

FINANCIAL AND OPERATIONAL MANAGEMENT

# Additional Services Industry Insights Report

December 2019 | Report



CONFIDENCE LEADS TO SUCCESS

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# Background

Understand how recent developments are influencing the additional services landscape

Aged care has experienced significant change since Pride Living's last insights report on additional services in October 2017. The industry is currently experiencing financial and compliance pressures prompted by Federal Budget cuts, insufficient indexation, the introduction of the new Aged Care Quality Standards, and the Royal Commission into Aged Care Quality and Safety and higher consumer expectations.

The \$1.2 billion cuts to the Aged Care Funding Instrument (ACFI) over four years and locked in annual wage increases that are higher than increases in subsidies are causing severe financial distress to many Providers. This is reflected in the annual *StewartBrown Aged Care Financial Performance Survey*. Since 2016, the average facility EBITDAR per bed per annum has decreased by **35.3%** from **\$9,301 (2016)** to **\$6,873 (2019)**.<sup>1</sup>



Regrettably but not unsurprisingly the Govt. did not offer any relief in today's MYFEO. Accordingly, within the current legislative framework, additional services provide the most significant long-term opportunity to reverse the decline in EBITDAR while facilitating consumer-directed care (CDC).

The findings of *Regis Aged Care Pty Limited v Secretary, Department of Health [2018] FCA 177 (direct benefit)* and *Australian Competition and Consumer Commission v Bupa Aged Care Australia Pty Ltd (extra services)*, are salutary lessons of the traps that await the unwary as they seek to offset the decline in profitability.

Despite the outcomes in the above cases, the risks are not insurmountable. We expect additional services to be the norm as co-contribution provides the financial sustainability the Govt. is seeking for the sector. This will ultimately benefit both Providers and residents.

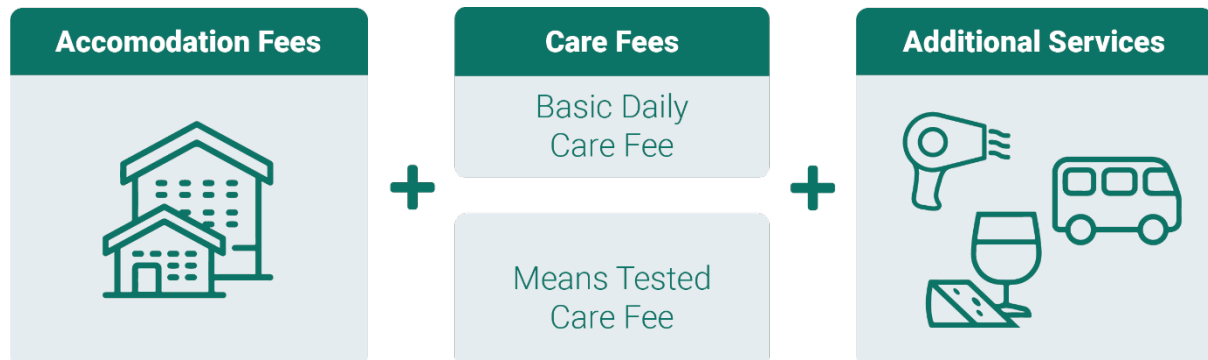
This Insight report provides an update on how additional services offers have developed over the last two years.

<sup>1</sup> <http://www.stewartbrown.com.au/images/documents/StewartBrown---ACFPS-Sector-Financial-Performance-Report-March-2019.pdf>

# Additional services

An overview of additional services and what makes it unique to Providers

## What are additional services?



Additional services are services not required to be provided under the Aged Care Act. These services provide an extension to the level of amenity residents experience and cater to the tastes and preferences of the individual.

To charge an additional services fee, the resident must have the capacity to access the services and receive a direct benefit.<sup>2</sup>

Additional service fees are not covered by a government subsidy, and the cost is borne by the resident if they agree to the service. To charge for the service, the Provider must receive express consent by the resident.

