Relevant excerpts from The Aged Care Financing Authority (ACFA) review: Consideration of the financial impact on home care providers as a result of changes in payment arrangements

Introduction
The Aged Care Financing Authority (ACFA) is a statutory committee whose role is to provide independent, transparent advice to the Australian Government on financing and funding issues in the aged care industry.

The project and terms of reference
On 2 October 2019, the Minister for Aged Care and Senior Australians, Senator the Hon Richard Colbeck, asked ACFA to examine the potential financial impact on home care providers of the Australian Government's 2019-20 Budget measure to improve the way home care providers are paid Government subsidy on behalf of home care recipients, and to bring these arrangements in line with contemporary business practice.

Home care providers are currently paid a consumer's full entitlement to Government subsidy for each month, less any income-tested care fee, regardless of the services actually provided to the consumer. The subsidy is paid in advance at the start of the month. Any amount that is not spent providing care and services to a consumer in a month is held by the provider as unspent funds to be drawn upon by the consumer in the future.

The Budget measure involves a change in timing of the Government subsidy from payment in advance to payment in arrears for services actually provided. The difference between the full Government subsidy for the claim period and the cost to the consumer for the services actually provided (i.e. the unspent funds) will be held by the Government to be drawn upon by the consumer in future, through the provider. This change does not impact the amount that is available overall to the consumer.

When announcing the measure in the 2019-20 Budget, the Government said the change in payment arrangements would address stakeholder concerns regarding unspent funds and align home care payment arrangements with other Government programs – most notably the *National Disability Insurance Scheme* (NDIS).

The Minister for Aged Care and Senior Australians sought ACFA's advice on how the new payment arrangements would impact on providers' finances and whether the transition to the new arrangements is likely to present any significant challenges to providers in providing services to consumers and their ongoing financial arrangements. ACFA was also asked to advise on possible measures the Government could take to limit potential impacts and risk.

The review process
ACFA considered the potential financial impact on home care providers and implications for consumers through a public request for written submissions, face-to-face consultations with stakeholders, discussions with the Department of Health (Health) and the then Department of Human Services (DHS) now Services Australia, software vendors and data analysis. ACFA engaged StewartBrown to analyse the financial accounts of home care providers and provide an assessment of their current capacity to absorb the change in payment arrangements.

ACFA received 43 submissions from home care providers, aged care peak bodies, carers, carer advocacy groups, concerned individuals and payment management companies.

Face-to-face consultations were held with 79 home care providers attending forums in Brisbane, Adelaide, Perth, Melbourne and Sydney. This included a cross section of providers including small home care only providers, medium and large providers, providers that also engage in other aged care and non-aged care business, remote providers, providers servicing culturally and linguistically diverse (CALD) communities, for profit, not-for-profit and faith-based providers.

Health provided ACFA with a broad outline of the implementation arrangements the Government was considering, and this was the basis of ACFA's consultations. The arrangements were included in the Consultation Paper ACFA released when inviting submissions.

During the course of the consultations, providers raised a number of questions regarding how the new funding arrangements would operate that were not covered in the implementation outline ACFA received from Health. Some of the details providers were seeking to clarify could have a bearing on the financial impact of the change in payment arrangements, as well as implications for the provision of services to consumers. During the course of ACFA's consultations, Health was conducting a separate consultation process on the implementation arrangements for the Budget measure. ACFA has advised Health about the points of detail around the operation of the new arrangements that providers are seeking to clarify.

In ACFA's consultations, providers also raised comments on the merits of the Budget measure and the broader operation of the home care program. ACFA noted that it had not been asked to advise on the merits of the change in payment arrangements or broader reforms to home care.

The home care sector

Home care services were provided to 116,843 consumers in 2017-18, compared with 97,516 in 2016-17. The total Government expenditure on home care in 2017-18 was $2 billion dollars, an increase of $400 million from 2016-17. Consumer contributions in home care in 2017-18 were $122 million.

As at 30 July 2018, there were 873 home care providers. Over half of all providers were not-for-profit. The balance of providers was for-profit (35 per cent) and Government (12 per cent). Home care providers mainly serviced metropolitan locations (55 per cent), with 36 per cent operating regionally and 9 per cent operating in both metropolitan and regional locations.

Sixty-two per cent of home care providers also provide residential care and/or services under the Commonwealth Home Support Program (CHSP). Many home care providers also provide other services including retirement living, wellbeing and disability services, outreach community health and housing support services.

