FINANCIAL AND OPERATIONAL MANAGEMENT

Additional Services Industry Insights Report

March 2022

PRIDE living group

CONFIDENCE LEADS TO SUCCESS

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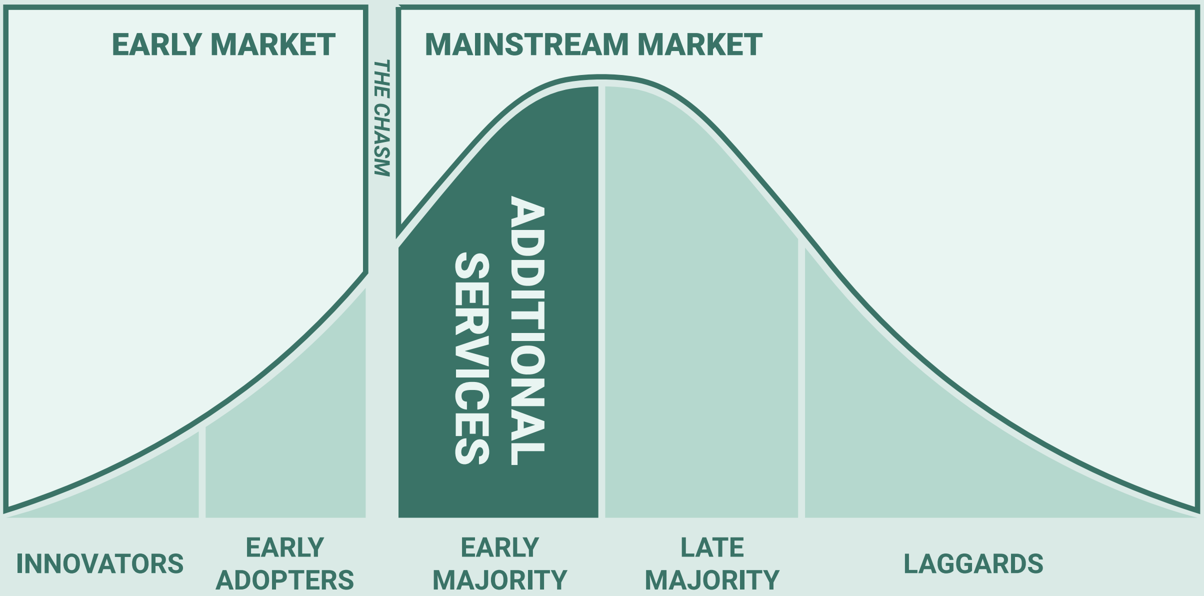
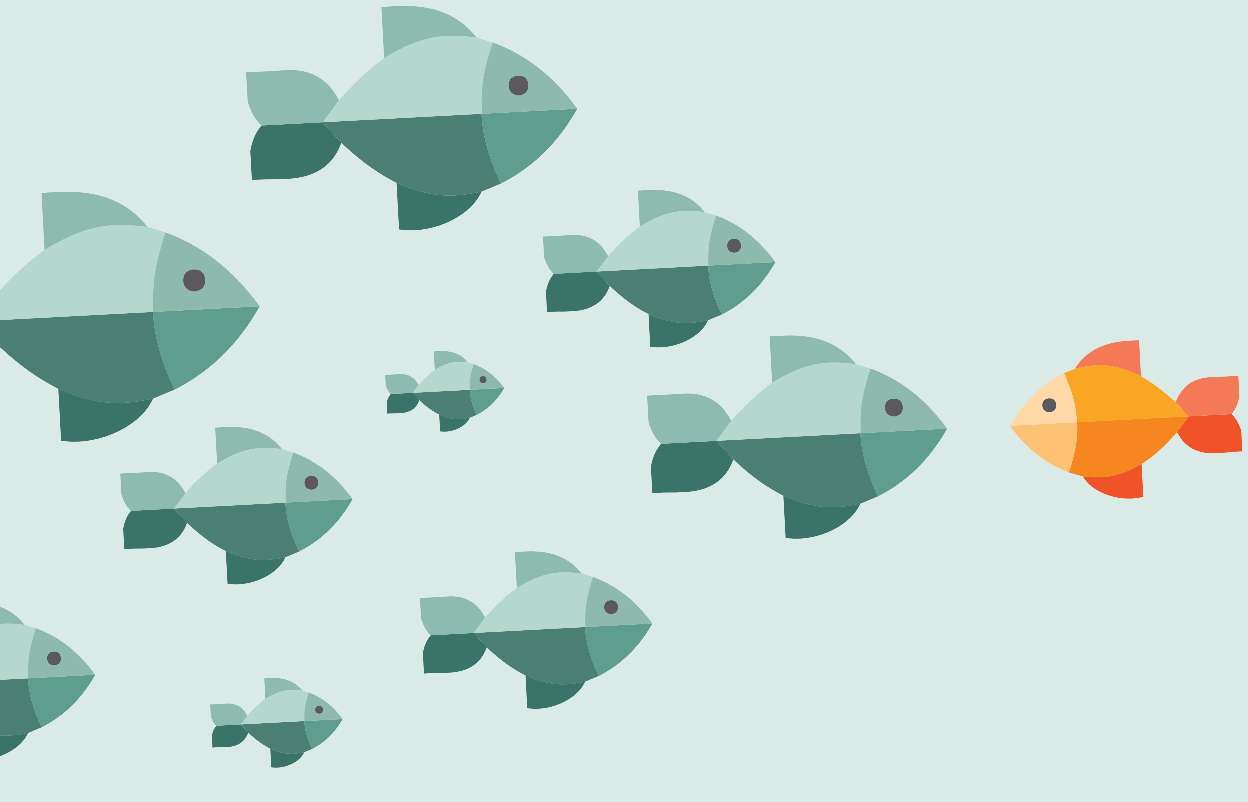
Are you swimming against the *mainstream*?





