Maximise your IPA claim

A white paper to help providers manage compliance and improve cashflow under the IPA changes

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Introduction

Since the Australian Government announced the Improved Payment Arrangements (IPA) for Home Care Packages in the 2019–20 Budget, we have witnessed businesses around Australia struggling to navigate the new requirements.

While the premise of additional transparency and accountability to ensure that aged care clients' needs are met is sound, the legislation requires a dramatic shift in the internal processes of service providers. The industry is already facing a number of issues, as highlighted by the final report from the Royal Commission into Aged Care Quality and Safety. Among these were inadequate resources, a lack of funding being linked to underpaid and overworked staff, and insufficient technological innovation to enhance efficiency.

There are real concerns about whether the IPA changes will lead to a consolidation in the market, with smaller players being overwhelmed by administration and cash flow issues. We are hearing from clients that many organisations are reviewing whether it is viable to continue to operate within the community care space.

Given the importance of this service, which allows older Australians to remain within their own homes for longer, AlayaCare and Redmap have compiled this guide to help you to manage compliance and cash flow under the new order. We wanted to give organisations practical tips and advice that you can implement internally.

In this white paper, we will be covering:

- The business challenges driven by the Improved Payment Arrangements for Home Care
- The critical internal process changes needed to navigate these changes
- Best practice to maximise your IPA claim and maintain a steady cash flow

Key takeaways:

- Up-to-date price lists and consistent booking systems will be essential to avoid revenue leakage
- Organisations should claim services in the month that they delivered the service
- Automated syncing of invoices with care events will be crucial to ensuring that all client spend is claimed

What are the challenges?

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The **Challenges Raised by IPA**

The primary challenge that we are focusing on in this paper is how providers process claims for third party providers. We will be addressing how you can overcome the following topics to keep your back office running smoothly while you focus on providing care for your clients:

- Managing Cashflow
- Reconciling vendor invoices with claims
- Compliance and reporting
- Minimising the additional administration

"It's tough because the case managers suddenly need to be involved in the finances as well. The whole sector is going to struggle, and we believe that cash flow will tighten," explained myHomecare CFO, Arthur Zouras. ***"The whole market has underestimated the impact."***

"When we first heard about the changes, ***we were concerned that this may be the end for some of the smaller providers****, because it requires such a huge change to internal processes and creates a massive administrative challenge."* Annette Hili, General Manager ANZ for AlayaCare.

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Managing Cashflow

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Let's go

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Managing Cashflow

Until the introduction of Phase 1 of the changes in June 2020, providers have relied heavily on receipt of the Government subsidy in advance to ensure steady working capital.

While you may have needed to account for services provided to new consumers while awaiting the Government subsidy, for the most part, home care providers have been able to rely on this payment to ensure ongoing liquidity.

