Submission to IHACPA consultation Pricing Framework for Australian Residential Aged Care Services 2027-28

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Executive Summary

Ageing Australia welcomes the opportunity to provide feedback on the Independent Health and Aged Care Pricing Authority (IHACPA) consultation paper on the Pricing Framework for Australian Residential Aged Care Services 2027-28.

In addition to providing feedback on the consultation questions, we:

- identify how the current approach to funding residential aged care could be improved
- recommend targeted improvements to ensure pricing more accurately reflects the efficient cost of delivering quality aged care.

Providers have identified structural issues affecting pricing accuracy, including:

- treatment of residents with dementia and other complex conditions
- inadequate adjustments to and indexation of historical costing data
- insufficient 'real world' clarity in the pricing methodology.

Addressing these issues is critical to strengthening confidence in the pricing framework, improving pricing accuracy and supporting the long-term sustainability of quality residential aged care.

In relation to the consultation questions, we recommend:

- a dedicated costing review of respite care
- greater use of existing administrative, financial and clinical datasets to improve provider representation and reduce reporting burden
- refinement of methodologies for allocating administrative and shared care costs.

We would welcome the opportunity to meet with you to explore these recommendations.

About Ageing Australia

Ageing Australia is the national peak body representing providers across the aged care sector, including retirement living, seniors housing, residential care, home care, community care and related services.

We represent the majority of service providers, working together to create a sector that empowers older Australians to age with dignity, care and respect.

We advocate for a sector that champions excellence, sustainability and innovation, ensuring our members have the tools, resources and guidance they need to deliver exceptional services.

We use our united voice to amplify our members' contributions and concerns to government, media and the wider community.

We are committed to reshaping the future of ageing in Australia by fostering collaboration and driving meaningful change, making it a fulfilling journey.

List of recommendations

Recommendation 1: Undertake a comprehensive review of AN-ACC classifications, particularly for residents with dementia, behavioural and psychosocial complexity, to ensure funding better reflects needs, models of care and resource intensity, and meets the objectives of the new *Aged Care Act*.

Recommendation 2: Strengthen IHACPA's methodology for indexing and adjusting historical costing data to ensure AN-ACC pricing more accurately reflects contemporary provider costs. Indexation and adjustments should account for:

- wage growth
- inflation
- staffing requirements
- digital investment
- increased regulatory and administrative obligations.

Recommendation 3: Improve transparency of IHACPA's pricing methodology by publishing in everyday language – including by plain English explanations of cost allocations, National Weighted Activity Unit calculations, pricing assumptions and the evidence underpinning annual pricing advice.

Recommendation 4: Improve the operation of the AN-ACC funding model by:

- providing significantly earlier advice on annual price determinations
- ensuring funding mechanisms better align with *Aged Care Act* objectives
- monitoring emerging financial pressures and recommending timely funding adjustments where provider costs are outpacing funding growth.

We are engaging with the Department of Health, Disability and Ageing separately on reducing delays in AN-ACC reassessments.

Improvements to current pricing approach

Providers identify a range of limitations across AN-ACC structure and pricing which mean prices don't appropriately reflect the cost of providing residential aged care under the new legislative and policy environment.

Treatment of residents with dementia and complex care needs

The most significant concern is the treatment of residents with dementia, particularly those in AN-ACC Classes 7 and 8.

The current classification system is weighted towards mobility and physical dependency and fails to adequately recognise cognitive impairment, behavioural complexity, supervision, and the staff time required to safely care for residents with moderate to severe dementia, and for other conditions involving complex care needs.

Careful consideration needs to be given to whether there needs to be additional AN-ACC classifications to better reflect the broad range of resident's conditions, their complexity and individual variations.

The reduction in National Weighted Activity Unit (NWAU) weighting for Class 8, and the downgrade of Class 7, offer evidence that the costing methodology does not accurately capture care requirements.

This is both a funding issue and a policy issue as it could potentially create disincentives for providers to admit residents with dementia and complex behaviours, and can hinder their ability to provide quality, person-centred care to them.