Executive Summary

Pride Living is pleased to present its third Additional Services Industry Insights Report. We continue to work closely with clients to ensure the introduction of Additional Services (AS) is seamless, compliant and financially viable. This report examines how Additional Services can ensure long-term sustainability whilst embracing consumer-centred care. We provide case studies to demonstrate how to price and structure additional services.

To help the industry move forward, we share this report with the intent to guide Providers with an understanding of not only the benefits of Additional Services, but the risk of non-compliance and associated financial costs. We trust this report will provide you valuable insight on Additional Services.

- Financial and Operational Management Team, Pride Living Group

Background

We are pleased to see the number of RACS introducing packaged Additional Services grow by 50% since our last insights report. The adoption curve below illustrates that Additional Services has entered the mainstream market stage.

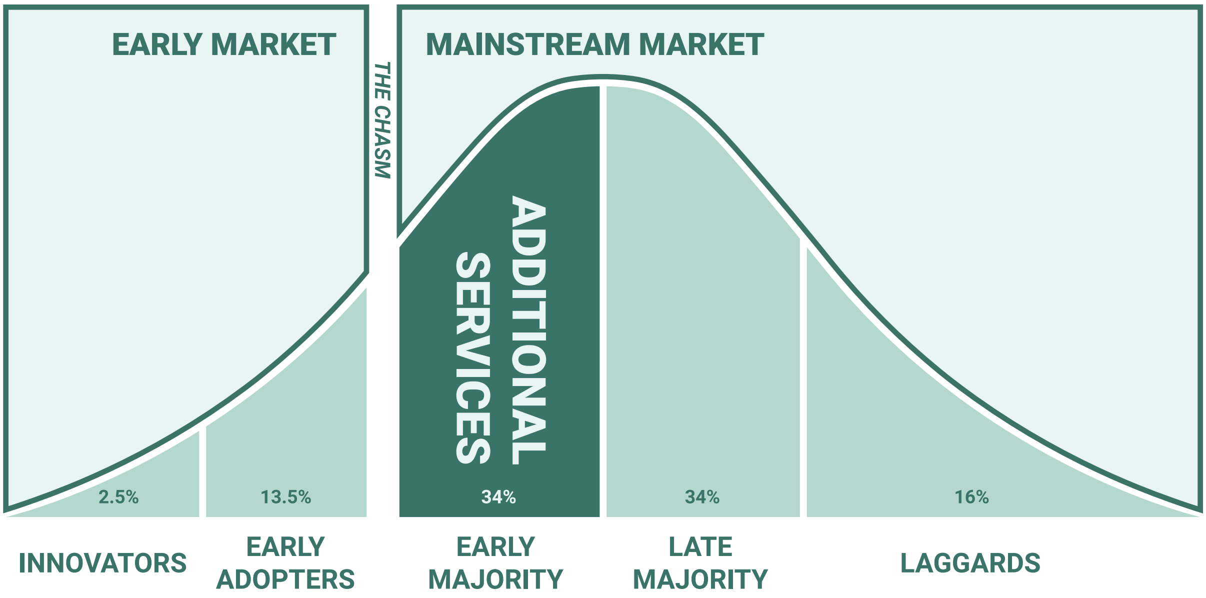


Figure 1: Additional Services Adoption Curve

The Adoption Curve is a great determinant of the success of a new product or concept. Products or concepts that fail to cross the chasm represent market rejection. Additional Services has crossed 'The Chasm' and is being embraced by the industry and consumers. We attribute this recent growth to large NFP Providers leading the way with Additional Service packages across their portfolios.

