UTS Ageing Research Collaborative (UARC)

IHACPA Consultation Paper on the Pricing approach for the Support at Home service list 2025 - 26: UARC response

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Background

The UTS Ageing Research Collaborative (UARC) welcomes the opportunity to respond to the Independent Health and Aged Care Pricing Authority's (IHACPA) Consultation paper on the Pricing approach for the Support at Home service list 2025 – 26.[1]

UARC has responded to several of the questions that IHACPA has posed in its Consultation paper and has also addressed issues of a more fundamental nature.

[1] Consultation Paper on the Pricing Approach for the Support at Home service list 2025—26 | Resources | IHACPA

Alignment of IHACPA terminology with the Aged Care Bill 2024

In various places in the Consultation paper, IHACPA uses terminology that does not fully align with the Aged Care Bill 2024 ('the Bill') currently before Parliament.[2] This inconsistency has the potential to cause confusion amongst older people and other sector stakeholders.

To illustrate, on p.5, IHACPA states:

> *"The Support at Home program will have a defined service list that will outline the care and services available to older people who have been assessed as requiring in-home aged care services to remain independent at home."*

This statement misses the essential point in the Bill that the Support at Home program, and the Commonwealth aged care system overall, applies only to funded aged care services. The importance of this wording is that it clearly distinguishes between Commonwealth-funded services and the wider range of services offered by the marketplace that older people may wish to access should they be able to afford to do so.

Further, the Commonwealth aged care system does not provide all services that a person may require to remain independent at home, only those on a prescribed list for which they have been assessed as eligible to access.

Drawing on Section 8 and Section 9 of the Bill, UARC suggest that any future statements by IHACPA would offer readers greater clarity if presented as follows:

> *The Support at Home program is a service group (home support) within the Commonwealth aged care system, which will comprise a list of funded aged care services to be available to older people who have been assessed as eligible to access those services in a home or community setting.*

[2] Aged Care Bill 2024 – Parliament of Australia

IHACPA Consultation Questions and UARC's Response

What concerns, if any, do you have about the transition to set unit prices for services on the indicative Support at Home service list? In developing its advice, what factors should IHACPA take into account when setting prices for different services? Do you support IHACPA's proposal to establish unit pricing using a cost-based approach that reflects the available data? Please provide a rationale.

UARC has grouped the above three Consultation questions and its responses as they address related matters.

A set price regime

On the issue of the adoption of a set unit price regime for home support services, UARC notes that this is a government policy decision and is not an in-scope question for IHACPA. Nonetheless, UARC has some concerns that the progressive specification of inputs and prices of in-home support (as is the case for direct care labour minutes and AN-ACC prices in residential care) has the potential to curtail the scope for provider innovation and competition.

In addition, UARC would caution that the move to a set price regime, as a form of capped-price regulation, may have unintended consequences regarding changes to providers' cost structures. For example, prior research in hospital settings has observed that firms tend to increase cost elasticity in response to fixed price regulation, which is typically achieved by increasing the proportion of expenditure on variable costs relative to fixed costs.[3] In an aged care setting, this may translate to greater reliance on casual workers or short-term subcontract arrangements, which may be sub-optimal in terms of care outcomes.

Likewise, it is not clear that bureaucratic decision-making delivers a superior pricing outcome relative to that achieved through market dynamics. UARC acknowledges that the market for home support services is regulated in that provider power is implicitly bestowed to those the regulator approves and that older people are in need of essential services and comprise a vulnerable cohort.

Nonetheless, developing effective pricing advice will require substantial resources (data, modelling, etc.). In this respect, UARC would have preferred that before committing to a set price regime, the Government had first undertaken an open and transparent review of the existing pricing regime operating for both Home Care Packages and Commonwealth Home Support for individual services (separate from care management). Such a review may have found that in the major urban areas, there is a range of providers and price points from which participants could choose, thus obviating the need to adopt a universal capped price approach.