Recommendation 1: Undertake a comprehensive review of AN-ACC classifications, particularly for residents with dementia, behavioural and psychosocial complexity, to ensure funding better reflects needs, models of care and resource intensity, and meets the objectives of the new *Aged Care Act*.

Insufficient adjustments to and indexation of historical costing data

A consistent concern of providers relates to insufficient adjustments to and indexation of historical costing data.

AN-ACC pricing is based on cost collections that are two to three years old and cannot directly reflect current operating costs.

Providers identify substantial cost increases inadequately captured by adjustments and indexation. These include wage increases, other cost increases, increased agency staffing needed to meet staffing requirements, new *Aged Care Act* transition costs, digital investment, and significantly increased compliance and administrative obligations. As a result, funding lags actual costs, creating ongoing financial pressure and uncertainty, and ultimately hindering ability to provide quality care.

Recommendation 2: Strengthen IHACPA's methodology for indexing and adjusting historical costing data to ensure AN-ACC pricing more accurately reflects contemporary provider costs. Indexation and adjustments should account for

- wage growth
- inflation
- staffing requirements
- digital investment
- increased regulatory and administrative obligations.

Challenges in understanding IHACPA's pricing methodology

Providers identify a lack of 'real world' clarity in IHACPA's pricing methodology.

They find it difficult to understand how the National Weighted Activity Unit (NWAU) weightings are determined, why some classes receive increases while others were reduced, and why dementia-related classes experienced significant decreases despite increasing care complexity and resource demands.

This apparent lack of transparency is seen as inconsistent with the objective of independent and transparent pricing.

Recommendation 3: Improve transparency of IHACPA's pricing methodology by publishing in everyday language – including by plain English explanations of cost allocations, National Weighted Activity Unit calculations, pricing assumptions and the evidence underpinning annual pricing advice.

Making AN-ACC funding more responsive to current realities

Providers identify a range of other issues which have a negative impact on the level of AN-ACC funding needed to provide quality residential aged care, which are integral to implementation and viability of the residential aged care sector.

Operational issues include delays in AN-ACC reassessments, particularly for palliative residents, and delays in Services Australia processes, which can result in providers carrying unfunded care costs for extended periods.

Timing and predictability of funding are another concern. AN-ACC prices are announced too close to their implementation date. It is very difficult for providers to undertake necessary workforce planning, budgeting, rostering and service planning when new prices are announced only 2 to 3 weeks prior to implementation. A more realistic timeframe between announcement and implementation would be at least 3 months, preferably 6 months.

In addition to whether current AN-ACC classifications remain fit for purpose, providers also question whether the underlying AN-ACC model is fully aligned with the objectives of the new *Aged Care Act*. Funding remains centred on care minutes and historical activity rather than the rights-based approach of the new Act and supporting reablement, wellbeing, social participation and quality-of-life outcomes, measures of care quality recently advanced by the Inspector General of Aged Care[1]. The model reflects the previous aged care system rather than the objectives and expectations of the new system.

Providers describe significant financial consequences arising from these issues. A key challenge is the disconnect between industrial relations decisions (e.g. the Annual Wage Review increase, Aged Care Work Value Case), funding cycles, and implementation timeframes. Ensuring labour costs are accurately reflected in funding models remains critical, particularly as providers continue to navigate wage growth alongside workforce shortages and reform requirements.

Recent financial data indicates increasing sector pressure. The StewartBrown Residential Aged Care Financial Performance Survey[2] found that average operating performance deteriorated from a $0.91 per bed day surplus in March 2025 to a $9.16 per bed day deficit in March 2026, with 62 per cent of homes operating at a loss. These findings

[1] The math ain't mathin': Is Australia funding independence or decline? | Inspector-General of Aged Care

[2] StewartBrown - March 2026 (Q3) Residential Aged Care Financial Performance Survey.

indicate current funding growth is not keeping pace with the underlying cost of care delivery.