### Key Points

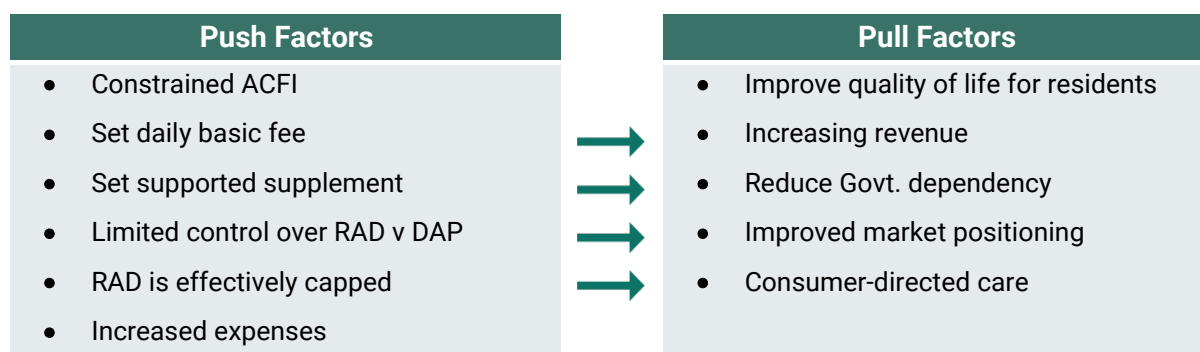
- Additional services can be offered on an ad-hoc, basis or as a bundled package,
- Providers can make the take-up of additional services as a condition of entry,
- Residents must have the capacity to access the service,
- Residents must receive a direct benefit from the service,
- Additional services 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)).

## Why do Providers implement additional services?

The residential aged care industry is moving towards a consumer-directed-care (CDC) environment. CDC aims to provide consumers with greater flexibility and choice over the care and services they receive. Proactive Providers recognise that different residents value different services and are beginning to offer and provide these choices as additional services.

<sup>2</sup> <https://agedcare.health.gov.au/programs/residential-care/charging-fees-for-additional-care-and-services-in-residential-aged-care-including-capital-refurbishment-type-fees>

We have worked with a number of Providers across the last 24 months providing guidance and support in the development and implementation of additional services. Our experience shows the following *push and pull factors* motivating Providers towards implementing additional services.



### Additional services vs extra services

While extra services share many similarities with additional services, they are governed by different sections of the Aged Care Act and Principles. Extra services apply to places that are allocated on an extra service basis; **no ESS places have been allocated since July 2014.**

The table below shows a comparison between additional services and extra services.

Extra Services	Additional Services
<ul style="list-style-type: none"> <li>Regulated</li> <li>Pricing must be published</li> <li>Approval required</li> <li>Requires qualification (100pt benchmark)</li> <li>Discriminates against supported residents</li> <li>Limited to 15% in each aged care LGA</li> <li>Focus on luxury</li> <li>Doesn't have to be utilised by the resident</li> </ul>	<ul style="list-style-type: none"> <li>Not regulated</li> <li>Not required to publish pricing</li> <li>Doesn't require Departmental approval</li> <li>Doesn't require benchmarks</li> <li>Can include supported residents</li> <li>No limit on allocation</li> <li>Focuses on enhanced offerings for residents</li> <li>Resident must be able to utilise the service</li> </ul>

Some Providers have chosen to rescind their ESS places, replacing them with additional services. This provides the Provider with greater flexibility. We understand this approach has been adopted by Estia across their entire portfolio.

We have assisted a number of Providers develop and implement an additional service offering to transition from or complement their existing extra services offering. This approach helps facilitate parity and encourage inclusion within the facility by providing non-ESS residents with the opportunity to enjoy the higher amenities and services previously limited to ESS residents.

Newly built facilities provide a great opportunity to introduce additional services. Given the financial constraints on the sector, we recommend all our clients who are commissioning new facilities to include additional services.