The home care sector has experienced significant growth in recent times, both in terms of Government expenditure, the number of consumers serviced and an increase in the number of providers servicing the sector.

Home care providers are still in the process of adjusting to the introduction of packages following consumers (portability of the package) rather than being allocated to providers. This reform allows consumers to direct their care package to the provider of their choice as well as to change providers. The changes have resulted in a large increase in the number of

approved providers and, in turn, greater competition which has resulted in a decline in profit margins for individual providers. As noted in ACFA's 2019 Annual Report, in 2017-18 the Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) for home care providers fell by over 60 per cent. The preliminary results from the StewartBrown survey for 2018-19 suggests a further small decline in the financial performance of home care providers. The large falls in the previous two years appear to have been arrested.

Current payment arrangements in home care

Home consumers are allocated a level 1, 2, 3 or 4 home care package depending on their assessed needs, with level 1 having the lowest dollar value and level 4 the highest. Once a package becomes available, consumers enter an agreement with a home care provider to receive care and services under their package.

Government subsidy levels (current to 19 March 2020) are:

Subsidy rate per day by package level	
Level	Per day
1	$24.07
2	$42.35
3	$92.16
4	$139.70

Providers may also receive supplementary funding in respect of certain services and consumers, for example, a viability supplement for more remote services and dementia and cognition supplements.

Home care providers are currently paid a consumer's full entitlement to Government subsidy for each month (i.e. their package level for each day in care less the subsidy reduction which is known as an income-tested care fee), regardless of the services actually provided to the consumer. This is paid in two stages. Using the month of June as an example, the provider receives an advance payment at the start of June equivalent to the amount received for the month two months earlier, being April. Then, at the start of the subsequent month, July, the provider lodges a claim specifying the actual subsidy due for June, at which time a reconciliation takes place.

Providers also collect an income-tested care fee from consumers who have sufficient assessable income and, by agreement with the consumer, can also charge a basic daily fee, currently up to approximately $11 per day. These amounts are added to the consumer's subsidy to form their package budget and can be drawn upon to pay for care and services. The Government subsidy on average represents 96% of home care providers' income.

Any amount that is not spent providing care and services to a consumer in a month is held by the provider as available funds to be drawn upon by the consumer in future. Available funds are commonly referred to as unspent funds, noting these only become unspent funds when a person exits care.

Unspent funds

Based on the most recent data, the current pool of unspent funds is around $750 million. This is an increase of approximately $200 million in the last 12 months. The average unspent funds per client is approximately $7,000.[1]

Unspent package funds are currently held by providers but should not be recognised as income by the provider until the funds have been spent or committed for the consumer's care. Some providers treat unspent funds as part of their working capital (which reduces the need to access other sources of working capital such as through borrowing), but these funds should then be recognised in the providers' accounts as a liability. It appears some providers quarantine unspent funds in an account separate from the operating account and use the funds only to pay for care and services to consumers, although they may use the interest earned on those funds for various purposes. Some providers have this money held by a third party, effectively holding it in trust for the consumers.

The average subsidy utilisation rate is 90 per cent, meaning that on average 10 per cent of Government subsidy payments are accruing as unspent funds. While the growth of an individual's unspent funds balance will largely be related to how long they are in care, providers reported that their unspent funds were concentrated on a small number of consumers with very large balances.

A range of factors are behind the growth in unspent funds, as discussed in ACFA's 2019 annual report.[2] The change in payment arrangements, which was the basis of the consultations, will not address the underlying issues causing unspent funds to accumulate, but will address who holds the funds– provider or Government.

During ACFA's consultations, a number of providers said that the focus should be on addressing the reasons for the build-up in unspent funds rather than changing who holds such funds. A number of suggestions were offered on how to reduce the growth in unspent funds, predominantly involving changes to the assessment process to avoid over assessment and to enable downgrading of package levels if a consumer's needs reduce.

Issues raised in consultations

Current arrangements

Providers are currently paid the Government subsidy in advance based on a consumer's days in care and their package level. Providers retain unspent funds for future drawdown by the consumer.

Receiving the Government subsidy in advance has reduced the need for many providers to access other means to obtain working capital. Providers noted that they still need to finance the services provided to new consumers pending receipt of their Government subsidy.