Pride Living has witnessed the shift in the conversations with clients from *"Should we offer Additional Services?"* to *"Are we offering Additional Services correctly?"*

Some Providers have implemented Additional Services with little corporate governance or by relying on the original ESS framework, which may result in a non-compliant program and complaints from residents and representatives.

Whilst the introduction of Additional Services does represent risk to the organisation, this can be mitigated with a well-structured approach and third-party oversight.

With a typical 3-year progressive uptake for Additional Service fees, Providers who are yet to adopt Additional Services run the risk of being left behind.

Why Additional Services are Important

The aged care industry has faced many other challenges recently due to COVID-19 and in response to Aged Care Royal Commission's recommendations to overhaul the industry. Further, the new accreditation standards require Providers move to consumer directed care in response to increasing resident demands for flexibility, choice and control.

The 2021-22 Federal Budget announced there will be no further ACARs. This signals the transition to places being allocated directly to Consumers, following the implementation of this approach in home care.

"This will restructure residential aged care and generate a more consumer-driven market where the success of individual Providers will be determined by their quality and responsiveness to clients."

\- 2020-21 Report on the Operation of the Aged Care Act 1997

It is expected this will drive market segmentation and specialisation. Providers shall need to differentiate themselves and improve the standard and quality of services delivered beyond the government's minimum standard.

However, there is little additional funding to support these changes. The 2019/20 industry financial performance data published by ACFA further illustrates that expenses in aged care continued to outstrip the revenue in residential care between 2016-20.

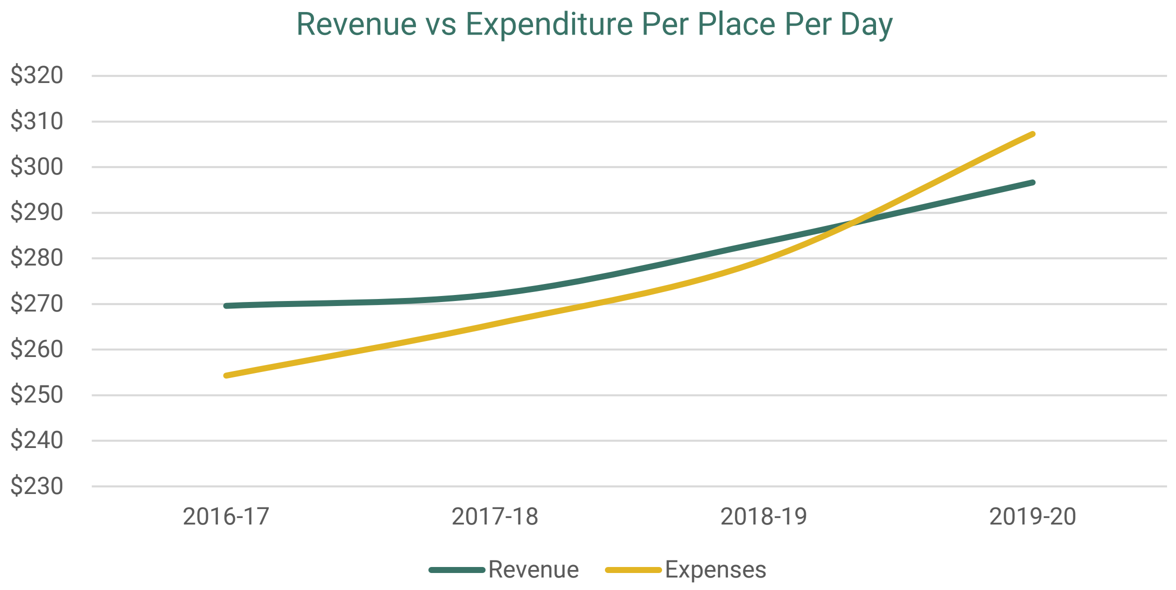


Figure 2: Revenue vs Expenditure Per Place Per Day

Figure 2 illustrates that in 2019-20, Providers were losing approximately $10 per place per day on average.