# Survey

Explore the insights and trends regarding additional services across the industry

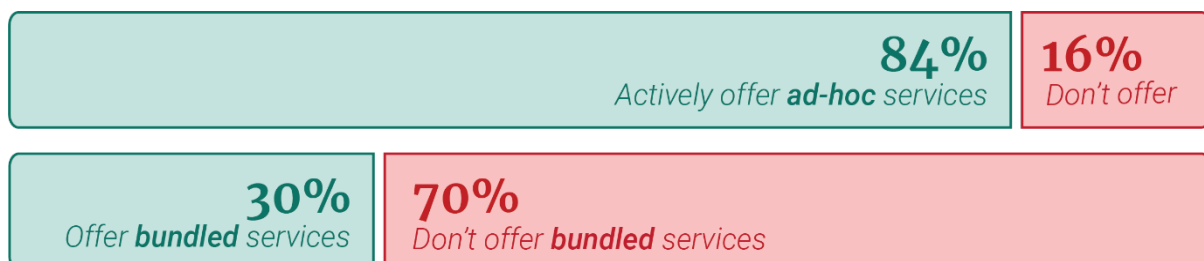
In 2019, we surveyed 100 residential aged care facilities across Australia. We obtained information from Providers' websites and supplemented this with telephone interviews. Providers included were categorised by:

- Number of places
- Entity size (number of facilities)
- Entity type (privately owned, publicly listed and Church and Charitable)
- Location (city, regional and rural and remote)

The survey results support our view that additional services are becoming normalised in aged care.

## The popularity of additional services

Our research shows there is a growing prevalence of additional services in aged care. Of those surveyed 84% of Providers actively offer and market ad-hoc additional services on a fee-for-service basis, whereas only 30% of Providers offer additional services on a bundled package basis.



## Bundled services: for-profit vs. not-for-profit sector

For-profit Providers are more proactive than not-for-profit Providers in bundling services. Out of 30 facilities offering bundled services, 83% were for-profit Providers and only 17% not-for-profit.



The main reasons Providers don't offer additional services are;

- a lack of confidence and,
- minimal resources and guidance relating to its creation and implementation.



## Daily additional services fee

**\$5 – \$65**

*Daily Fee Range*

**\$23**

*Median Daily Fee*

**\$25.65**











*Average Daily Fee*

Fees for bundled services range from \$5.00 to \$65.00 per day. The average daily service fee is \$25.65 (median \$23.00). Fees at the lower end of the spectrum are targeted towards supported residents.

## Popular additional services

As can be seen in the list of the top 10 additional services Providers are charging for services that they previously included without charge.




### Top 10 Additional Services

				
Foxtel	Menu choice	Hairdressing	Alcohol with meals	Events and outings
				
Wi-Fi	In-room TV	Garment labelling	Telephone	Premium toiletries

## Non-compliant charges

We found a concerning number of Providers charging for services required under the Act.

These services include *but are not limited to*:

		
Mens shed	Basic laundry services	Special aids & treatments

In the next section, we discuss the legislative background and provide clarification for what services can be charged as an additional service.

# Legislative background

Understand the legislative context which defines and governs additional services

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 for 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.

## What can be charged under additional services?

The Department is yet to finalise its guidelines on their interpretation of the Act.

From our research, work with Providers and correspondence with the Department, our view is that, for a service to be charged, the following must be satisfied:

- The consumer must directly benefit from the services;
- The consumer must agree and consent to the service;
- There should be a no-cost alternative provided;
- An expectation the Provider incurred an expense to provide this service above the normal operation of an aged care facility.



# Designing & implementing

Explore our tips and tricks relating to designing, and implementing additional services in your facility

When designing an additional service offering, it is critical to have a sound understanding of the following three factors:

- Consumers
- Local environment
- Competitors

Our involvement with a number of Providers across Australia shows us that these three factors provide a reliable indication of the feasibility of additional services being implemented effectively. We explore each in greater detail below.

## Know your consumer

The Consumer is two-fold, being split into the Primary Consumer (Residents) and the Secondary Consumer (Family). It is critical that you understand and cater your additional services towards the needs and wants of both consumers.

Our experience shows that it is important to involve the residents and their families in the planning and implementation of additional services. This will assist in meeting the needs of the residents and provide for minimal resistance in the implementation of additional services.

## Know your local environment

The local environment is an insightful indicator of the viability of additional services. Through analysing local census, housing and residential care data, we have developed a tool to accurately identify the rate of affordability, appropriate price-point and whether additional services would be suitable for a facility.

