

## **TITLE:** Achieving value and sustainability in aged care pricing and funding

### **Introduction**

Under the *National Health Reform Act 2011*, the Independent Health and Aged Care Pricing Authority (IHACPA) is charged with providing independent and evidence-based pricing and costing advice to the Australian Government across the health care and aged care sectors.

In 2022, funding for residential aged care underwent significant reform, transitioning from claims-based funding to activity based funding (ABF) under the Australian National Aged Care Classification (AN-ACC). ABF for residential aged care drives efficiency, transparency and sustainability to improve the value of the public investment in aged care.

### **Methods**

IHACPA's approach to developing pricing advice to inform AN-ACC funding is consultative, transparent, data-driven and informed by the actual costs of care delivery, placing residents at the centre of care.

Consultation and engagement with the aged care sector, coupled with tailored cost collections, is vital to IHACPA's work. Annual public consultation is the primary mechanism for stakeholders to provide input into the development of the pricing framework, which sets out IHACPA's policy approach, methodology and principles governing its residential aged care pricing advice. Annual cost collections provide IHACPA with a better understanding of the resources and costs associated with delivering aged care services, encompassing clinical and non-clinical information.

The AN-ACC funding model has 2 main components:

- the AN-ACC subsidy, based on individual care needs
- the base care tariff (BCT), based on characteristics of the residential aged care service.

BCT categories provide more equitable funding to residential aged care providers, particularly in rural and remote locations, and for Indigenous and homeless specialist services.

IHACPA's pricing advice to government pertains to the AN-ACC funding model and includes the recommended AN-ACC price and price weights for each AN-ACC class and BCT category, measured in national weighted activity units (NWAU).

### **Results**

Developing prices for a future funding year based on historical data represents a significant challenge. IHACPA develops the recommended AN-ACC price based on the average cost per NWAU from 3 financial years prior (which is the most recently available aged care financial data), adjusted to account for known cost increases, then indexed to estimate the cost of delivering residential aged care services for the upcoming funding year. The recommended AN-ACC price weights for each AN-ACC class and BCT category are based on the relative costs of care as measured through IHACPA's cost collections.

Previous aged care funding relied on the Wage Cost Index 9 (WCI-9) indexation method that was not tailored to a specific sector, however, IHACPA's annual pricing advice to government is informed by aged care sector specific indexes and the actual costs of delivering care.

**Discussion/Conclusions**

While IHACPA's remit in aged care pertains to the provision of expert pricing and costing advice to government and does not extend to price setting, this advice to government facilitates equity in pricing and promotion of safe high quality care that better recognises resident complexity and variations in the costs of delivering care.