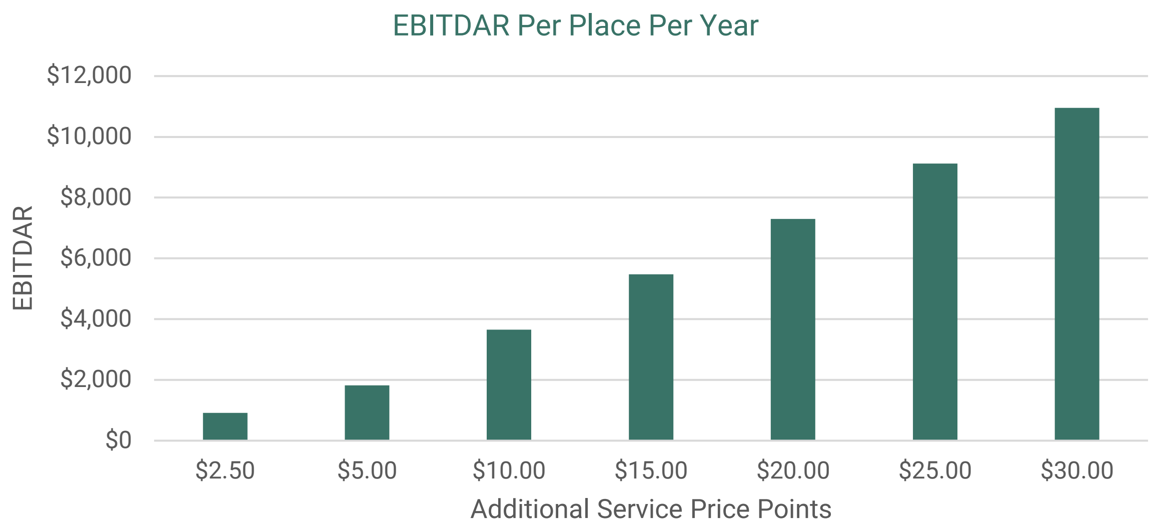


Figure 3: EBITDAR Per Place Per Year

The median daily cost of a structured Additional Services package of $15 can add $5,475 per place per year and bridge the difference.

What are Packaged Additional Services?

Additional Services have been available in aged care for many years, with most Providers offering some services on an ad-hoc, fee-for-service basis. These are services not covered by Government funding. Examples include hairdressing, medication and transport.

Most Additional Services have traditionally been provided free of charge; however, with constrained funding and the increasing cost of service delivery, it is no longer viable to provide these services and amenities. Providers are now left with a choice of reducing services outside what they are funded or find a revenue stream to meet Consumers' increasing expectations.

The aim of Additional Services is to cater to the tastes and preferences of the individual, ultimately reinforcing [Standard 1: Consumer dignity and choice], without creating a greater strain on a Provider's financial viability.

The approach of packaging popular services streamlines the process for residents and minimises the administrative burden for Providers.

Fees are advertised as follows:

Accommodation Fees		+	Care Fees	+	Other Fees
RAD	Combo		Basic Daily Care Fee		Additional Service Fee
DAP			Means Tested Care Fee		Extra Service Fee

Key Points

- Providers can make the take-up of Additional Services a condition of residency
- Residents must have the capacity to access the service
- Residents must receive a direct benefit from the service
- Additional Services must be agreed beforehand with the care recipient (s56-1(e))
- Services must be itemised, and the recipient must be provided with a monthly statement (s56-1(e))

Market Research Snapshot

$15 MEDIAN DAILY FEE	$20.86 AVERAGE DAILY FEE	$1.50-$62.25 DAILY FEE RANGE

45% OFFERED A PACKAGE

55% DID NOT OFFER A PACKAGE

96% OF PACKAGES ARE MANDATORY

Most common service types

- ALCOHOL WITH MEALS
- BUS OUTINGS
- SPECIAL FUNCTIONS
- TECH & ENTERTAINMENT

Market Research on Additional Services

Over the past year, Pride Living has worked with a range of FP and NFP Providers, including standalones, small-medium sized groups, and national multi-site Providers. Our scope of work includes researching local competitors to ensure we can provide the most accurate advice.

As a result, we have compiled a database of 212 facilities regarding Additional Services. We have broken down the average cost, range of fees and most common package inclusions offered. **For the purposes of this report, we will only be focusing on packaged services**.

Our research has shown that 45% of RACS surveyed offered an Additional Service package. This is a 50% increase from the 30% that we reported in late 2019. This evidences the growing popularity and market adoption of packaged Additional Services.

Price of Additional Services

We have found the average package fee has decreased from $25.65 (2019) to **$20.86 (2021)** and the median price decreased from $23.00 (2019) to **$15.00 (2021)**. We suspect the decrease is likely due to RACS implementing conservatively priced packages with a strong focus on affordability. Another factor would be the impact of COVID-19 and the reduction of access to services.