[3] Holzhacker, M., Krishnan, R. and Mahlendorf, M.D. (2015), The Impact of Changes in Regulation on Cost Behavior. Contemporary Accounting Research, 32: 534-566. https://doi.org/10.1111/1911-3846.12082

Transition issues

As for the transition to such a scheme, UARC has been monitoring many of the submissions to the Community Affairs Legislation Committee Inquiry into the Aged Care Bill 2024.[4] A common request from providers is for adequate time from the release of the detailed prices to scheme commencement to enable them to review their business operations, make suitable adjustments and implement any requisite strategic, operational and system changes.

Accordingly, the proposed short time frame between the publication of detailed prices in February 2025 (initial draft in November 2024) and the scheme's commencement on 1 July 2025 appears to be a considerable concern.

Clarification of an 'actual cost' approach

IHACPA's Consultation paper states that:

> *"Our role in providing independent aged care pricing advice for the Support at Home program aims to ensure aged care funding is directly informed by the* ***actual cost*** *of delivering in-home aged care services." (IHACPA p.5, emphasis added)*

UARC seeks further clarification about what IHACPA means by 'actual costs'.

For example, it is unclear how 'actual costs' reconcile with the Bill's reference to the subsidy basis for the service to be either the efficient price or unit price (see, for example, s.192). As a first instance, it would be helpful if IHACPA could clarify: the difference between these two subsidy bases; the approach that IHACPA will be required to adopt; and the consequences of adopting that approach for providers and taxpayers.

In addition, it would seem likely that there could be a material difference between a price developed from providers' actual costs (e.g. using a cost-plus approach) and an efficient price. For example, noting that the current home care market may be subject to various distorting factors (e.g. lack of client contributions, excess demand/supply/workforce constraints, varying levels of competition), providers' current expenditure patterns may not necessarily represent optimal service delivery modes (including, for example, third-party fees).

Furthermore, it is unclear how IHACPA will develop prices to accommodate the current heterogeneity of providers' cost structures and financial outcomes across the sector. The Department of Health and Aged Care's *Financial Report on the Australian Aged Care Sector 2022-23* indicates this variation, although only presenting aggregate statistics.[5] For example, Figure 1 reveals variation in the average expenditure per recipient per day across various expenditure categories by different categorisations of providers. Similarly, Figure 2, which shows the average EBITDA of home care providers, split by quartile, reveals a widening gap in the financial outcomes of providers across the sector.

An implication of this variation is that, on the one hand, if prices are set to enable all current providers to be profitable based on their current actual results this would lead to some providers making very large surpluses (irrespective of the efficiency of their delivery), yet on the other if they are set based on some mid-point (e.g. median/mean), a substantial proportion of providers may not receive sufficient revenue to cover their existing costs.

Relatedly, UARC also notes that in the discussion of the costing approach, there is no explicit recognition that when setting prices, an allowance needs to be made to ensure

