LASA
LEADING AGE SERVICES AUSTRALIA
The voice of aged care

LASA SUBMISSION TO THE AGED CARE FINANCING AUTHORITY: HOME CARE PACKAGE PAYMENT ADMINISTRATION CHANGES

19 November 2019

A strong voice and a helping hand for all providers of age services

Leading Age Services Australia

Leading Age Services Australia (LASA) is a national association for all providers of age services across residential care, home care and retirement living/seniors housing. Our purpose is to enable high performing, respected and sustainable age services that support older Australians to age well by providing care, support and accommodation with quality, safety and compassion – always.

LASA's membership base is made up of organisations providing care, support and services to older Australians. Our Members include private, not-for-profit, faith-based and government operated organisations providing age services across residential aged care, home care and retirement living. 56% of our Members are not-for-profit, 36% are for-profit providers and 8% of our Members are government providers. Our diverse membership base provides LASA with the ability to speak with credibility and authority on issues of importance to older Australians and the age services industry.

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Thank you for the opportunity to provide feedback to the recent announcement by Government to improve the way subsidy payments are made to home care package (HCP) providers.

LASA agrees in principle with the proposed payment administration changes, noting it:

1. Is consistent with contemporary business practices for payment on point of delivery,
2. Reduces the prudential risk associated with provider administration of unspent funds,
3. Creates increased Government visibility of consumer use of HCPs and the accumulation of unspent funds to inform future aged care program and policy parameters, and
4. Provides a cash flow dividend that the Government can use to fund additional HCPs.

There are significant risks associated with the proposal however. These are exacerbated by the model being proposed and the implementation timeframes that have been set out. LASA has previously engaged with both the Minister and Government in this regard.

LASA also notes that the Government has recently announced that it plans to pay its commercial suppliers on five day payment terms where they issue invoices electronically[1]. This is significantly more favourable than the arrangement being proposed for HCP providers.

LASA's *Consultation Report: Improving HCP Payment Administration Arrangements* has identified three key risks to be accounted for by Government in progressing the implementation of HCP payment administration changes[2]:

- Availability of cash reserves for HCP providers to absorb the change,
- Restrictions to consumer choice as a result of cash reserve constraints, and
- Increasing administration costs for HCP providers that will be passed on to consumers.

If Government intends to proceed with these timeframes it needs to notify HCP providers immediately. Delaying this announcement for the appearance of consulting will only make it more difficult for HCP providers to make necessary adjustments. It is also worth noting that unless there is some reason for urgency – and that is not clear here – policy changes with a significant negative impact on business operations should be made with a lead time of at least one organisational budget cycle to allow provision for the change to be undertaken in an appropriately planned way[2].

Recommendations

Accounting for the current proposal, there are various ways that Government can mitigate the risks of the proposed changes. Nine recommendations are made to this affect:

1. HCP providers retain any unspent HCP funds attached to existing consumers until such time that it is returned to Government through natural HCP attrition[2].
2. Introduce an interest free loan scheme over the short term to assist HCP providers in response to adverse financial impacts that emerge from the HCP payment administration changes being progressed at pace.

[1] https://www.afr.com/policy/economy/government-to-pay-smes-in-five-days-20191106-p537wj

[2] Improving HCP Payment Administration – LASA Consultation Report, September 2019. https://lasa.asn.au/aged-services-in-australia/lasa-submissions/