CASE STUDY

Are we charging too much?

Pride Living undertook a market analysis for a client to understand their catchment affordability. Our findings indicated a $9.95 daily fee was affordable and was agreed to by our client.

Following implementation, a sales staff member complained they felt the package should be free as *"they have always provided everything for free in the past"*.

As a result, the facility undertook a resident survey to gauge resident sentiment towards the package and fee. Over 90% of the residents answered that they felt the package was good value and that the added value was a reason they chose the facility. The staff member was surprised by the positive attitude and no longer felt the cost was a burden to residents.

Key takeaway

- Always seek resident and other stakeholder feedback

Structuring Packages

Our clients offer a standard package across the facility with a reduced fee for supported residents. The daily fee is set well below the package value to ensure the Consumer value exceeds the fee.

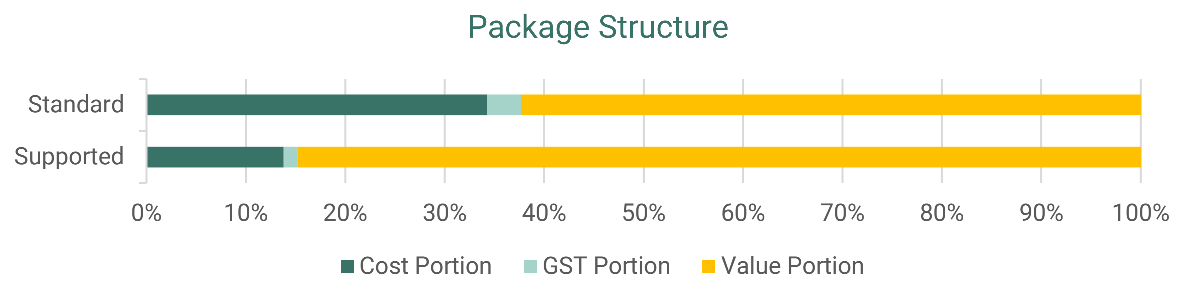


Figure 4: Package Structure

On average, our clients charge approximately 38% of the standard package value, which provides a value buffer as some services may not be accessible or of benefit to all residents.

CASE STUDY

Importance of providing value

Like many homes across Australia, a client went into lockdown to protect residents from COVID-19.

With activities such as bus outings unavailable, the facility management decided to temporarily suspend the Additional Service fee. We witnessed a lot of Providers taking this course of action, including many of our clients.

The facility's Additional Services fee is $14.95 with a daily value of $59.00.

The Provider immediately discounted the fee by 30%. However, this discount was not removed when the home was out of lockdown and remained in place throughout all subsequent lockdowns – a total of 21 months.

Using Pride Living's method of calculating access and benefit, the Residents were still receiving $38.00 daily value from the package – significantly higher than the $14.95 fee, therefore no discount was warranted.

Key takeaway

- Need to adopt a standardised and transparent approach to assessing package value that is communicated to all stakeholders

Mandatory vs Optional

According to our survey data, 96% of RACS that offer Additional Service packages do so on a mandatory basis. Our experience with a client who started with an opt-in/opt-out approach resulted in a low uptake and additional costs to ensure services were available. After nine (9) months, the client transitioned to a mandatory program and the impact is demonstrated in Figure 5.

