM 6 and 7 locations.

There is also a need for future costing studies and research to better understand whether there are variations in the cost of delivering care for other cohorts, such as culturally and linguistically diverse residents. Evidence shows that culturally and linguistically diverse people are at higher risk of receiving poor healthcare and having worse health outcomes compared to the general population.<sup>6</sup> This may indicate that greater investment may be needed to meet the particular needs of, and improve the health outcomes for, older people from culturally and linguistically diverse backgrounds who are living in residential aged care.

In addition, there are several aspects of the Aged Care Bill 2024 which, if enacted, are likely to have cost implications for providers with culturally and linguistically diverse residents. For example, the definition of high quality care in section 20 includes 'bilingual aged care workers and interpreters being made available if requested by the individual'. Similarly, the Statement of Rights under section 23 states that 'An individual has a right to communicate in the individual's preferred language or method of communication with access to interpreters...' This creates further impetus for exploring whether an adjustment may be needed to account for additional costs of providing care to culturally and linguistically diverse residents.

**Recommendation 2: That IHACPA undertakes a costing study to better understand whether there are additional costs of providing care to culturally and linguistically diverse residents.**

## Residential respite care

The current funding model approach across each respite classification is inadequate to support providers seeking to provide residential respite care, resulting in more demand than services. While the recently announced increases in funding for the AN-ACC respite classes from 1 October 2024 are expected to help address this issue, at this stage it is unclear if they will be sufficient to encourage more services to provide a residential respite model of care.

ACCPA members have provided strong feedback that residential respite funding is insufficient, and that consequently offering respite care carries financial risks for providers. It has been estimated that funding would need to increase by 20 per cent or more to make it cost neutral to have a respite bed rather than a permanent bed. In addition, providers do not receive an admission payment for respite residents, despite having to undertake a comprehensive admission process comparable to that of permanent residents. Further, providers are required to undertake an assessment each time a respite resident stays with them, as their presentation often changes significantly between stays.

Providers report having taken a range of measures because of the financial challenges associated with providing respite care. These have included implementing a minimum length of stay for respite residents, as well as either reducing the number of respite beds offered or only making these available on an ad hoc basis.

In addition to financial risks, there are also other factors that present barriers to providing residential respite care. These include the impact of having short-term respite residents on permanent residents (e.g. residents with dementia may find it confusing or unsettling, potential conflicts between residents), and that it can be challenging to access medical care for respite residents whose General Practitioner will not see them while staying in the home.

Insufficient funding under the current funding model, combined with the additional challenges outlined above, are resulting in fewer providers offering fewer respite services. This is occurring at a time when demand for respite care is increasing due to an ageing population and a growing preference for home care. Data also shows that it is becoming increasingly common for older people to access residential respite care prior to becoming a permanent resident,<sup>7</sup> which may be inhibiting access for older people who are genuinely seeking short term respite. Measures to incentivise providers to offer dedicated respite beds, including increased funding, are therefore essential for meeting demand.

We note that in September 2024 the Government announced changes to AN-ACC classification funding which included increased funding per resident per day for AN-ACC respite classes 100, 101 and 102. While we welcome these increases, they do not come into effect until 1 October 2024 and therefore it remains to be seen whether they will be sufficient to address the challenges outlined above.

**Recommendation 3: That IHACPA undertakes a costing study midway through the financial year to determine whether the increases to respite funding announced in September 2024 accurately reflect the cost of delivering respite care. This costing study should inform IHACPA's pricing advice to Government for 2025-26.**

**Recommendation 4: That the Australian Government considers options for supporting providers to offer residential respite care. This could include, for example, introducing an adjustment payment to cover the costs associated with admission for respite residents.**

# Additional feedback

## Timing of IHACPA's pricing advice and the AN-ACC price announcement

In our submission in response to IHACPA's *Consultation Paper on the Pricing Framework for Australian Residential Aged Care Services 2024-25*, ACCPA highlighted the challenges presented by the timing of the Annual Wage Review decision regarding wages indexation being released mid-year, well after IHACPA's pricing recommendation was submitted to Government and considered as part of the May budget process.<sup>8</sup> We therefore recommended that IHACPA work with the sector to identify an appropriate indexation methodology for workforce wages that can also account for the timing difference of IHACPA's annual pricing recommendation to Government and the Annual Wage Review indexation decision.<sup>9</sup>

In an effort to address this issue, the Government announced in November 2023 that the AN-ACC price would be announced in August 2024 and come into effect from 1 October annually.<sup>10</sup> This change in timing was intended to enable IHACPA to include the outcome of the Fair Work Commission's Annual Wage Review decision in their annual price review.