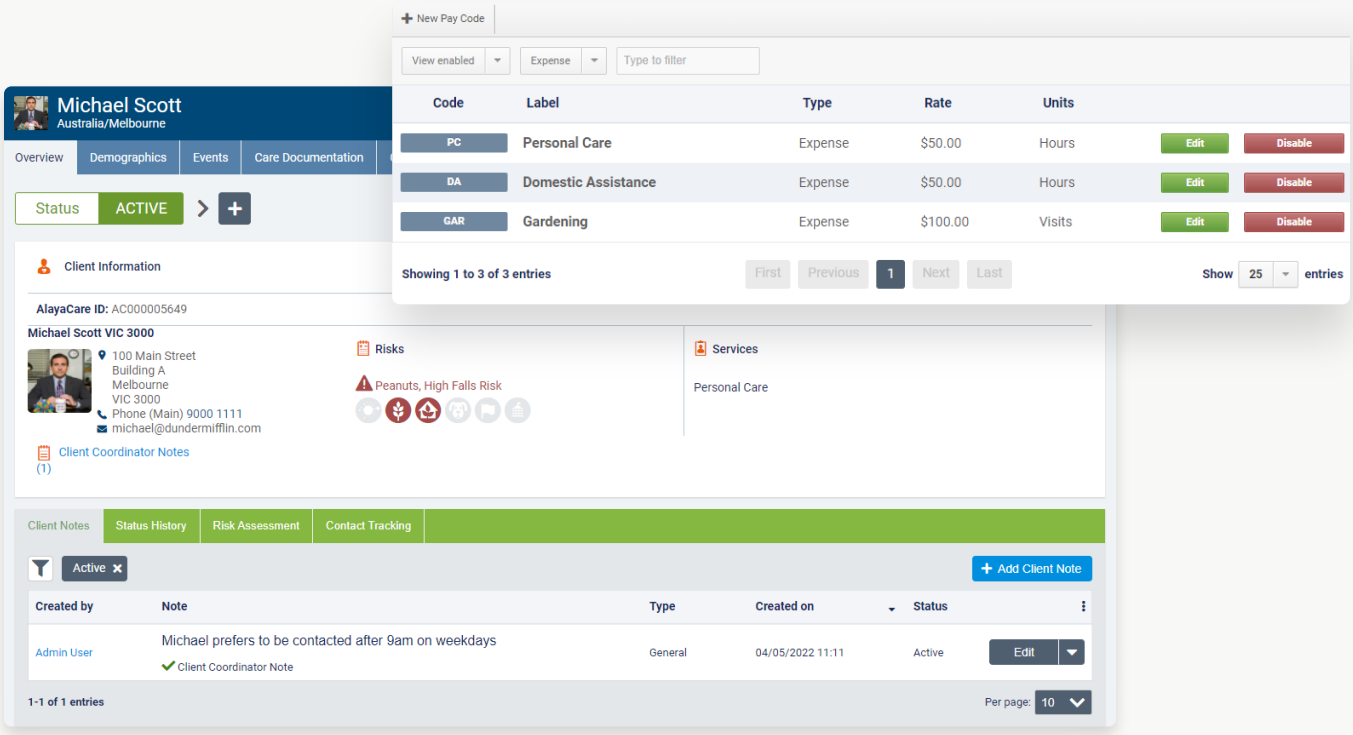
With the move towards payments being made in arrears, a dramatic shift in cash flow has already been felt across the industry. To minimise the financial pressure on your organisation, we have compiled a number of recommendations.

Management of your internal price list

The management and updating of the care types and services you offer to clients, and the associated costs for them, are now more critical than ever before. Under a block funded structure, an incorrect selection of care types for a client would not have impacted the funding received. However, doing so now will mean losing revenue.

Action

*To maximise your claim and minimise additional administration, you need to **review your price list every six months**, particularly for major vendors. Erroneous pricing in the system will result in unnecessary adjustments.*



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Pre-booking of care events

Of the home care providers that we interviewed in Brisbane, Sydney and Melbourne, **less than 25% of external care services were pre-booked via the client care software**.

From an administrative perspective, booking care events within client management systems may be the biggest challenge for service providers under the new legislation. Most of the client services invoiced are high frequency and small-dollar values; $40 for lawn mowing, $50 for a meal delivery service, and $80 each week for a cleaning service. The process of logging into the care system, creating a care event and then accruing it at the end of the month is a sizeable workload for care managers, who are already time-poor. However, it is exactly what needs to happen and providers need to find ways to accomplish this.

A move to pre-booking care activities will provide the providers with several key benefits:

1. better visibility of the available budget for that client
2. a set of events that can be claimed at month-end, regardless of their invoicing status
3. an event to which a vendor invoice may be matched

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Approval of care events that were delivered

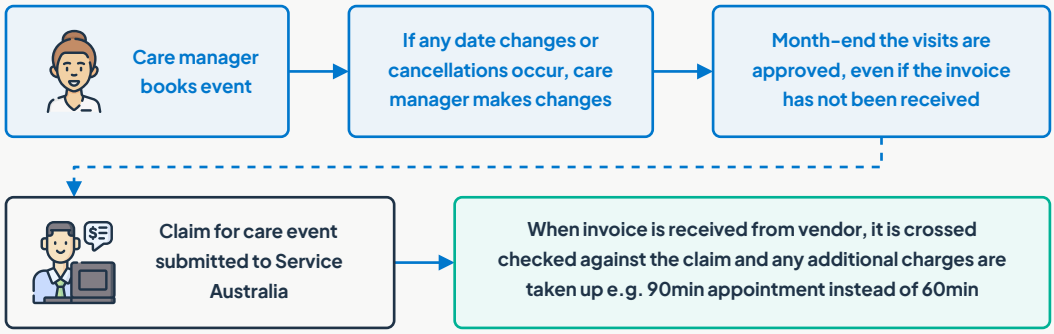
As a care provider, you most likely have current practices in place for time keeping and billing of care resources delivered via internal resources. We recommend that the same practices are implemented for the services that are delivered by third parties. Pre-booking will provide you with an event to approve in the month that it was delivered and will mean the funding required to cover the costs can be claimed, regardless of whether the vendor has invoiced or not.