3. Undertake further analysis, particularly with regard to small and remote providers offering HCPs, where current cash flow issues may be exacerbated by the proposed changes.
4. Undertake a short pilot of HCP claim to payment processing within ACOP portal prior to full implementation at commencement of Phase Two in April 2021 to confirm system and procedural capability for error minimisation.
5. That Government extend their policy for small business electronic billing that will enable HCP providers to claim interest from Government against delayed payments and inaccurate payments without timely error resolution.
6. Enable HCP provider retention of a $5K unspent HCP funds balance for each HCP consumer above monthly HCP expenditure to ensure the availability of cash reserves to support continuity of care and service provision from month to month.
7. Note that there will be a likely increase in administrative costs for providers that will emerge from undertaking monthly expense reconciliation into the Aged Care Online Payments (ACOP) portal and that will be passed on to consumers, reducing the overall value of a HCP in terms of direct care and services.
8. In response, introduce HCP expense reconciliation against subsidy payments on a quarterly or bi-annual basis with account for corresponding subsidy payments that have been made during the equivalent reconciliation period[2]. This would introduce a bulk subsidy payment adjustment with improved flexibility in HCP provider cash flow and reduced administrative burden.
9. That consideration be given to the challenges remote service providers already face in meeting administrative requirements, and proper supports be implemented with any changes to HCP payment arrangements to support workforce capability and infrastructure in minimising disruption to HCP providers and consumers in these regions.

Government must also ensure that the cash flow saving delivered by any change in HCP payment arrangements is reinvested into delivering additional HCPs. This is estimated to be worth hundreds of millions of dollars, depending on the specifics of the arrangement that is implemented.

Key implementation arrangements and timeframes

Phase One	Commencing June 2020, subsidies and supplements will be paid in arrears at the full rate of subsidy based on HCP level and days in care, through the usual monthly claim.
Phase Two	Commencing April 2021, payments will be based on services provided to care recipients and unspent funds will be held by Government.
Phase Three	Commencing with the March 2021 claim lodged in April, the Department of Human Services (DHS) will reduce a payment for a care recipient by a portion of the available funds held by the HCP provider for that care recipient in drawing down unspent funds held by providers.

Potential financial impacts on HCP providers from the proposal

The proposed implementation arrangements and timeframes are seen to be a key risk that may intensify HCP provider cash flow concerns, increasing solvency issues for reputable providers and the availability of services in fragile markets.

These concerns are more pressing for some HCP providers relative to others, with account for the variability of business models, financing arrangements, and business development strategies that have emerged at near three years into the development of the *Increasing Choice in Home Care*[3] HCP market environment.

LASA would prefer to see the proposed changes initiated over a longer timeframe to allow providers the opportunity to prepare for the changes. The proposed milestones in the LASA Consultation Report[1] would greatly assist providers with the visibility required to transition without causing significant financial stress across the aged care industry.

LASA has outlined some of the key issues and offered recommendations in response to the Government's progressing with pace the proposed implementation arrangements and timeframes, noting the financial viability of many HCP providers will be put under immense strain. Key themes have included:

- Cash flow impacts across small business, middle market and large scale operators,
- Withdrawal of services in thin markets where higher overheads and low demand exists,
- Ongoing concern with DHS capability to process timely and accurate payments, and
- Increased administration costs.

LASA in preparing the current submission has surveyed 51 home care Members operating HCP programs. The aim of the survey is to explore the financial impacts and challenges that they anticipate they will face in the context of the implementation arrangements and timeframes referenced in the *ACFA Consultation Paper – Improving home care payment arrangements*.[4]

HCP numbers within the sample represent near 20 per cent of all HCPs nationally. Over 80 per cent of providers in the survey sample had relatively small to medium sized HCP programs, comprising no more than 500 HCPs per provider and 96 per cent reported having multiple aged care revenue streams. A summary of the analysis of the survey data is presented in Appendix A.

1. Cash flow impacts across small business, middle market & large scale operators

The StewartBrown Report notes that within a robust sample of HCP providers delivering near 35,000 HCPs, 30 per cent of HCP providers reported a financial loss before tax in the FY2019 financial year[5].

Within LASA's HCP provider survey, near one in five HCP providers reported experiencing a negative revenue position for their HCP program for the FY2019 financial year, excluding unspent HCP funds balances. Many HCP providers concurrently reported experiencing a negative revenue position in

[3] https://agedcare.health.gov.au/increasing-choice-in-home-care
[4] https://agedcare.health.gov.au/reform/acfa-consultation-paper-improving-payment-arrangements-in-home-care
[5] *Aged Care Financial Performance Survey Sector Report FY19* (StewartBrown, October 2019)

other aged care revenue streams for the FY2019 financial year. This compounds the financial pressures associated with the HCP payment administration changes for HCP providers.