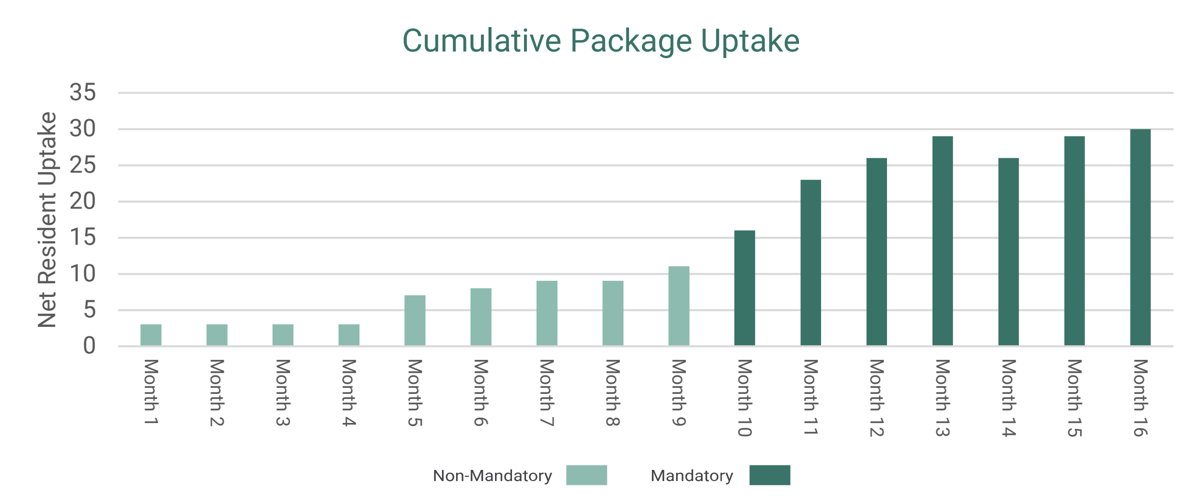


Figure 5: Cumulative Package Uptake

CASE STUDY

Making Additional Services mandatory

The client cited in the above graph had two homes in suburban areas of a capital city.

Management were worried a mandatory Additional Services fee would impact occupancy and decided to make the fee optional.

It is typical for many families entering aged care to experience **fee-fatigue** once confronted with the BDCF, RAD, DAP, RAC, DAC, and MTFs. As a result, most residents chose not to take up Additional Services.

When a new CEO was appointed, Pride Living's recommendation to make the fee mandatory was adopted, resulting in an immediate increase in earnings with no reduction in occupancy. As part of the transition to CDC, the new CEO appointed a Customer Services Manager whose duties included overseeing the Additional Services program.

Key takeaway

- The decision to place a loved one in residential care is rarely based on cost alone. If you provide a good service, most people will be willing to pay more.

Respite and Additional Services

We recommend our clients charge respite residents for Additional Services at the supported fee rate as financial means cannot be determined. This approach will ensure the Consumer and their family understand and accept the concept of Additional Services prior to entry. As approximately 58.1% of respite residents convert to permanent[1], there will be fewer issues following this transition.

CASE STUDY

Should we charge respite residents?

A multi-site NFP client introduced Additional Services across their portfolio, including a number of their regional homes. Our client decided not to charge respite residents for Additional Services as it was viewed as a community service that promoted the facility.

A complaint was raised regarding the Additional Service fee when a respite resident transitioned to permanent care. As respite residents are not required to pay for Additional Services, the program was not discussed during the respite tour or contract discussion. When the resident converted to permanent care, a new contract with the Additional Services fee was issued without further consultation. The family stated they were not advised of the program and that it did not include any services not available during respite.

Key takeaways

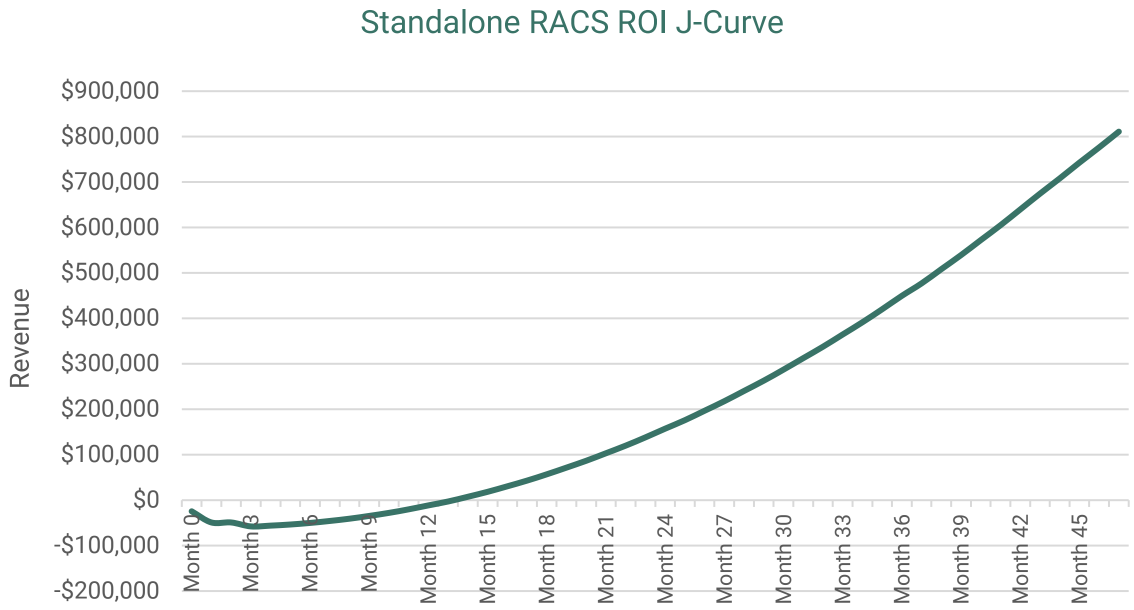
- Charging Additional Services from the beginning of the resident's journey ensures they see the value.
- Ensure transparency and communication of all fees.