Some of the leading client management systems in the care market, including AlayaCare, allow you to automate the approval of these visits. In this scenario, care providers can set pre-defined rules that allow for automatic approval of visits, removing the need for manual approval. This option is known as Electronic Visit Verification (EVV). Using EVV ensures the visit is approved in the month it is delivered, while saving considerable staffs costs.

Action

If the care system you are using does not support this automated visit approval, you will need to consider additional headcount in the team to manage the approval and accrual of open events at month-end. Depending on your organisation, this could be a shared service, for example, an administrative role that manages the internal team's timekeeping as well as approval and accruals.

Roles and responsibilities



Risk Mitigation

When you use **AP Automation**, the last step in this process occurs automatically. This step is crucial to ensuring that you claim the total cost of services as per the invoice. Using automation also eliminates the risk of human error as the software will always pick up variations in the invoice vs the claim.

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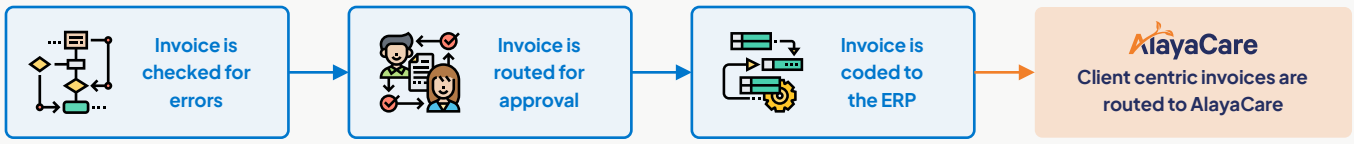
Invoice Approval

Leveraging an **Accounts Payable Automation tool** to manage your invoice approvals will be critical for those providers that deliver a material portion of their overall care via third parties. AlayaCare and Redmap have integrated their solutions to enable the invoice to be automatically matched to the care events and presented to the appropriate person to simplify invoice approval.

This integration includes checking the invoice value against the cost claimed and managing adjustments where they don't match.



Action

Consider the business case *for an Accounts Payable Automation tool to minimise administrative stress on the team and ensure that all third party invoices are claimed.*

"The only way that organisations are going to successfully navigate these changes is by proactively finding ways to protect their cashflow."

Dinuke Christie-David – Chief Financial Officer for Ozcare

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Why you should claim services in the month they are delivered

For the leadership team of any aged care provider, there is a commercial imperative to understand your cash position and ensure the business remains solvent while catering to the needs of your clients. This commercial imperative will be the driving force behind all internal changes relating to the IPA legislation. The area that will have the most impact on your cash flow will be **when** and **how** you claim services.

There are two workflow options available:

1. Process the claim for services in the month that the invoice for that service is received

Many providers have been selecting this option, theoretically minimising the need for accruals and adjustments. However, this approach could result in a **20 to 30-day cashflow gap** between payment and claiming opportunities under the new guidelines.

- Service is delivered in Feb.
- Vendor invoices 3rd March, vendor terms are 7 days and they want to be paid
- Payment occurs on 10th March
- Provider submits March claim on 4th April
- Service Australia pays on the 8th April

Extended cashflow gap

M	T	W	T	F	S	S
31	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31	1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17

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2. Process the claim for services in the month that the service is delivered

This second approach, whereby the provider processes the claim within the month it is delivered, has met with some resistance in the industry.

Service providers are concerned that the Care Managers are already stretched and asking them to book all external events may be too much of a burden. We have heard that providers are worried about managing potential variances between what was booked and what was billed.

While claiming in the month that the service is delivered may mean that an adjustment is required when the invoice is received, it has significant benefits for your organisation's cashflow.