It should be assumed that many HCP providers are funding their day to day operations out of surpluses and funding in advance while they transform their businesses to address the implementation of the Aged Care Quality Standards, the Charter of Aged Care Rights and information gathering requirements of the Aged Care Royal Commission.

The impact on cash flow for HCP providers, only being paid in arrears for services delivered, is significant and cumulative over each of the three phases, particularly for providers that lack cash reserves or unencumbered real assets to borrow against.

By default, this may introduce a new policy driven market dynamic with significant impacts on existing HCP providers without cash reserves and who have already invested substantially to establish market positioning relative to the current policy environment. This may ultimately restrict the fullness of consumer choice currently seeking to be realised in a maturing home care market environment.

Continuing aged care reforms in the context of the Aged Care Royal Commission will also demand a substantive cash reserve balance to support ongoing business development, innovation and continuous quality care improvement.

<u>A worked example of the likely cash flow impacts</u>

One large HCP provider anticipates that from the period 1 June 2020 to 15 July 2020 (Phase One), they will have initially lost $10M in funding from their cash reserve balance (the advance payments for June and July) while continuing services until they receive the June subsidy payment of $5M in mid July 2020 with a final cash reserve reduction of $5M at the end of this period.

The HCP provider anticipates they will then lose an additional $0.5M - $1.0M in funding each month commencing April 2021 (Phase Two), noting their average HCP utilisation rate of 90 per cent[6]. This would otherwise contribute to their cash reserve balance against which interest is earned.

Above this, the HCP provider will also experience a gradual reduction of their current unspent funds surplus balance of $14M wound down from April 2021 (Phase Three), further tightening their overall cash reserve balance over this period.

In LASA's HCP provider survey, near 40 per cent of survey participants reported the change to payment in arrears commencing June 2020 (Phase One) would either be very challenging or unachievable from a cash flow perspective. Another 43 per cent reported the change to payment in arrears would be somewhat challenging.

Additionally, an average of 25.2 months (SD = 34.4 months) was reported as being required by HCP providers in spreading the return of unspent HCP funds back to Government without significant disruption to operations or financial viability (Phase 3).

Given HCP occupancy reporting indicates that the average length of time that a consumer occupied a HCP during the FY2019 financial year ranged between 0.7 and 2.1 years[5], returning unspent HCP funds to Government may be best progressed through natural HCP attrition.

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[6] Industry average HCP revenue utilisation is reported at 89.3 per cent across FY19 (StewartBrown, October 2019)

LASA acknowledges that implementation of the HCP payment administration changes will demand some providers rearrange their administration processes and systems within the next 18 months and this will impose an additional expense to HCP providers in the context of increasing financial pressures.

The Department of Health have signalled that they will make available appropriate supports in the form of a business advisory service that will account for the unique cash flow positions of HCP providers with varied business models. Where HCP providers are identified as being at risk of solvency, exacerbated as a consequence of the HCP payment administration changes being implemented at pace, financial support should be made available by Government through a targeted interest free loan scheme to assist with the transition.

Recommendation One: HCP providers should retain any unspent HCP funds attached to existing consumers until such time that it is returned to Government through natural HCP attrition.

Recommendation Two: Introduce an interest free loan scheme over the short term to assist HCP providers in response to adverse financial impacts that emerge from the HCP payment administration changes being progressed at pace.

2. Withdrawal of services in thin markets with high overheads & low demand

Accounting for the financial pressures introduced through the HCP payment administration changes, greater pressure will be placed on cost efficiency and this may lead some providers to withdraw service delivery outside metropolitan areas and regional centres where the cost for delivery of care into rural and regional settings significantly increases relative to total HCP value[7].