## Know your competitors

The competitive environment surrounding any facility further provides an indication of the suitability of additional services. Your competitors are a good indicator of what the market is willing to pay for. If you see a competitor currently offering additional services, you may want to learn from them and apply it to your facility.

We have worked with Providers who were the first to implement additional services in their region. Once implemented, we witnessed other local Providers following suit.

The market perceptions chart demonstrates the possible impact additional services may have on the positioning for your facility.



# The future

Explore our predictions on the future of additional services and how it may affect Providers

The additional service space has grown and matured significantly in the past years. This has simultaneously led to a greater spotlight on some Providers who have misled consumers and a greater awareness of the options available to consumers.

While consumers are prepared to pay for services, they also demand value. Aside from the obvious risk of not providing services, we see the greatest risk to Providers who take a “set and forget” approach to their additional services offered.

We live in a time when the consumer is empowered, and if your additional services offer does not meet expectations, then you should rightly expect complaints.

We see the Australian Aged Care Quality and Safety Commission (AACQSC) taking a greater interest in complaints against Providers over additional services. This could be in the form of further regulation or providing guidelines to Providers and consumers.

As is the case for Extra Services, we see Providers being required to publish their services on the *myagedcare* website.

The many reviews of aged care and the operation of the health care and education systems all point to a system where the Govt. provides a safety net and universal access to a base level of service. In such a system, consumers will be empowered to exercise and pay for choice.

In our view, Additional Services will underpin the financial viability of Providers into the future. If you are considering how to ensure financial sustainability in your new or existing facility, **the team at Pride Living can help you implement Additional Services with Confidence!**

“We could have introduced our own Additional Services program, but using Pride saved time and resources. The approach was measured and well received by consumers and staff, and the Board is delighted with the healthy increase to the bottom line.”

- David Reece, CEO of AdventCare

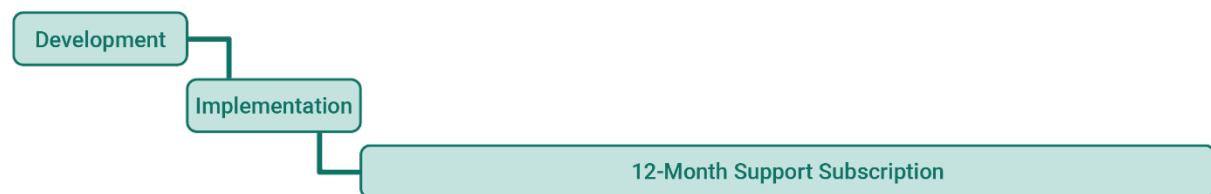
# Our support

You are not in this alone. See how Pride can assist you across development, design and implementation

We agree that the Federal Budget cuts have had an unfavourable impact on Providers across the board. We've witnessed the undue pressures Providers face to adapt to this new environment but struggle due to lack of guidance and support.

Our team of industry-leading consultants have come together to research, workshop and develop an additional services implementation and support program to assist you and your organisation.

As a result, we created the 12-month Pride Additional Services Subscription (PASS) model which provides full-circle support and guidance through development, implementation and the delivery stage of additional services.



From market research to designing your additional services line, we have the knowledge and understanding to get you going. For more information, please visit [our site](#).

## Potential revenue calculator

Calculate potential revenue generation below by inputting a daily additional services fee and the total beds in your facility.

	Inputs	Potential EBITDA	
Daily Additional Services Fee	<input type="text"/>	<input type="text"/>	<input type="text"/>
Total beds in your facility	<input type="text"/>	<input type="text"/>	<input type="text"/>
<small>*Based on 70% profit margin, 100% occupancy and complete take-up.</small>		<small>Per Resident Per Year*</small>	<small>Per Year*</small>

## Contact us

If you would like to discuss implementing additional services into your facility, please contact [clientservice@prideliving.com.au](mailto: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.

**PRIDE LIVING**

Level 8, 54 Miller Street  
North Sydney NSW 2060

+61 2 9239 9004

[clientservice@prideliving.com.au](mailto:clientservice@prideliving.com.au)

Level 19, 567 Collins Street

Melbourne VIC 3000

[www.prideliving.com.au](http://www.prideliving.com.au)