[1] 2020-21 Report on the Operation of the Aged Care Act 1997

With our experience of working directly with our clients to design and implement an Additional Services program, we have highlighted the following points.

Return on Investment (ROI)

To illustrate the benefit of implementing Additional Services to the bottom line, we have provided an example:



Assumptions:	100-place RACS	Occ. @ 95%	40% Supported	60% Non-supp	Standard: $15	Supported: $6.95

Figure 6: Standalone RACS ROI J-Curve

Figure 6 demonstrates the typical ROI for a 100 place RACS using the PASS approach of progressive implementation (i.e. only charging new residents). This investment is paid off within 14 months and continues to grow to $604,990 p.a. or $6K PPPA, once the facility reaches 95% of AS fee paying residents.

Time to Go-Live

Our implementation pathway typically takes 14 weeks to Go-Live. This includes developing the package, engaging stakeholders and developing collateral. Our team has overcome many challenges that can delay Go-Live, including COVID-19, changes in key personnel and competing priorities.

14
WEEKS

Engaging a third party to manage the project ensures it remains on track and the organisation can focus on day-to-day operations. It is however, important to have an internal Project Lead to coordinate with the key personnel.

CASE STUDY

Too many cooks...

Pride Living assisted a client introduce Additional Services across two new RACS. An internal project team and Board sub-committee were set up to oversee the project. Although we recommend internal oversight, the sub-committee hindered progress by reviewing all decisions made by the internal project team. As a result, the internal team became frustrated, disengaged and Go-Live was delayed.

The Provider recognised this and appointed an internal project leader, empowered as the executive decision maker. The sub-committee still had input; however, having a designated decision maker made the process of implementation quicker and the outcome was reached more efficiently.

Key takeaway

- Appoint an internal project lead who has capacity to oversee the project and is empowered to make decisions.

Risk & Compliance

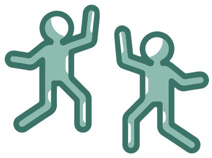
As with any new program, there is risk associated with implementing Additional Services. Your organisation will need to have systems and processes in place to ensure compliance and mitigate risks. Pride Living's involvement in the Additional Services space since 2017 has provided our team with the knowledge and understanding to create a program with tools and processes to assist and safeguard our clients throughout implementation and support them thereafter with a compliance support program.

AS v ESS

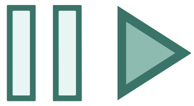
A common misconception we see is Providers following the Extra Service model when implementing Additional Services. We have summarised some of the distinct differences between both systems below.

Regulation
ESS is regulated under the Aged Care Act. AS is more flexible

Approval
ESS places are restricted whereas AS places are unlimited



Resident Inclusivity
ESS cannot be offered to supported residents. AS can be offered to all residents



Access & Benefit
AS is only charged when residents have capacity to access and benefit

ESS is regulated under the Aged Care Act and RACS with ESS approval can charge for premium services and amenities as dictated by the ESS benchmarks. The allocation of ESS places ceased in 2014 with the introduction of Additional Services. Some Providers continue to provide ESS; others have rescinded their ESS replacing it with Additional Services; and others offer both programs. There are benefits to each approach and Pride Living has assisted organisations to develop a strategy based on their individual circumstances.