Providers also advised that there can be significant reconciliation issues when they do not receive what they consider to be the correct subsidy payments for consumers. Providers said the current payment system is slow to respond to requests for payment adjustments and the reconciliation process can involve significant administrative effort and cost to providers. It was observed that gaps in the information flow between providers and DHS can be caused by

[1] StewartBrown, Home care Funding Analysis (November 2019), p.9.

[2] ACFA's 2019 Annual Report noted that unspent funds accumulate for a variety of reasons including that consumers wish to save a proportion of their budget for future events, misconceptions that money not spent under the package belongs to the consumer, or because the consumer does not require all the funds allocated to them.

such factors as providers not receiving package upgrade notifications, the absence of a mechanism to confirm the subsidy package that consumers are receiving when they transfer between providers, and no mechanism for providers to access how many days of leave remain before a package recipients subsidy is reduced. One provider reported that 40 of their consumers had 'dropped off' the DHS system, resulting in unpaid subsidies of $120,000.

It was claimed that payment adjustments can take up to six weeks to reach providers' bank accounts. Providers noted they faced the challenge of continuing to fund care and services whilst payment issues are being worked through; essentially they had to continue to deliver services for some consumers without receiving the Government subsidy payment. It was observed that under current arrangements, the impact of such financing pressures is somewhat cushioned by the subsidy payments being made in advance and providers holding the consumers' unspent package funds.

It appears that providers are concerned that the reconciliation issues and resulting administrative costs currently being experienced could be exacerbated by introducing further complexity to the payment system. Moreover, problems with the existing system contributed to providers' scepticism as to whether a change in payment arrangements would be smoothly implemented.

Phase 2 – payment for services provided

Phase 2 (as from April 2021) involves subsidy payments based on services actually provided to individual consumers. DHS will retain each consumer's unspent funds to be drawn down by providers on behalf of consumers when needed.

The main concern raised by providers did not involve the impact of Phase 2 on their cash flow. Their Phase 2 concerns focussed on the system changes that would be required, both to their systems and DHS payment systems, to accommodate the move to payment for goods and services actually provided to each of their consumers. Providers were concerned about having sufficient time for system changes to be developed, tested and implemented, as well as the costs that they would incur for such changes and for staff training, which may be passed on to the consumer.

Providers were particularly concerned about the ability of DHS to introduce a new system to support the change in payment arrangements. Their concern was based on previous negative experiences with significant system upgrades, such as those that occurred with the introduction of funding following the consumer for home care packages. They observed that if the required changes in payment systems by providers and DHS are not compatible, and there are discrepancies in the flow of information regarding each consumer, there will be reconciliation issues. These issues will pose significant additional administrative effort and costs for providers. If there continued to be sizeable delays in sorting out data discrepancies with the current payment system, it could cause significant financial problems for providers. Providers would be particularly concerned if Phase 2 required them to manually input the data on the goods and services actually used by consumers each month. This would significantly increase their costs.

Providers said clarification was required around many aspects of the implementation of Phase 2. Some of the issues raised included:

- Who will be responsible for monitoring client balances and advising the consumer of their unspent fund balance (provider or DHS or jointly)?
- How will resolution occur if there is a discrepancy between providers' records and DHS?

- What level of detail is required when claiming for goods and services actually provided?
- Will there be a time limit on invoicing?
- Who should be collecting the income tested care fee (provider or DHS)?
- How would the basic daily fee be treated (would it be deducted from the subsidy payment in the same way as the income tested care fee)?
- Will consumers be allowed to get into negative balance? Currently providers allow consumers to temporarily go into negative balance in times of particular need, such as following a health related event or when capital items are immediately needed. Under current arrangements, providers recoup an over spend in a few months from subsequent monthly payments. Providers noted that they bear the risk if the consumer departs care before the overspent funds are recouped.

As noted previously, these questions have been referred to Health who is consulting on the detail of the implementation of the change in payment arrangements. This detail can impact on the cost to providers of the new arrangements.
Most providers said the Government's timeframe for the implementation of Phase 2 was too short. There was a strong desire for this phase to be pushed back to allow more time for development, testing and a trial period to ensure that past issues with the payments system do not occur again.
Due to the time and cost associated with significant system change, a number of providers suggested that these changes should not be introduced ahead of the final report being delivered by the Royal Commission into Aged Care Quality and Safety.
DHS has advised ACFA that they are committed to delivering systems that are modern, adaptable and meet the requirements of their stakeholders. DHS further advised that they will continue to work with Health and engage with service providers to seek input and feedback on how payment systems are designed and operate.