Positive cashflow

M	T	W	T	F	S	S
31	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	1	2	3	4	5	6
7	8	9	10	11	12	13

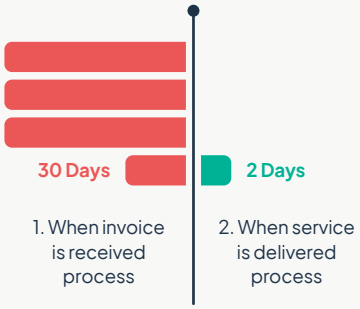
- Service is delivered in February
- Visit is approved in February
- Vendor invoices 3rd March
- Provider submits February claim 4th March
- Service Australia pays 8th March
- Payment occurs 10th March to the vendor

When comparing the two options on a small scale, the difference may seem insignificant; however, on average we find that 18% of all invoices received in a month are waiting for approval at any one time. We also see that 15% of all invoices arrive in the first 2 days of the new month and that many of these invoices are monthly accounts. What this means is that greater than 18% of the monthly spend will be awaiting approval in the first week of the new month.

These figures are based on our Aged Care Customers who have automated. There is no doubt that the number of invoices waiting to be approved for those that are still using manual system is higher, magnifying the impact.

In the new IPA world, where the business is busy trying to submit their claims as soon as possible, those invoices that remain unapproved at time of submission must wait another month for payment. The question is, what impact will that have on your vendor relationships when the average payment term in the aged care space is 11 days?

Cashflow comparison



Guidance

The government's guidance is as follows: *"Providers should receive and accept a quote for these services and can claim these in the month the service was delivered. If at a later point, the provider receives an invoice for a higher or lower amount, they will be able to correct this by adjusting the price in a future month's claim."*

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The 70-day rule

A 70-day limit will now apply to retrospective changes after a client's departure. This limit applies to events and claims for the care recipient.

From a practical perspective, it is not uncommon to see invoices being issued 60-90 days after a service has been delivered. **Let's look at a scenario where this occurs.**

In this scenario, the provider has decided to submit claims on the month that they RECEIVE the invoice. But unfortunately, by the time the invoice arrives, the client has changed home care providers and it's too late for the provider to claim those costs.

- Judy's lawn is mown 7th September
- Judy changes community care providers 1st October because her friend Sue recommended someone else
- *15th November, 70 day window closes*
- Vendor is busy and takes 90 days to invoice – invoice issued 6th December
- Provider submits claim 4th January
- Service Australia refuses to reimburse provider due to 70-day rule

By processing the claim in the month that the service is delivered, home care providers will maximise their cash flow on a month-to-month basis and minimise revenue leakage from the 70-day rule.

Lost revenue

M	T	W	T	F	S	S
29	30	31	1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30
31	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	1
2	3	4	5	6	7	8

Action

Ensure that your new internal workflow involves claims being submitted the month that the vendor delivers that service.

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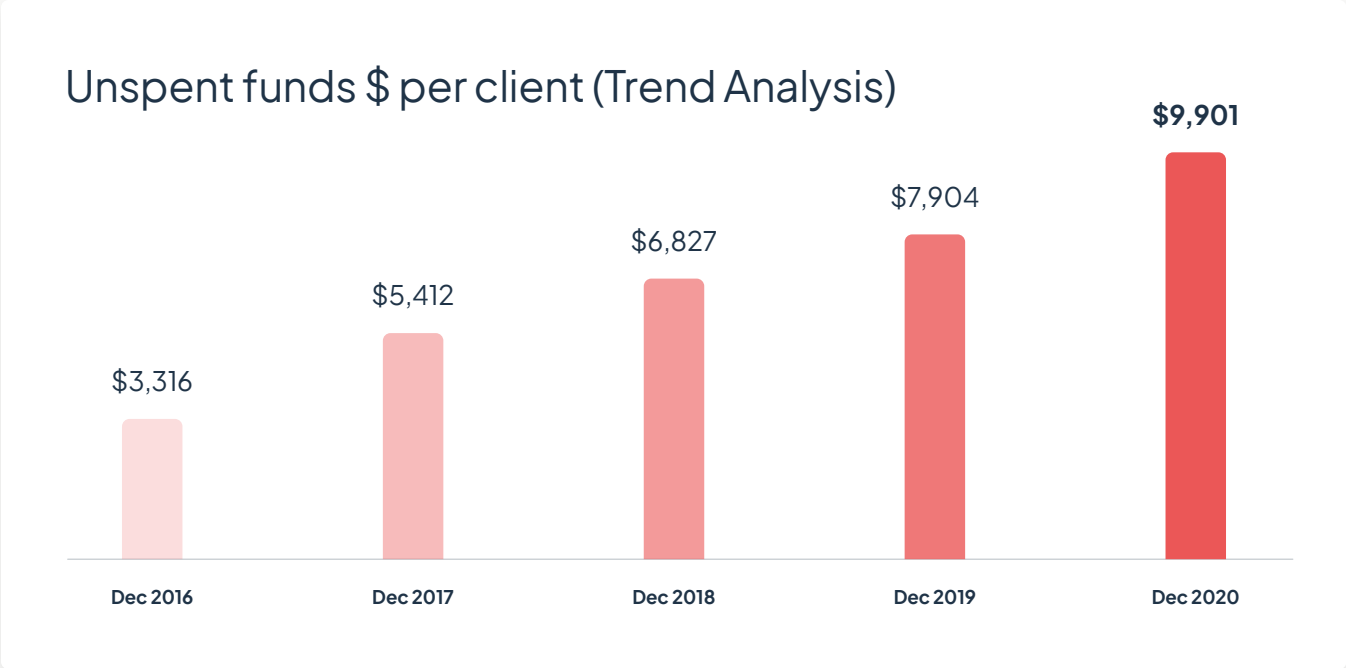