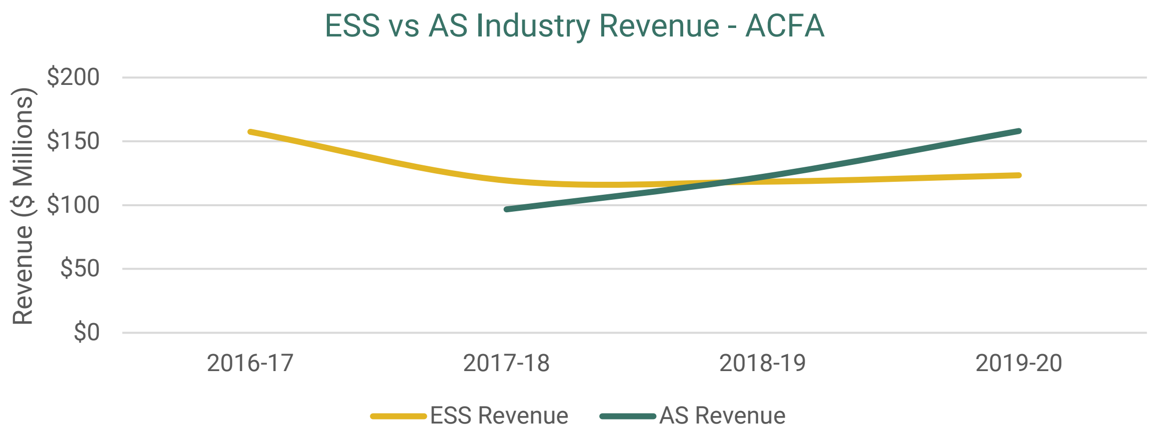


Figure 7: ESS vs AS Industry Revenue - ACFA

Figure 7 illustrates the shift as Providers move away from Extra Services towards Additional Services. Additional Service revenue surpassed ESS revenue in 2018-19 and continues to grow at a rapid pace.

Additional Services is seen as a less archaic and a more flexible approach to facilitating Consumer dignity and choice. Many Providers who have retained ESS have done so for legacy reasons, hence they have not considered Additional Services.

We have assisted clients develop and implement Additional Services to replace and/or complement their existing ESS program. This approach helps facilitate parity and encourages inclusion by providing non-ESS residents and supported residents with the opportunity to enjoy the amenities and services previously limited to ESS residents.

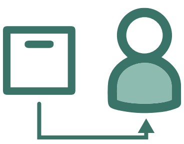
Additional Services provides newly commissioned or significantly refurbished RACS with an excellent opportunity to introduce a packaged program. Given the financial constraints on the sector, we recommend all our clients who are commissioning or refurbishing facilities to include Additional Services.

Legislative Background

The *Aged Care Act* and principles impose the following obligations on Providers in relation to Additional Services:

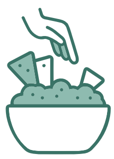
- The fees the Provider may charge a resident are not regulated; they are agreed between the consumer and the Provider.
- Prior to the commencement of any Additional Services, the Provider is required to obtain an agreement from the resident.
- The agreement must provide the resident with an itemised account of the services to be provided, including a list of individual goods and services and costs. In doing so, the proposed fees associated with 'other services' provided must be agreed upon by the resident beforehand.
- The Provider is required to continually supply the resident with itemised accounts on a regular basis.
- Fees for Additional Services can be deducted from the RAD or paid directly.
- A Provider is not permitted to charge a resident for Additional Services if the resident is unable to access or benefit from those services.
- A Provider cannot charge for Additional Services if the resident has an assessed need for the service or has high care needs.

Common Shortfalls



Failure to supply
Advertised services that are no longer available

Not crediting
It is important to monitor hospital/social leave usage and credit the account



Double dipping
Charging for services that are listed in the room description for RADs > $550K.

Non-Compliance
Not undertaking regular capacity to access and benefit reviews

The remedy to these issues is third-party governance and assurance oversight with monthly contact. This will ensure any failures are not overlooked and are dealt with promptly.

Can you add this service to a package?

CHECKLIST

Yes	The service **does not** fall under the general operation of an aged care home	No
Yes	The service **does not** fall under the responsibility of the Provider	No
Yes	The service **is not** required to be provided under SCAS	No
Yes	The service **is not** covered by a RAD greater than $550k	No
Yes	The consumer **has** access to the service	No
Yes	The consumer **has** direct benefit from the service	No

You cannot charge for this service

If the above requirements are satisfied, you may charge for this service

Governance & Support

A good governance program is required when introducing a new project, as there is significant risk that needs to be identified, addressed and managed to ensure compliance. Pride Living brings a team of dedicated specialists with industry intelligence to support your organisation to implement and navigate Additional Services.

Our Pride Additional Services Subscription (PASS) program is designed to streamline and fast-track the implementation of Additional Services without compromising the quality or compliance of the program.

The annual support subscription is also extended to organisations who have implemented Additional Services internally and would like third-party oversight to ensure the program is on track and safeguarded from compliance related issues.

Development
Local market analysis and package development

Implementation
Train staff and advise the implementation of new systems and processes

Annual Support
Helpdesk support and scheduled audits to ensure compliance

Contact Us

If you would like to discuss implementing Additional Services into your facility, please contact clientservice@prideliving.com.au or call Denise Bradshaw on (02) 9239 9004 to arrange a time to meet with our consultants.

Disclaimer

The information in this report has been prepared by Pride Living Group as a general guide to Additional Services. While every effort has been made to ensure accuracy, Pride Living accepts no responsibility for any loss or inconvenience caused by reliance on the information set out in this report.