While ACCPA welcomed this announcement, we are concerned that the 2024-25 AN-ACC price was not announced until 17 September 2024. This delay has caused uncertainty and hardship for the sector, significantly limiting providers' ability to undertake budgeting and business planning. In addition to the AN-ACC price, the announcement also included a significant shift in the variable component between AN-ACC classes and in care minutes between classes. These changes have substantial implications for rostering and workforce planning, yet providers have only been given two weeks to prepare for the changes coming into effect from 1 October 2024.

It is imperative that the Government and IHACPA work together to identify an alternative approach which will better enable providers to plan for the coming financial year. We recommend that the non-wage related AN-ACC pricing/indexation be released by May each year, providing aged care providers with sufficient information to appropriately plan on the known indexed numbers. This should be followed by Government seeking an additional pricing recommendation from IHACPA after the Annual Wage Review decision to ensure overall sufficiency of pricing advice for 2024-25.

### **Recommendation 5: That IHACPA:**

- a) works with the sector and the Government to review the timing and process for the provision of IHACPA's pricing advice and the AN-ACC price announcement; and**
- b) considers, as part this review, releasing non-wage related AN-ACC pricing by May annually, with additional IHACPA pricing advice sought on wages/indexation following the Annual Wage Review decision.**

## Independent pricing determinations for aged care

In addition to advocating for changes to the timing of the AN-ACC price announcement, ACCPA has called for IHACPA's role to be expanded to determining aged care pricing (as it currently does for the health sector). In our *2024-25 Pre-Budget Submission*, ACCPA recommended implementing independent pricing determinations for aged care to ensure pricing is transparent and evidence-based, and not impacted by changes in government.<sup>11</sup> This would require an amendment to Section 131A of the *National Health Reform Act 2011* (Cth), which concerns Functions of the Pricing Authority—aged care.

**Recommendation 6: That the Government expand the role of IHACPA to include determining aged care pricing.**

## Costing high quality care

ACCPA notes that there is a distinction between IHACPA costing what is currently delivered (which is what occurs through its current costing practices) and costing what should/could be delivered. This is particularly relevant in the current context, as a significant raft of aged care reforms have been introduced in recent years in response to the Royal Commission into Aged Care Quality and Safety, many of which have associated costs for providers.

One of the most significant reforms is the introduction of a new rights based Aged Care Act, which is expected to commence from 1 July 2025. We are concerned that the Aged Care Bill 2024 includes an 'aspirational' definition of high quality care. If the Bill is passed, this definition will be an indicator of the quality of care the community will expect aged care providers to deliver into the future, despite the fact that they are not funded to deliver that standard of care.

**Recommendation 7: That IHACPA's pricing advice reflect the cost of delivering the desired quality of future aged care services.**

## Appropriateness of the National Efficient Price approach in the aged care context

ACCPA notes that a national efficient price requires a definable unit of activity to act as a multiplier. With regard to aged care, a National Efficient Cost might be more appropriate, because it includes the idea of an 'availability' cost (i.e. part of the funding accounts for the cost of keeping the service open). Critically, we highlight that aged care services are not episodic and therefore do not lend themselves to IHACPA's traditional approach of activity-based funding.

**Recommendation 8: That IHACPA actively considers the differences between acute care and longitudinal care, and whether current approaches to hospital pricing and costing are fit for purpose in aged care (particularly the distinction between National Efficient Price (NEP) and National Efficient Cost (NEC)).**

## Encouraging provider participation in cost collection studies

We recognise that this is only the second year in which IHACPA has provided pricing advice for aged care, and that the methodology will be refined over time. Cost collection studies play an important role in this process, as they inform IHACPA's pricing advice to the Government and help build the evidence base.

While ACCPA encourages its members to participate in these studies for these reasons, we also note that participation in IHACPA's data collections is time consuming for providers. In addition, providers are not compensated for having their staff participate in time in motion studies. IHACPA should consider options for incentivising participation to encourage a high level of participation in cost collection studies by a diverse range of residential aged care services.