Figure 31: Survey Average Unspent Funds per client trend analysis from Dec-16 to Dec-20

Overcharging and Undercharging the Income Tested Fee

According to the Aged Care Financial Performance Survey (ACFPS) from Stuart Brown, there has been reluctance amongst providers in previous years to charge the Basic Daily Care Fee and Income Tested Fee.

With the introduction of IPA, providers need to be careful how they are managing their Income Tested Fees (ITF). Historically many providers have chosen not to charge this fee, however, the new model deducts the ITF from the claim. This change means that unless the client has a provider-held care recipient balance from which to deduct the ITF, the provider will have to cover this fee from retained earnings. Once the care recipient balance is depleted, not charging the ITF will impact the providers retained earnings.

Quote

"Another related issue is that due to the high level of unspent funds per care recipient, **there is a reluctance by some providers to levy (and consumers to be charged) a client contribution (basic daily care fee), as it would effectively only add to the quantum of unspent funds."**

Page 45, Aged Care Financial Performance Survey Sector Report (December 2020) © 2021 StewartBrown

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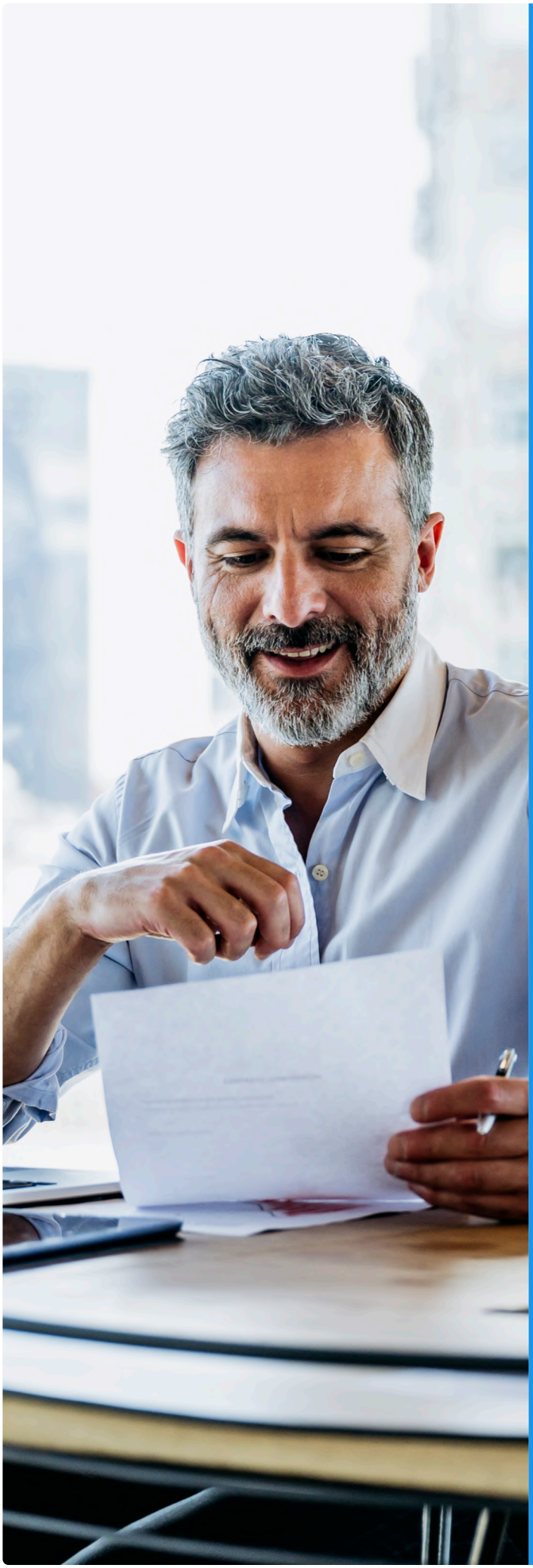