Possible impact on viability of some providers
Some of the submissions suggested that the new payment arrangements would be a risk to the viability of some providers. One submission noted that a loss of liquidity for providers may result in insolvency or pose difficulties for providers to fund significant drawdowns from available funds. Some submissions suggested that smaller providers may no longer be able to operate due to an inability to pay staff or suppliers before the funds are reimbursed.

One submission provided details about the anticipated impacts on a group of providers operating in thin markets. This submission advised that *Moving to a post-paid individualised finance model will impact cash flows for remote and very remote service providers in the short and long term and this could be worsened by providers who may be relying on the availability of unspent funds to provide services that otherwise are not financially viable.*

Many submissions referenced small providers and those operating in rural and remote locations, suggesting that the risks to the ongoing viability of these providers would be heightened as a result of the change in payment arrangements. Submissions from smaller providers asked that they be given special consideration and receive support to ameliorate the costs to them of the change in payment arrangements.

In addition to the individual impacts, providers noted that the cumulative effect of this change needs careful consideration in the context of previous and ongoing reforms to home care.

Possible impact on consumers
A number of concerns were raised regarding the possible impact of the new payment arrangements on the delivery of goods and services to consumers. It was noted that should the

new arrangements result in some providers leaving the industry, this would reduce consumer choice. The extent to which the new arrangements adversely impact on the viability of providers operating in very thin markets in rural and remote locations may have a significant impact on consumers if there are no other providers operating in those markets.

Some providers said that as a result of the cash flow pressures arising from the changes, they may be reluctant to take on new consumers during the transition period. Others observed that if this was the case, they saw an opportunity to increase market share. A related concern raised by a number of smaller providers was that larger providers would have greater capacity to absorb the costs associated with the changes, and this would distort the competitive market.

Many providers suggested that with unspent package funds being held by DHS, there would be significant delays before consumers could access these funds to finance the provision of large capital items. It was noted that larger providers may have the capacity to finance such purchasers before getting reimbursement from DHS, but smaller providers would not have the same capacity to finance such outlays. This was seen as another consequence impeding the competitiveness of smaller providers.

It was also noted in the consultations that, to the extent that the new payment arrangements increase administrative costs for providers, these costs would be passed on to consumers which in turn would reduce the level of goods and services available to a consumer under a package.

It was also highlighted that consumers would be adversely impacted if the arrangements involving DHS paying the subsidy for actual services delivered in the past month reduced the flexibility under current arrangements whereby a provider could overspend on a consumer in one month, and recoup from subsidy payments in subsequent months.

Data analysis

The accounting firm StewartBrown was engaged to provide an assessment of the likely financial impact of the proposed changes based on an examination of the financial accounts of home care providers. In undertaking this analysis, StewartBrown used the information available from the 2018-19 Aged Care Financial Reports (ACFR) submitted by providers, data from the most recent StewartBrown Aged Care Financial Performance Survey, and other relevant financial data.

StewartBrown's report is attached. The key findings from the report are:

Financial impact on providers

The overall financial performance of approved providers, other than the potential additional interest expense and possible foregone interest revenue on unspent funds, will not be materially impacted by the cash flow impact of the proposed changes to funding arrangements.

On average, and across the cohort of approved providers examined by StewartBrown, there are sufficient liquid assets held by at least 89 per cent (477 in number) of approved providers. They have sufficient cash flows to meet normal operating expenses for one month while the arrangements transition from payment in advance to payment in arrears.

The potential financial impacts to approved providers are likely to be amplified for smaller providers who do not have other major sources of revenue other than that generated from the delivery of home care packages.

Significant risk
StewartBrown noted that if the Government, through DHS, required approved providers to submit each claim at the individual consumer level, this would result in additional administrative effort for providers, not only in making claims but also in reconciling the reimbursed funding receipt to the claim on a consumer by consumer basis.

Assessment of issues raised

Phase 2

The main concern with Phase 2 raised in the consultation meetings and in written submissions was the capacity for DHS to implement the required changes to their systems to deal with the new payment arrangements, along with the costs to providers of having to change their payment systems. Providers were particularly concerned that if the new arrangements are not introduced smoothly, there will be significant reconciliation issues in dealing with discrepancies in data and this will have a significant financial impact on providers.