**Recommendation 9: That IHACPA explores options for supporting residential aged care services to participate in cost collection studies.**

# Appendix

## Adjustments for service location

We have received strong and consistent feedback from our members about the high costs of delivering care in rural, regional and remote areas, and that this is not adequately funded by the AN-ACC model. Providers have also reported having to increasingly rely on using costly agency staff since the introduction of the 24/7 Registered Nurse and care minutes responsibilities, due to persistent workforce shortages in rural, regional and remote providers. As noted by UTS UARC, residential aged care homes in MMM 2 to 4 are struggling in particular, because they 'are funded at the same (low) fixed BCT rates as those in the major cities but also earn lower variable funding because they serve a more diverse resident profile.'<sup>12</sup> The financial hardship being experienced by this group of providers under the current funding settings was reflected in a recent report by StewartBrown, which found that unless the Aged Care Taskforce's reforms are implemented, residential aged care services in MMM 2 to 4 will continue incurring unsustainable losses.<sup>13</sup>

To address this issue, ACCPA previously recommended that the fixed component of the AN-ACC payment should make adjustment for services in MMM categories 2 to 7, and that adjustments should be weighted so that services in the most remote locations receive the greatest subsidy.<sup>14</sup> We were therefore pleased by the recent announcement that revisions are being made to the Base Care Tariff (BCT) structure for services in MMM 1 to 5. We anticipate that these changes will result in services in MMM 2 to 4 receiving funding which better reflects the cost of delivering care in such areas. We will be seeking members' feedback on the revisions to better understand the impact of these changes once they come into effect and whether any further refinements may be necessary.

# References

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- <sup>2</sup> Department of Health and Aged Care 2023, *Funding the Fair Work Commission Annual Wage Review in residential aged care*, accessed 19 September 2024, <<https://www.health.gov.au/our-work/AN-ACC/annual-wage-review>>.
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- <sup>6</sup> Australian Institute of Health and Welfare 2022, *Reporting on the health of culturally and linguistically diverse populations in Australia: An exploratory paper*, Australian Government.
- <sup>7</sup> Australian Institute of Health and Welfare 2023, *Respite use on the way to permanent residential aged care*, accessed on 18 September 2024, <<https://www.gen-agedcaredata.gov.au/topics/pathways-in-aged-care/respice-use-on-the-way-to-permanent-residential-aged-care>>.
- <sup>8</sup> Aged & Community Care Providers Association 2024. *ACCPA's submission in response to IHACPA's Consultation Paper on the Pricing Framework for Australian Residential Aged Care Services 2024-25*, accessed on 19 September 2024, <<https://www.accpa.asn.au/submissions/ihacpas-consultation-paper-on-the-pricing-framework-for-australian-residential-aged-care-services-2024-25/>>.
- <sup>9</sup> Aged & Community Care Providers Association 2024. *ACCPA's submission in response to IHACPA's Consultation Paper on the Pricing Framework for Australian Residential Aged Care Services 2024-25*, accessed on 19 September 2024, <<https://www.accpa.asn.au/submissions/ihacpas-consultation-paper-on-the-pricing-framework-for-australian-residential-aged-care-services-2024-25/>>.
- <sup>10</sup> Department of Health and Aged Care 2023, *Funding the Fair Work Commission Annual Wage Review in residential aged care*, accessed 19 September 2024, <<https://www.health.gov.au/our-work/AN-ACC/annual-wage-review>>.
- <sup>11</sup> Aged and Community Care Providers Association 2024. *Age of Change: ageing and aged care in Australia, Pre-Budget 2024-25 Submission*, accessed 19 September 2024, <<https://www.accpa.asn.au/wp-content/uploads/2024/03/ACCPA-Pre-Budget-2024-25-Submission-FINAL.pdf>>.
- <sup>12</sup> Sutton, N, Ma, N, Yang, JS, Lewis, R, Woods, M, Tsihlis, E, Lin, J & Parker, D 2023, *Australia's Aged Care Sector: Full-Year Report (2022–23)*, UTS Ageing Research Collaborative (UARC), accessed 18 September 2023, <<https://opus.lib.uts.edu.au/bitstream/10453/173661/2/Australia%27s%20Aged%20Care%20Sector%3a%20Full-Year%20Report%20%282022-23%29.pdf>>.
- <sup>13</sup> StewartBrown 2024. *Aged Care at the Crossroads: Projections If Taskforce Reforms Are Not Implemented*, accessed 18 September 2024, <<https://www.stewartbrown.com.au/images/documents/StewartBrown - Residential Aged Care Projections based on no Taskforce reforms July 2024.pdf>>.
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