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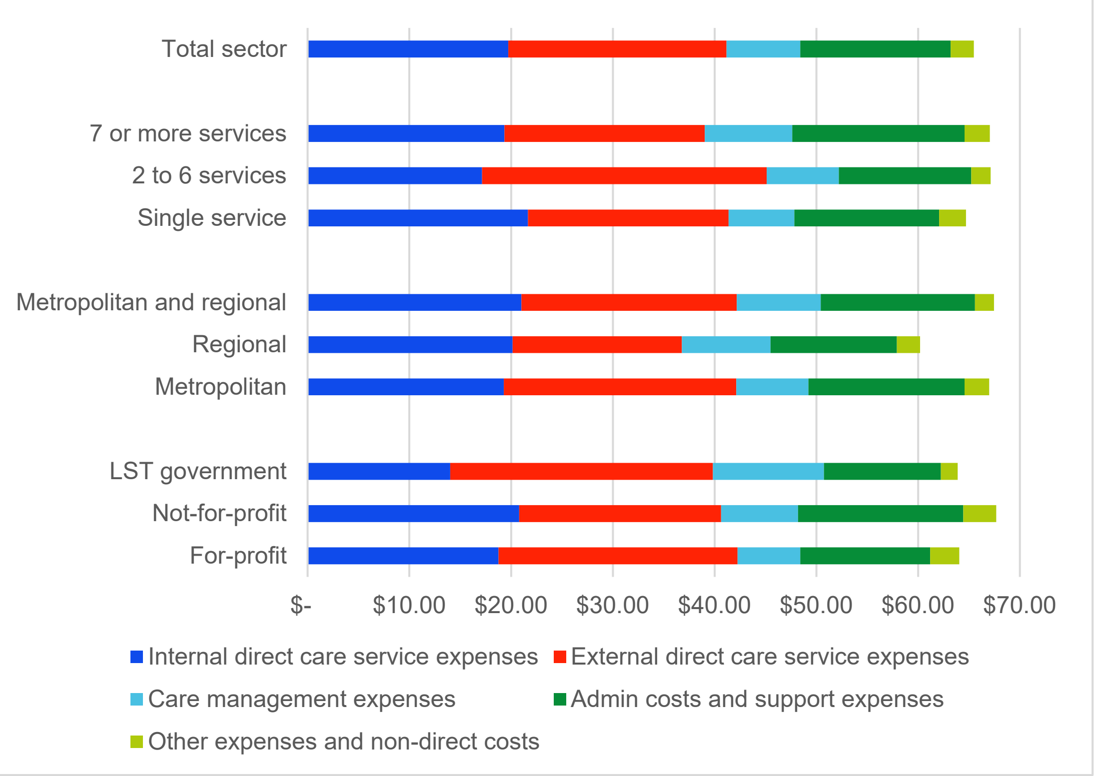
[4] https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Community_Affairs/AgedCareBill2024/Submissions
[5] Financial Report on the Australian Aged Care Sector 2022–23

providers receive a fair return on their business activities. Without such a return, many providers will not have the confidence to keep investing in the sector.

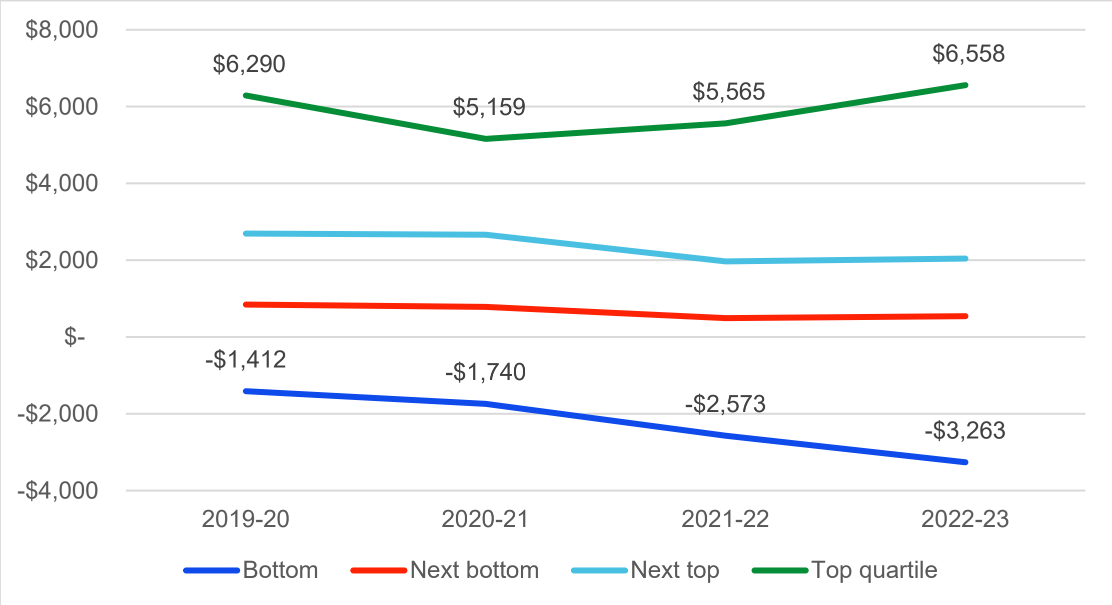
UARC's position is that viability should be assessed at the sector level and for delivery to thin markets rather than be aimed at ensuring all providers, irrespective of their business models and efficiency, are viable. Furthermore, price settings should reflect the cost of efficient delivery of quality care, plus a fair margin to compensate for the investment required to deliver those services.