Representation from the Aged Care Workforce Remote Accord, in contributing to this submission, urges ACFA to give special consideration to remote and very remote service providers when considering changes to the HCP payment administration arrangements. Remote and very remote providers who offer residential care are already facing significant financial challenges, with 74.1 per cent of outer regional, rural and remote facilities operating at a loss (more than 49.1 per cent recording a cash loss)[5]. Many of these providers also aim to offer HCP services. Some HCP providers may be relying on the availability of unspent funds to provide services that are otherwise not financially viable.

Introduction of the HCP payment administration changes in these communities may inadvertently undermine the viability of offering aged care services in remote areas, and there are signs that an increasing number of smaller providers are seeking to leave the industry.[8]

Recommendation Three: Further analysis be undertaken particularly with regard to small and remote providers offering HCPs, where current cash flow issues may be exacerbated by the proposed changes.

3. Ongoing concern with DHS capability to process timely & accurate payments

Concern regarding DHS capability to process accurate and timely payments relative to HCP provider claims is both historical[9] and ongoing.

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[7] *Financial Issues Affecting Rural and Remote Aged Care Providers* (Commonwealth of Australia Department of Health, 2016)
[8] *2019 Report on Funding and Financing in the Aged Care Sector* (Aged Care Financing Authority, 2019)
[9] https://lasa.asn.au/news/lasa-issues-paper-increasing-choice-home-care/

- One Member has advised that, as of October 2019, they have been engaged with DHS for over six months in seeking to resolve a matter of unpaid subsidies that has seen the provider carry a debt of near $40K during this period for payment errors that occurred across the period of June to December 2018 and affecting HCP funds for 8 separate consumers. Advice from DHS to the provider in October 2019 was that they had not received a response to the original escalation of the payment query issued internally with DHS in April 2019 and consequently DHS staff would now escalate the matter a second time.

Members have recommended that the integrity of the HCP claim to payment process by DHS be piloted/tested prior to full implementation at commencement of Phase Two in April 2021 to minimise procedural and system errors that may emerge and that will generate adverse cash flow impacts in the process of change management.

It is noted that with the introduction of the National Disability Insurance Scheme's (NDIS) payment in arrears processing, there has been and still are payment issues relating to NDIS claiming by providers. As part of NDIS implementation, the National Disability Insurance Agency has acknowledged that there have historically been implementation issues impacting provider payments. This required additional infrastructure be put in place to assist affected organisations to resolve these issues. A centralised Provider Payment Team was established as a single point of contact for providers with the aim to increase efficiency and reduce time delays in payments. Payment claim rejection issues have had a significant impact on the cash flow of NDIS providers. These matters have to be unpicked by the Provider Payment Team with providers then having to resubmit subsequent payment requests to progress payment for services already delivered[10].

At present and based on HCP provider experience, it is estimated that it could take up to 4-6 weeks to receive payment for home care services delivered at the beginning of any given month if HCP payment processing is accurate. This will demand HCP provider access to cash reserves. Extended HCP payment delays due to inaccurate payment processing would significantly impact some HCP providers' capability to offer consistency of services in the absence of sizeable cash reserves given the financial impacts resulting from unpaid subsidies. This may adversely impact continuity of consumer services and care worker shifts.

LASA notes that the Government is introducing policy changes that will see small businesses who bill the Federal Government (and its contractors) electronically being able to claim interest if they are not paid within five working days.[1] Such arrangements should also be introduced for ACOP payment processing to create greater accountability for DHS processing of timely and accurate payments to HCP providers following submission of claims.

<u>Recommendation Four</u>: The undertaking of a short pilot of HCP claim to payment processing within DHS's ACOP portal prior to full implementation at commencement of Phase Two in April 2021.

<u>Recommendation Five:</u> That Government extend their policy for small business electronic billing that will enable HCP providers to claim interest from Government against delayed payments and inaccurate payments without timely error resolution.