Reconciling vendor invoices with claims

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Reconciling vendor invoices with claims

Once you have established your internal process regarding the timing of claims, how to reconcile over or undercharged Income Tested Fees, and managing package overspend, you will need to consider reconciling vendor invoices with Service Australia claims.

This reconciliation at the end of each month will be a crucial step to ensure that you remove the risk of lost revenue. Lost revenue could occur where the vendor has increased their prices, the service delivered has taken longer than anticipated, resulting in a higher fee, or a care event has not been booked into the system properly against a client account.

The different scenarios you might face at month-end

During this process, you will need to review open care events scheduled for the current month and approve those delivered. There have been numerous concerns over this component of the process, with organisations asking questions such as:

- How do I control the invoicing process when using accruals to claim care events?
- What if the vendor charges me for 90 minutes instead of 60?
- How do I avoid double deducting from the client's budget?
- What if I want to create the event but don't know the cost at time of booking?

Let's run through three possible use cases to look at best practices for approaching these scenarios.

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Use Cases

Visit Verification - Matched Visits

The invoice received matches the care event in the client care system and there is no variance.

In this scenario, the event was scheduled appropriately in the system, against the correct client account, for the correct amount. The dollar value on the invoice matches the dollar value in the care system, and therefore the invoice can be reconciled automatically.

Client Invoice Verification - Approved Visits

The invoice received matches an approved care event in the client system, however, there is a variance in price. For example, the vendor has charged 90 minutes of work instead of 60 minutes, so the amounts DO NOT match.

The invoice will be compared to the care event to which it matches and where there is a variance, an event to take up the difference will be automatically created in the client schedule. The process of approving this invoice, which needs to be done regardless of the systems in place, will manage the variances in an automated fashion.

Visit Verification - Unscheduled Visits

An invoice does not have a corresponding care event, perhaps because the client managed the appointment themselves.
In this scenario, an automated system will pick up the disparity and create the event against the client's account, removing the risk of lost revenue.

Next: **Compliance & Reporting**

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Compliance and reporting

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Compliance and reporting

A key concern raised by the Royal Commission highlighted that many of the current systems are designed to support specific administrative, financial or program-centric requirements and are not focused on the person receiving care.

The very nature of home care presents a variety of challenges when it comes to accurately recording and sharing ongoing health data. Multiple staff are completing home visits and need to update and synchronise client files in a timely fashion, to ensure an accurate and real-time record of care.

From a provider's perspective, having a robust client care system that enables on-the-go scheduling, documentation and administrative capabilities and intuitive support tools is crucial. An integrated all-in-one solution can improve the care experience for employees and clients alike.

When you are choosing a client care system, here are some of the elements to look for:

- Real time access to the client's clinical and historical information at the point of care
- Intuitive financial management tools, business intelligence, and billing solutions
- Intuitive budget, financial and plan management tools, business intelligence, and billing solutions
- Integrated scheduling options for all types of visits whether individual or group activities
- Offline access to critical clinical forms
- Ability for employees to edit availability and respond to offers of work

Internal Visibility and Reporting

Quote

"We ran a report for one of our clients after implementing Redmap's AP Automation and **discovered that they had $7 million of invoices sitting in transit waiting to be approved and processed.** That is $7 million that, without automation or digitalisation of invoices, is sitting on client care manager's desks, unaccounted for." *Ben Woolley, Redmap CEO*

Under the previous system, where providers received a bulk client payment, transparency into the month-to-month outgoing costs was not imperative as the organisation could be confident that they would remain in a cash positive position.

According to the Stewart Brown Aged Care Financial Performance Survey (ACFPS), home care organisations were spending 84–90% of client budgets between Dec 2016 and Dec 2020.