Figure 1: Home care expenditure per recipient per day, by ownership type,



Source: Data analysed from Department of Health and Aged Care (2024), Financial Report on the Australian Aged Care Sector 2022-23, p.33

Figure 2: Home care average EBITDA per recipient per year, by quartile



Source: Data analysed from Department of Health and Aged Care (2024), Financial Report on the Australian Aged Care Sector 2022-23, p.36

The setting of a 'maximum price', and opportunities for providers to adopt different business models

The Bill defines the maximum price for a service in the following terms:

> *The requirement is that the price charged by the registered provider for the delivery of the funded aged care service is not more than the final efficient price (if any) for the funded aged care service that applied on the day. (s.191(3))*

This provision clarifies that providers will be able to offer lower prices as one strategy for attracting and retaining their client base. UARC presumes that individual providers will, with varying intent, closely assess the maximum price for each service with their own delivery cost base and promote the selection of profitable services to the extent permitted within service types.

What is 'in-scope'?

There is a need to understand what IHACPA considers to be in-scope. In the Consultation paper, IHACPA offers two possibilities:

> *"Prices for services on the Support at Home service list will include all in-scope costs associated with delivering the service such as labour, transport, consumables and administration." (p.5)*
>
> *"These prices will cover all costs associated with delivering Support at Home services including labour costs for employees, agency staff and sub-contractors, care-related expenses, motor vehicle expenses and administration costs." (p.16)*

Specifically, in regards to administration costs, there is a risk that relying on historical expenditure patterns may grossly underestimate the actual costs of the new Support at Home Program. Not only will there likely be substantive once-off transition costs incurred by providers to change to the new program design, but several elements of the new program are likely to increase the administrative complexity and cost of operations (e.g. more package levels, quarterly budgets, collecting consumer contributions, capped service price schedules, daily invoicing).

Further, in the Consultation paper, IHACPA refers to pricing advice being developed, in part, based on "care delivery models" (p.16), but it is not clear how the different models would be accounted for in the pricing. This seems to be a separate consideration from the models required to deliver services to thin markets and identified groups of older people.

What, if any, changes do you suggest to the proposed pricing principles to guide the development and operation of the Pricing Framework for Australian Support at Home Aged Care Services 2025–26? Are there any additional pricing principles for in-home aged care services that should be added? If so, please advise what they are.

As an initial point, UARC presumes that the proposed pricing principles will apply to pricing advice concerning person-centred subsidies and supplements for ongoing and short-term home support.

UARC supports five of the proposed pricing principles in full.

However, concerning Principle 4: Evidence based (Pricing advice should be based on the best available information), while this has UARC's full support, we wish to stress the importance of ensuring that IHACPA's own commissioned sampling is of a size and structure that gives the sector confidence in the statistical significance of the analyses. Further, while IHACPA is already starting to make greater use of data from the Aged Care Financial Report and the Quarterly Financial Report, it should openly and transparently take into account the results of other industry-based data sets that are known to have high integrity and longstanding credibility with government and sector stakeholders.

UARC has concerns with the wording of the following four proposed principles.

Principle 1: Access to services

The price does not create a barrier to access for those assessed as needing in-home aged care services.

This proposed principle appears to be at odds with the funding model for the Commonwealth aged care system. As set out in the Bill, the funding model will calculate a daily subsidy amount for each provider based on the price charged by the provider (being no more than the price that is applied on that day) multiplied by the number of hours or units of the service delivered to the individual on that day. That subsidy amount, of itself, does not determine the amount paid, if any, by eligible older people who receive funding for aged care services. The amount they pay is determined by a separate policy decision of the Government, and is calculated as a percentage of the price. Should the price for a service be particularly high, it is a matter for the Government as to what co-contribution percentage it applies.

In this context, the Department is responsible for advising the Government on participant co-contributions (a point acknowledged by IHACPA on p.9 of its Consultation paper). The level of the co-contribution, rather than the level of the IHACPA-advised price may or may not, depending on its amount, create a barrier to access for those assessed as needing home support services.