[10] https://www.abc.net.au/news/2018-02-21/ndis-tackling-payment-delays-after-providers-left-out-of-pocket/9469926

Recommendation Six: Enable HCP provider retention of a $5K unspent HCP funds balance for each HCP consumer above monthly HCP expenditure to ensure the availability of cash reserves to support continuity of care and service provision from month to month.

4. Increased administration costs

Administration costs will increase as HCP expenditure will need to be acquitted monthly into the ACOP portal as part of the proposed HCP payment changes. This financial impact goes against the purpose of the recent home care pricing transparency initiative intended to reduce administration fees.

There will be additional costs for providers associated with research and development of further system upgrades in accommodating this policy change and relative to the investment already made in software systems that provide individualised HCP account management. Will Government be providing funding to offset these additional costs to alleviate financial pressures to cope with the intensity of the R&D work required in working with IT providers over a short change management period? Consequently, in the absence of Government funding to offset these costs, many HCP providers may need to pass on this cost as an increase in HCP pricing, reducing the overall value of a HCP in terms of care and services provided.

- One Member advised that they expect an increase of 1.0 full time equivalent (FTE) accounting staff will be required at a cost of $90-$100K plus super per annum to manage the increasing administrative burden associated with reconciliation of Government payments to provider accounts, collection of funds from clients asked to contribute to the cost of care and the potential cancellation of services that may result from the changes.

Importantly, this increase in administrative burden may have a compounded effect on aged care providers in remote areas, as these services already face significant difficulties attracting and retaining an appropriately skilled workforce.

Recommendation Seven: That ACFA note that there will be likely an increase in administrative costs for providers that will emerge from the requirement to undertake monthly expense reconciliation into the ACOP portal and that will be passed on to consumers, reducing the overall value of a HCP in terms of direct care and services.

Recommendation Eight: In response to increasing administration demands resulting from the HCP payment administration changes, introduce HCP expense reconciliation against subsidy payments on a quarterly or bi-annual basis with account for corresponding subsidy payments that have been made during the equivalent reconciliation period[2]. This would introduce a bulk subsidy payment adjustment with improved flexibility in HCP provider cash flow and reduced administrative burden.

Recommendation Nine: That consideration be given to the challenges remote service providers already face in meeting administrative requirements, and proper supports be implemented with any changes to payment arrangements to support workforce capability and infrastructure in minimising disruption to providers and consumers in these regions.

Appendix A

LASA HCP Payment Administration Changes Survey

LASA undertook a Member survey during November 2019 to inform this submission.

The survey was completed by 51 HCP providers. HCP numbers within the sample represent near 20 per cent of all HCPs nationally accounting for 19,078 HCPs. The distribution of HCPs by level within this sample is consistent with the national distribution of HCPs by level at 31 March 2019[11] (see Table 1).

Table 1. Total number of Home Care Packages at 31 October 2019.

Home Care Packages	N	Percentage
Level 1	1,444	7.6
Level 2	8,674	45.5
Level 3	3,584	18.8
Level 4	5,376	28.1
Total	**19,078**	**100**

Over 80 per cent of providers in the survey sample had relatively small to medium sized HCP programs, comprising no more than 500 HCPs as of 31 October 2019 (see Table 2).

Table 2. Size of a provider's HCP program at 31 October 2019

HCP Provider Size	N	Percentage
Small (less than 100)	19	37.3
Medium (100 – 500)	22	43.1
Large (more than 500)	10	19.6
Total	**51**	**100**

HCP Provider Revenue

Among survey participants, 96 per cent reported having multiple aged care revenue streams. Of this group, 56 per cent reported only having revenue streams independent of accommodation provision (residential care or retirement living). Importantly, 18 per cent of HCP providers reported experiencing a negative revenue position for their HCP program for the 2018-19 financial year, excluding unspent HCP funds balances. Some HCP providers also reported negative revenue positions across other aged care streams (see Table 3).