In order to gain an insight into the system adjustments that providers may need to introduce to accommodate the change in payment arrangements, ACFA consulted with software providers to assess their views on the feasibility of the changes within the proposed timeframes.

Software providers noted that the most important pre-condition to managing a smooth transition process is getting the systems development phase in place and agreed to by key stakeholders as early as possible. It was further noted that the ability for software developers to implement timely and accurate changes for their clients (home care providers) was conditional on DHS being able to manage system requirements effectively from their end.

Software providers observed that a fully integrated system (business to Government) would not be achievable within the timeframe.

ACFA notes that it is important that the new arrangements whereby Government subsidies are paid for actual services provided maintains the flexibility of the current system which enables a consumer's package to go into negative balance if needed and to be recouped from subsequent monthly subsidy payments.

Conclusions and Recommendations

With some exceptions, there is general acceptance and support amongst providers and peak bodies that there is merit in the Government's decision to pay home care subsidies in arrears and for DHS to retain unspent funds.

Notwithstanding this general acceptance and support, ACFA's consultation raised a range of concerns around the implications of the new funding arrangements. A few providers advocated for the maintenance of current funding arrangements. While some providers supported the intent of the changes in payment arrangements, they argued that no changes should be made until the Royal Commission into Aged Care Quality and Safety has delivered its final report.

Acknowledging the range of themes raised during the consultation, ACFA makes the following conclusions and recommendations. The recommendations are framed within the three proposed implementation phases.

Phase 2

Phase 2 presents a potential risk for providers and the Government. This is primarily due to the extent of new system requirements to deal with the changes in payment arrangements and how smoothly these systems operate. Providers' concerns relate to a number of factors that can be broadly categorised into the following groups:

1. System costs and increased staffing costs associated with increased administration (particularly if manual data entry is required).
2. Significant increase in reconciliation requirements which will add to administrative expenses and impact on providers' financial position if there is a sizeable delay in resolving discrepancies and receiving payments.
3. Previous negative experiences with significant systems changes and concerns that short lead times will not allow time to trial the changes.
4. A high degree of uncertainty as to how Phase 2 will operate given numerous substantive matters are not yet resolved.

Risks are heightened for providers operating in thin markets and delivering niche services.

ACFA notes the complexity of the changes required to the DHS payment system. For this Phase to be implemented with minimal disruption to providers and consumers, system implementation requirements need to be well considered and articulated to the sector as soon as possible. The focus should also be on minimising the administrative costs for providers under Phase 2. In this regard, consideration should be given to the suggestion raised in StewartBrown's report that rather than requiring providers to submit a claim for services actually provided at the individual level, providers submit an aggregate amount of the services provided.

It is also important that the details of the operation of the payment arrangements under Phase 2 do not have an adverse impact on consumers. In particular, the new system should retain the flexibility of the current system whereby providers allow a consumer's balance to go into arrears if needed and recoup the amount from subsidy payments in subsequent months. Flexibility may also be needed to allow providers early access to a consumer's unspent balances held by DHS in order to finance large capital items. ACFA recognises the significant costs providers may incur in changing their systems and the smoothness of moving to the payment arrangements under Phase 2 is very dependent on how effectively DHS can manage their systems changes.

The prudent course to minimise the risks associated with Phase 2 is for Health to finalise the details of how this phase will operate in consultation with providers and to discuss with DHS and software providers what realistic time frame is required to trial and implement system changes.

Phase 2 recommendations

> **Recommendation 4:** All aspects of how the new payment arrangements will operate need to be settled as quickly as possible to determine the system changes required by both DHS and providers. In settling this detail, the focus should be on minimising the costs to providers and avoiding any reduction in the flexibility of the current system in providing goods and services to consumers as they need them.
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> **Recommendation 5:** Once the details of the new arrangements are settled, there need to be consultations between DHS, providers and software developers to determine an appropriate time frame to ensure a smooth change to the new funding scheme, and also what can be done to minimise the administrative burden on providers. There

should be a reasonable trial period of the new systems before full implementation. The current time frame for the introduction of Phase 2 (April 2021) should be reviewed following these consultations between DHS, providers and software developers.

Recommendation 6: Consideration should be given to providing financial support to providers operating in thin and difficult markets who may find it particularly challenging to adjust their systems to deal with the requirements of the new payment arrangements.