Recommendation 4: Improve the operation of the AN-ACC funding model by:

- providing significantly earlier advice on annual price determinations
- ensuring funding mechanisms better align with *Aged Care Act* objectives
- monitoring emerging financial pressures and recommending timely funding adjustments where provider costs are outpacing funding growth.

We are engaging the Department of Health, Disability and Ageing separately on reducing delays in AN-ACC reassessments.

Consultation question 1 – respite classes

What should IHACPA consider when understanding differences in administration and care management costs for respite residents compared with permanent residents?

Providers indicate that respite care attracts disproportionately higher administrative costs than permanent care.

Admission, assessment, care planning, medication reconciliation, discharge planning and communication with families occur for every respite episode regardless of length of stay. These costs are spread across fewer occupied bed days than permanent care.

Respite services can often experience increased staff scheduling complexity and more frequent interactions with hospitals and primary care providers than those for permanent residents. Current funding arrangements underestimate these activities because administrative costs are largely allocated evenly across permanent and respite residents.

Existing provider financial reporting should be supplemented with operational activity data to better understand the costs associated with providing respite care.

IHACPA should undertake a costing review of residential respite care that captures the additional administrative, assessment, admission, discharge and occupancy management costs associated with short-stay episodes.

Consultation question 2 – data sources

Which new or existing data sources should IHACPA consider to improve provider representation and reduce provider burden in IHACPA's cost collections?

Providers don't consider the current costing methodologies fully capture the cost of delivering care, particularly for residents with dementia and/or complex behavioural needs. Concerns include limited provider participation, intrusive GPS-based time studies, small sample sizes and the inability to record multiple staff interactions or indirect care delivered.

IHACPA can reduce provider reporting burden by making greater use of existing administrative, financial, workforce and clinical datasets—including Aged Care Financial

Reports, Quarterly Financial Reports and provider information systems—rather than expanding tailored data collections.

Data from StewartBrown[3] demonstrates the value of integrating existing provider financial and operational information rather than expanding tailored data collections. Its quarterly benchmarking report supports greater use of Aged Care Financial Reports, Quarterly Financial Reports, payroll systems and clinical information systems to improve representation while minimising reporting burden.

Greater integration of routinely collected provider data would reduce reporting burden while improving representation across different provider types, geographical locations and resident cohorts.

Future collections should also better capture allied health activity, indirect care, multidisciplinary care and compliance activities that are not reflected in direct care observations alone.

Consultation question 3 – allocating administrative costs

What factors should IHACPA consider when allocating administrative costs in IHACPA's residential aged care pricing advice?

Following implementation of the new *Aged Care Act*, administrative expenditure has become a significant component of the costs of delivering quality residential aged care, including strengthened Quality Standards, prudential requirements and expanded governance obligations.

Allocation methodologies should recognise that many administrative activities directly support the delivery of quality care and should not be included in costs that are apportioned across the delivery of everyday living services and accommodation services. For example, quality management systems, incident reporting, infection prevention, workforce compliance, some digital systems, clinical governance and mandatory reporting are all integral to care delivery.

The consultation paper indicates that the Department is undertaking a review of the administration cost allocation methodology to assess whether current approaches appropriately reflect how providers incur and report administrative costs. We support such a review.

Consultation question 4 – allocating care costs between individual and shared components

What factors should IHACPA consider when refining how it allocates care costs between individual and shared components?

The allocation of costs between individual and shared care components should be guided by what drives resource consumption.

The consultation paper notes that for previous pricing advice '*IHACPA assumed that direct care labour costs for registered nurses, enrolled nurses, personal care workers,*

[3] StewartBrown - March 2026 (Q3) Residential Aged Care Financial Performance Survey

assistants in nursing, allied health staff and recreational activities/lifestyle officers were split evenly between individual care and shared care. Individual care is primarily funded through the AN-ACC class subsidy while shared care is funded by the BCT subsidy'.

Assumptions about the balance of individual and shared care costs warrant careful consideration.

In most instances, a marginal reduction in a residential aged care home's AN-ACC classification mix will not result in a reduction in care costs suggesting that a greater proportion of care costs should be allocated to shared components rather than individual components. Instead of the current 50/50 approach, consideration should be given to increasing the share cost allocation to 75 per cent and reducing the individual cost allocation to 25 per cent.