UARC suggests that this principle be deleted and, for the sake of informing stakeholders, be replaced by a preamble to the principles which recognises that the issue of financial access to services is addressed through the provisions for co-contributions, which are set by the Government separately to the service price advised by IHACPA.

Principle 2: Quality care and services

Pricing that supports care and services that are person-centred, culturally appropriate and meet the Aged Care Quality Standards, where applicable.

In general terms, UARC supports this proposed principle. However, as currently phrased, the meeting of Aged Care Quality Standards is subject to the qualification that they would be 'applicable'. UARC is not aware of any circumstances in which the Standards are not applicable. IHACPA may wish to amend the wording of this principle accordingly.

In addition, it would be helpful to clarify how IHACPA proposes to identify and separately analyse the costing data for services delivered by individual providers that meet/do not meet the Quality Standards. Does IHACPA remove all non-compliant service data from its analysis, and on what evidence does it draw to achieve this outcome?

Principle 3: Pricing equity

Prices should be fair and equitable and account for legitimate cost variations faced by some providers in delivering care and services.

UARC agrees that there is a need for IHACPA's pricing advice to take into account 'legitimate cost variations faced by some providers'. However, is this reference to ‘legitimate cost variations’ limited to the delivery services to thin markets and identified groups of older people, or does IHACPA have a wider definition in mind?.

In addition, we are unclear what IHACPA intends in its reference to 'fair and equitable'. Is fairness a reference to the level of funding for services available to all providers in the sector or only to efficient providers? Is equity a reference to balancing the interests of providers and taxpayers? Several consequences of different interpretations of these two concepts have been addressed elsewhere in UARC's response.

UARC requests that IHACPA clarify this proposed principle.

Principle 6: Efficiency

Prices should ensure the sustainability of aged care services over time and optimise the value of the public investment in aged care.

UARC considers that, as currently expressed, this proposed principle inconsistently encompasses the following three concepts: efficiency; sustainability; public investment. Each is discussed as follows.

Efficiency

Efficiency of service delivery is an important driver of the sustainability of funded aged care services. As the UARC Discussion Paper on the Sustainability of the Aged Care Sector explains, there are four broad approaches to improving sustainability.[6] In addition to efficiency, the other three are to improve the effectiveness of the aged care services that are publicly funded (including periodically reviewing the rationale for funding some services); to reduce the rate of growth of demand for those services (such as through

[6] UARC_Sustainability Discussion Paper.pdf

public investment in preventative and primary care); and to establish a more equitable basis for funding those services (with the latest co-contribution reforms being a relevant example).

When considering IHACPA's role in advising on the price of funded services UARC agrees that efficiency, as one of the drivers of sustainability, can be significantly influenced by price settings. If prices are set too high, providers have a reduced incentive to become more efficient at delivering services. Equally, prices that are too low may unnecessarily drive otherwise efficient providers of quality services out of the market and disrupt eligible older persons' access to funded services.

However, the concept of 'efficiency' does not map wholly and directly to 'sustainability'.

<u>Sustainability</u>

Sustainability, in itself, has many dimensions. The UARC Discussion Paper identified the following four dimensions as being the most significant: Fiscal sustainability; Sector viability; Workforce availability; and Societal acceptance. Price setting plays a very significant role in each of these, and IHACPA's development of pricing advice needs to recognise the balancing of a range of factors that directly impact long-term sustainability overall.

The price set for funded aged care services directly impacts the Commonwealth Government's outlays on aged care and the fiscal sustainability of its aged care system. As noted above, other factors impacting the magnitude of these outlays include the number and type of the services funded, the demand for (and allocation limits placed on) those services and the sharing of funding with those who have sufficient means to make a co-contribution. These matters are out-of-scope for IHACPA.

Sector viability is also directly impacted by the prices set for funded services. This raises a raft of issues, such as whether all costs included in some providers' accounts should be accepted and whether all providers should be included in the surveys that IHACPA commissions.

