



14 December 2020

The Hon Greg Hunt MP  
Minister for Health  
PO Box 6022  
House of Representatives  
Parliament House  
CANBERRA ACT 2600

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Dear Minister

Thank you for meeting with us last Thursday (10 December).

During our meeting, you queried whether Catholic Health Australia has a view on whether the independent aged care price determination function proposed by Counsel Assisting the Royal Commissioners would more appropriately reside with the existing Independent Hospital Pricing Authority (IHPA), or reside in a new organisation dedicated to aged care pricing.

We acknowledge that there may be some administrative overhead benefits in having pricing functions for public hospital and aged care services co-located, noting also that there is some alignment in the core skills required for determining prices for both of these services. However, we are mindful that there are differences in the operating, funding and financing, and accountability arrangements between the public hospital and aged care systems that should be considered.

The differences include the following:

- Unlike public hospitals, aged care operates in a more market-based and competitive service environment, with increasing community expectations for reforms that will further increase consumer choice. Aged care providers also cover the full spectrum of non-government entity types and sizes, ranging from listed companies through to not-for-profit religious and charitable organisations and small community-based organisations, all with varying business and mission objectives. Aged care services have a very wide geographic spread, ranging across both residential and home-based care services. Many also provide other services beyond aged care. Data collection, costing studies and price determination methodologies would need to be attuned to the complexity this service environment introduces compared with the public hospital system.
- Price determination in aged care, which unlike public hospitals is not entirely government funded, would need to determine prices (and price caps) for aged care services having regard to market circumstances and the reasonable and efficient costs of delivering these services which would allow efficient providers to achieve a risk-rated rate of return that would attract the capital required to finance the renewal and expansion of services. It is also noteworthy that, unlike public hospitals, prices charged by providers are required to be published.

- A feature of aged care is that price determination needs to accommodate the widespread use of supplements paid to providers on behalf of individuals living in certain geographies or vulnerable individuals needing additional supports. Prices in the public hospital system do not pay much attention, if any, to the socio-economic status and cultural and other vulnerabilities of individuals. Again, this context raises methodological dimensions peculiar to aged care.
- Unlike public hospitals, aged care price determination will also need to have regard to consumer contributions which are tailored to suit different funding streams and service types, as well as fees paid by individuals and their families for additional services. Means tested contributions and fees for additional services do not apply in the public hospital system.
- IHPA's focus is overwhelmingly on clinical services and procedures provided in public hospitals, whereas data collection, costing studies and price determination methodologies in aged care would need to comprehend the longer term nature of aged care services, taking into account both clinical services provided by nurses and, perhaps more importantly from a consumer perspective, quality of life outcomes. For example, length of stay is not a performance or efficiency indicator in aged care.
- IHPA and public hospitals operate within a Commonwealth-State health funding agreement framework and IHPA is accountable to the Australian and State/Territory Governments. Members of the Authority are all appointed with the agreement of the States and Territories. In contrast, aged care policy is currently determined by the Australian Government and aged care services are funded and regulated under an Act of the Australian Parliament. Having aged care's pricing function co-located within an environment focussed on joint Commonwealth-State funding arrangements, and whose accountability arrangements would extend to State and Territory Governments, would introduce unnecessary complexity and ambiguity.

On balance, we consider that the above features of the aged care system which distinguish it from public hospitals are sufficiently material to warrant establishing a dedicated aged care price determination authority, which is directly accountable to the Australian Government. This would be our view irrespective of the Government's decision as to whether the price determination function entails price setting by the authority, or to inform price setting by the Australian Government.

We also note that aged care is destined to comprise an ever-increasing share of the national economy, which places a premium on the efficient delivery of services that deliver high quality care and quality of life outcomes for older people. Effective price determining arrangements are an essential investment to secure these outcomes.

Thank you for the opportunity to put forward our views on this matter.

Yours sincerely,



**Pat Garcia**  
Chief Executive Officer  
Catholic Health Australia