This adjustment would increase the Base Care Tariff subsidy to 75 per cent for shared care costs and reduce the proportion of individual care costs to 25 per cent and would better reflect the fixed and marginal costs associated with care time.

Consultation question 5 – implementation of the *Aged Care Act 2024*

What changes in service delivery costs associated with the implementation of the Aged Care Act 2024 should IHACPA consider in developing pricing advice?

Providers consistently report that implementation of the new *Aged Care Act* has resulted in significant additional costs.

These additional costs include:

- recruitment of extra staff
- workforce training
- ICT upgrades to support revised governance arrangements
- strengthened quality systems
- new reporting obligations
- auditing
- policy development
- increased compliance oversight
- consumer engagement
- implementation of new service lists
- transitional project management.

There are also specific design features which have resulted in increased costs for providers.

Means-tested care fee arrangements have, for example, increased debtor management activity, requiring additional resident and family communication, accounts receivable communication, payment plans and collection activities.

Some residents and families have expressed dissatisfaction associated with restrictions on when Refundable Accommodation Deposits (RADs) can be paid, which also generated provider administrative costs that are not visible within historical cost datasets.

StewartBrown data confirms that implementation of the new *Aged Care Act* has increased provider costs through expanded governance, reporting, workforce planning,

compliance systems, pricing changes and consumer administration. These pressures are reflected in a 10.3 per cent increase in administration costs from March 2025 to March 2026.[4]

Consultation question 6 – Specialist Dementia Care Program

What factors should IHACPA consider when assessing the potential inclusion of the Specialist Dementia Care Program in pricing advice?

The consultation paper indicates that the Australian Government has requested advice on whether additional residential aged care supplements and grants could be suitable for incorporation into the AN-ACC daily basic subsidy including grants available under the Specialist Dementia Care Program.

There are strong, consistent concerns from providers about AN-ACC treatment of dementia and behavioural complexity.

Independently mobile residents with dementia often require intensive supervision, behavioural management and staff intervention despite attracting relatively low funding.

Concerns focus on AN-ACC Classes 7, 8 and 10, where current classifications may not adequately reflect resource intensity. Since reweighting of AN-ACC funding in October 2025, there has been an overall decline in funding for older people most likely to deteriorate.

If elements of the Specialist Dementia Care Program are incorporated into pricing advice, IHACPA should recognise behavioural complexity, cognitive impairment, workforce requirements and capability and multidisciplinary dementia care rather than physical dependency alone. Specialist elements IHACPA should consider include extreme variability in resident needs, specialist workforce requirements, environmental design requirements, higher training costs, increased behavioural support resources, and variable occupancy levels.

Consultation question 7 - oxygen and enteral feeding supplements

What factors should IHACPA consider when assessing the potential inclusion of the oxygen and enteral feeding supplements in its pricing advice?

The consultation paper indicates that the Australian Government has requested advice on whether additional residential aged care supplements and grants could be suitable for incorporation into the AN-ACC daily basic subsidy including oxygen and enteral feeding supplements.

Clinical supplements should continue to recognise costs that are not adequately reflected through standard AN-ACC classifications.

Providers identify enteral feeding and other forms of complex clinical care as involving specialised equipment, consumables, additional nursing time, monitoring and clinical

[4] StewartBrown - March 2026 (Q3) Residential Aged Care Financial Performance Survey p 2.

expertise. These costs vary considerably between residents and may not be captured adequately through case-mix funding alone.

Before incorporating supplements into mainstream pricing, IHACPA should determine whether these costs are consistently associated with particular AN-ACC classes or whether separate targeted funding remains more appropriate.

Next steps

Ageing Australia would welcome the opportunity to meet with you to explore these recommendations.

Please contact us via policy@ageingaustralia.asn.au or 1300 222 721 to arrange with us.

We look forward to engaging further on IHACPA's consultation and broader issues for the aged care sector.