In regard to the latter, a particular concern is whether government-owned and operated home support should be included in the IHACPA's sample analyses of the sector overall (similar issues apply to residential aged care). Questions arise as to the range of services delivered by these services, and to what extent some of their activities align more with the responsibilities of local government than Commonwealth aged care. Many government service programs' cost structures are also materially higher (by policy choice) than those incurred by the for-profit and not-for-profit sectors.

UARC recognises that there are also structural cost differences between the for-profit and not-for-profit sectors, such as in the treatment of fringe benefits tax, but does not anticipate any foreseeable policy resolution of these differentials.

Workforce availability is another pressing issue facing the aged care sector, as it is for all labour-intensive parts of the economy (including health care, hospitality and trades, for example). Some of this is structural, pervasive and long-term, arising from national and global demographic factors. However, in a relative sense, funded aged care will need to compete with other sectors for a workforce with the appropriate knowledge, skills and professional attributes to deliver safe, quality care.

Wages are an important part of the competitive proposition, but so are the work environment, professional development opportunities, and other terms and conditions that are offered by businesses that wish to be employers of choice. Equally, the wages paid by providers are their largest expenditure item. Pricing advice must have regard to balancing these factors.

The final dimension, social acceptance, is also impacted by the price providers receive for their funded services. Again, there is a balance required between ensuing the price is sufficient to satisfy the community that providers are funded to deliver safe, quality care, while also being satisfied that the taxes being paid are well spent and are within acceptable limits of sustainability over the longer term.

As is evident from this discussion, the concept of 'sustainability' has much broader reach than just 'efficiency' alone.

Public investment

UARC is uncertain as to what is intended by the phrase 'optimise the value of public investment in aged care'. Is IHACPA referring to the more general level of ongoing recurrent funding by taxpayers for clinical support services and, to a reduced extent, for independence services and everyday living services? Alternatively, if the reference is more specific to capital investment (i.e., equipment, vehicles, offices, technology and other such investments), providers primarily undertake this. Prices should be set at a level that generates fair returns at the sector level over the longer term, promoting confidence by providers and financial markets to invest in upgraded and new infrastructure that meets future demand.

Overall, UARC urges IHACPA to reconsider the underlying intention of this principle and circulate a new version for a limited period of comment once it has considered all feedback to the Consultation paper.

To what extent should IHACPA consider price benchmarking for similar services provided under comparable schemes in adjacent sectors (for example, NDIS, DVA) and why?

UARC notes IHACPA's comment that:

> *"There are comparable schemes in other Commonwealth funded social care and support programs, such as the National Disability Insurance Scheme (NDIS) and Department of Veterans' Affairs (DVA) schemes, which deliver services similar to those on the Support at Home service list." (p.17)*

However, IHACPA has listed "comparing the cost of service delivery for in-home care to other sectors including the NDIS and DVA programs" (p.20) as a matter for consideration in future years. UARC encourages IHACPA to commence these studies now.

IHACPA is already exploring NDIS pricing issues, and it can only benefit from broadening its understanding of costs and prices across all three sectors. It is already known that some in the workforce operate across the three services despite the different accreditation, approval and reporting processes they incur. The care economy, the recipients of services, the providers and the workforce all stand to gain from closer alignment to a common program and pricing design.

For future years, what do you see as the priority areas for IHACPA to consider when developing advice on adjustments to the service list unit prices?

UARC notes that IHACPA proposes another matter as a priority area for future consideration:

> *"the impact of any participant co-contributions that may apply on service costs and demand" (p.20)*

UARC considers that, especially for everyday living services, there is a distinct probability that some self-funded retirees may choose not to engage in the bureaucratic constraints of MyAgedCare for the sake of a 20% subsidy on a range of domestic assistance and home maintenance services. Furthermore, that small subsidy will apply to prices based on IHACPA's advice, which may well, in themselves, be higher than those available less formally in the local labour markets.

Accordingly, UARC would urge IHACPA not to leave this matter for future consideration but to establish a sound baseline of data from the current HCP and CHSP services and closely monitor, model and analyse behavioural changes by select groups of participants and proportionate changes by providers in their business models.