Table 3. Revenue position by program stream at FYE19 for HCP providers (*N*) reporting their revenue position across various aged care programs

Revenue position	HCP	CHSP	Private HC	NDIS	Flexible Care	Residential Care	Retirement Living	Other
N	49	31	28	17	3	21	12	20
Loss %	**18**	**26**	**25**	**29**	**100**	**52**	**33**	**35**
0-10 %	47	48	57	53	0	43	25	50
More than 10 %	33	26	18	18	0	5	42	15

[11] https://www.gen-agedcaredata.gov.au/www_aihwgen/media/Home_care_report/HCPP-Data-Report-4th-qtr-2018-19.pdf

It should be noted that with only 18 per cent of HCP providers reporting a financial loss for their HCP program relative to 30 per cent of HCP providers reporting a financial loss for their HCP program in the *Aged Care Financial Performance Survey Sector Report FY19*[5], it may be that the LASA sample represents HCP providers operating in the higher end of the market. As such, interpretation of revenue positioning for the broader segment of HCP providers in regards to cash flow impacts that result from HCP payment changes should account for this distinction.

Taken together, these findings suggest the revenue positions and diversity of aged care program streams reported against by survey participants highlights the diversity of aged care business models in operation, with each having a unique cash flow position that needs to be accounted for in assessing the financial impacts of progressing HCP payment administration changes.

Expectations for managing the cash flow impacts of the HCP payment changes

Noting the intention to phase implementation of the HCP payment changes, survey participants were asked how challenging they expect the management of cash flow impacts will be in their business when the Government introduces payment in arrears in June 2020. Near 40 per cent of survey participants reported the change to payment in arrears commencing June 2020 (Phase One) would either be very challenging or unachievable from a cash flow perspective (see Table 4.)

Survey participants were also asked how challenging an apportioned approach to the return of unspent funds (Phase Three) would be across two separate scenarios. The two scenarios accounted for the return of unspent HCP funds by 30 June 2021 (across 3 months) and by 30 June 2022 (across 15 months).

Table 4. Proportioned (%) HCP provider expectations for managing phase-related cash flow impacts of the HCP payment changes

		Unachievable	Very challenging	Somewhat challenging	Not challenging
Phase One (June 2020)	Payment in Arrears	2	37	43	18
Phase Three (April 2021)	Unspent Returned (across 3 months)[1]	20	42	18	18
	Unspent Returned (across 15 months)[2]	6	28	32	32

1 Unspent HCP funds returned via subsidy adjustments spread over 3 months to 30 June 2021 (33.3% per month).
2 Unspent HCP funds returned via subsidy adjustments spread over 15 months to 30 June 2022 (6.7% per month).

62 per cent of survey participants reported that returning unspent HCP funds across three months to June 2021 would either be very challenging or unachievable from a cash flow perspective.

In comparison, 34 per cent of survey participants reported that returning unspent HCP funds across three months to June 2021 would either be very challenging or unachievable from a cash flow perspective.

When asking survey participants how many months they would need to spread the return of unspent HCP funds back to Government without significant disruption to operations or viability, an average of 25 months was required (standard deviation of 34 months).

Approaches for managing cash flow impacts of the HCP payment changes

Survey participants were also asked about their approach to managing cash flow impacts in moving to HCP payment in arrears.

Some 26 per cent reported that they currently cross subsidise FYE losses within their HCP program using other program funding streams.

- 55 per cent reported they would look to cross subside from internal program funding streams/cash reserves if needed,
- 33 per cent reported they would look to tighten expenditure during the remaining part of the 2019-20 financial year,
- 22 per cent reported that they would seek to temporarily draw against unspent HCP funds as at June 2020 with subsequent corrective adjustments in the 2020-21 financial year, and
- 12 per cent reported that they would seek additional finance if needed.

When asking survey participants about their level of confidence to source additional finance:

- 8 per cent were very confident,
- 34 per cent were somewhat confident, and
- 24 per cent were not at all confident.

In addition to this, 24 per cent of survey participants indicated the sourcing of additional finance was not needed.