Therefore, organisations can expect a reduction of 10–16% in client funding on average, making visibility of accounts payable crucial for the finance and management team.

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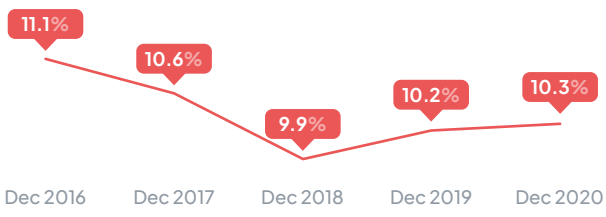
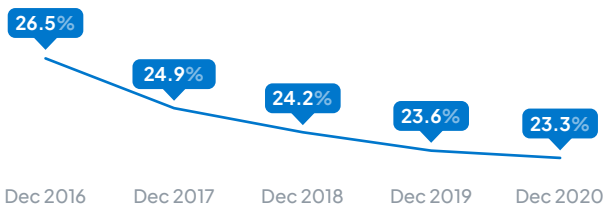
NPBT per client day

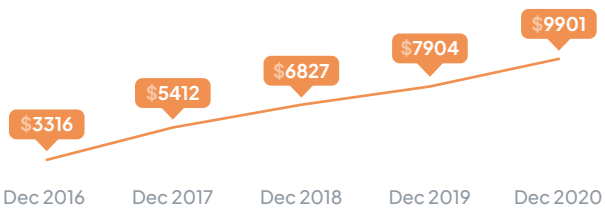


Care Management as % of Income

EBITDAR per client per annum



Administration as % of Income



Unspent Funds per Package

Revenue Utilisation

These charts from the *Stewart Brown* *Aged Care Financial Performance Survey (ACFPS)*, demonstrate the compounding issue surrounding unspent funds and revenue utilisation.

Home Care

With a payment-in-arrears funding model, an integrated system ensures you are not losing revenue. Using a system integration such as AlayaCare and Redmap ensures that each care visit is logged, verified, checked off against the appropriate invoice and claimed from the government seamlessly.

Audits

For organisations using a paper-based system, pulling together paperwork for an audit, an Aged Care Financial Report (ACFR), or an Annual Prudential Compliance Statement (APCS) is a time-consuming process of digging through filing cabinets. Paper-based files are also vulnerable to loss or damage from floods, fires, and natural degradation.

By automating your AP system, a record is automatically logged of every invoice processed, making record-keeping simple and straight-forward. The records are backed up and easy to search and access when you need them.

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Minimising Additional Administration

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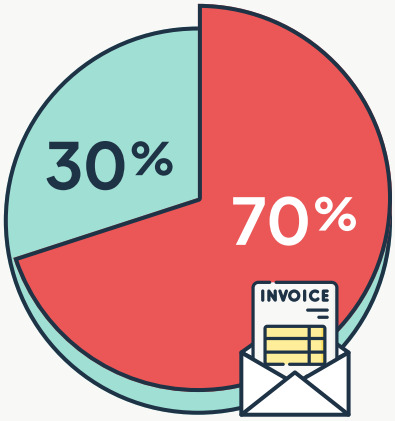
Minimising Additional Administration

One of Commissioner Briggs' recommendations in the Royal Commission into Aged Care Quality and Safety was the need for investment in technology to ensure relevant administrative data is available to providers. With the IPA changes, providers have a greater onus to track and record granular data, and this need becomes more urgent.

Manual and Paper Based Processes

According to a 2021 Billentis Market Report for eInvoicing, 70% of all invoice processing globally is still paper-based.



The downsides of paper-based processes will only be exacerbated by the IPA changes, with the following risks associated:

- Errors in transcribing data into the system
- Lost paperwork
- Delays in processing of claims by Service Australia, with paper claims taking one week longer to be returned

Next: The business case for Automation

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The business case for automation

In 2020, 29% of APAC businesses reported that they had fully automated at least one function.

https://www.mckinsey.com/business-functions/operations/our-insights/the-imperatives-for-automation-success

Companies across all industries are implementing automation, particularly for repetitive, high volume administrative tasks. Some of the critical drivers for automation implementation cited by business leaders include cost reduction, risk mitigation, a boost in productivity and ensuring your organisation is competitive within the market.

Automating Business Processes is Vital

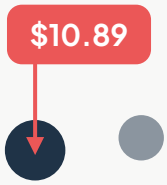
98% of the PMG survey respondents said the automation of business processes is essential to driving business benefits.

CIO insight

https://www.cioinsight.com/enterprise-apps/automation-of-business-processes-drives-benefits/

For sectors including home and community care, the Accounts Payable workflow presents a strong business case for automation.

With the average cost of processing a single invoice sitting at $10.89 *(including technology, labour and other overheads)* and the high volume of invoices in any given month, organisations can realise a quick time to value for an AP Automation project.



https://redmap.com/reference/ipa-aged-care/Ardent-Partners-AP-Metrics-that-Matter-2021.pdf

Next: The impact of the pandemic

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The impact of the pandemic on Accounts Payable

COVID-19 and the rapid shift to stay-at-home work have also been catalysts to accelerate the implementation of automation. **97% of AP departments** reported that they were affected by the pandemic. The time and cost of processing manual checks, managing vendor payment/banking details, and gaining timely approval of invoices and payments were listed as the primary challenges. However, those who had implemented AP automation were better prepared to work in a decentralised environment.

3% **Little to No** Impact

69% **Fair/Some** Impact

23% **Significant** Impact

5% **Extraordinary** Impact

https://redmap.com/reference/ipa-aged-care/ArdentPartners-StateofePay2018-FutureAP-Metaviewer-FINAL1.pdf

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AP Automation

The AP automation market is anticipated to experience significant growth over the next few years, with the increased demand for AP automation driven by the following overarching strategic priorities:

1. A growing focus on spend analysis
2. The need for better control over financial data
3. A drive to facilitate better supplier relationship management

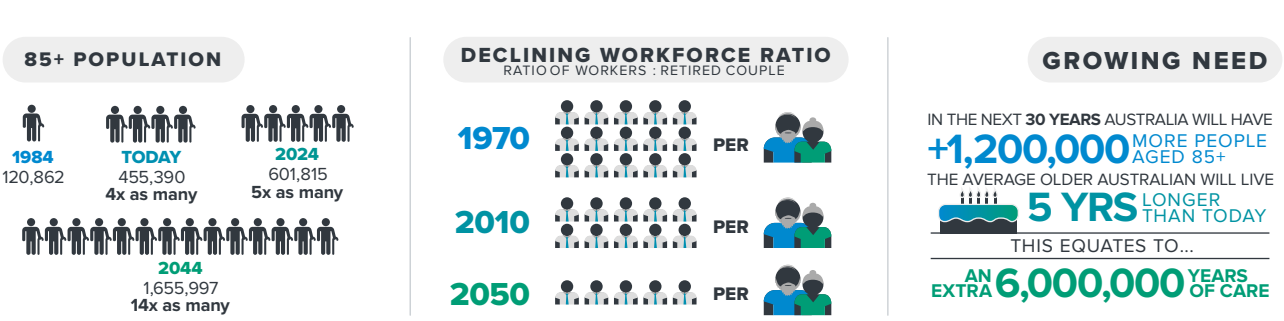
Figure 16: **Asia Pacific to witness the highest growth during the forecast period**

Source: Secondary Literature, Expert Interviews, and MarketsandMarkets Analysis

	APAC	Europe	North America	MEA	Latin America
2019	392	477	447	298	250
2024	759	723	686	535	434
CAGR (2019–2024)	14.1%	8.7%	8.9%	12.4%	11.7%

As was highlighted in the Royal Commission findings, the aged care sector is a late adopter of technological innovation to drive efficiency. This being said, we are predicting that providers will see the IPA changes and Support at Home Program as a key driver to implementing back-office automation.

With the ageing population, the declining ratio of workers to retired Australians, and longer life expectancies, the gap between demand and supply for aged care workers is expected to increase. For companies to compete and thrive in this challenging market, they must optimise internal processes for efficiency wherever possible.



https://mccrindle.com.au/insights/blogarchive/demand-vs-supply-australias-aged-care-puzzle/

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Conclusion

The IPA changes represent a monumental shift within the industry. As home and community care providers navigate the new requirements, effective working capital management will be necessary to avoid disruption to service delivery. The potential impact on cash flow and liquidity will seriously impact many providers' viability and, consequently, the different home and community care options available.

Organisations will need to be proactive in their approach and use these legislation changes as a catalyst to leverage technology and processes that drive efficiency, deliver visibility, and better serve the clients.

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