

Aged Care Financial Performance Survey

Quarter ended September 2018

Visit www.stewartbrown.com.au/services/financial-benchmarking to participate in the 2019 survey



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Aged Care Financial Performance Survey

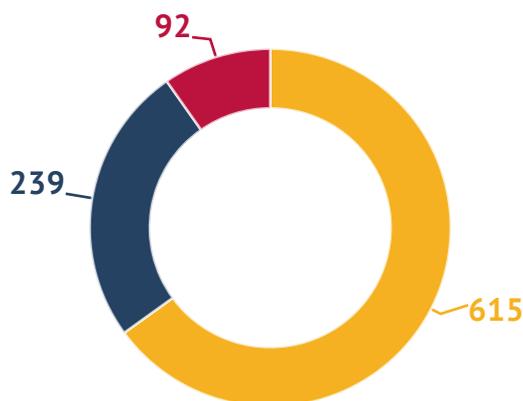
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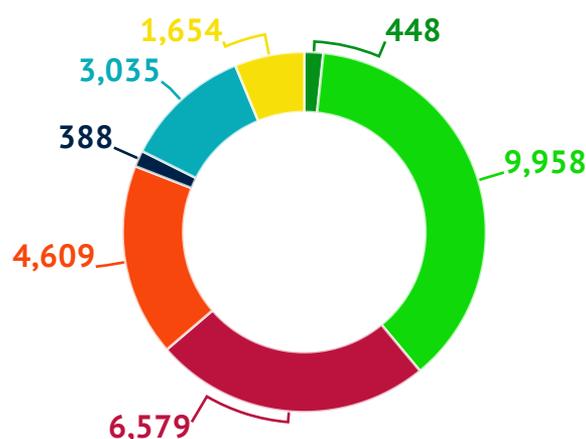


Participant Profile

946 Residential Care Facilities



26,671 Home Care Home Care Packages



Major City Inner Regional

Outer Regional, Remote & Very Rem...

ACT NSW QLD SA TAS
VIC WA

The survey covers data collected from over 1,000 residential aged care facilities of which 946 were within the statistical range and over 27,000 home care packages of which 26,671 were within the statistical range. Data collected included both financial data and a variety of other data including staff hours. The survey is conducted quarterly and this survey reports represents data for the Quarter ended 30 September 2018.

The survey results for Q1:2019 continue to highlight the financial difficulties facing many aged care providers, both in residential care and home care. While there have been some improvements in the results since June 2018, these are typical seasonal movements and if the results continue to follow long-standing trends, then they will decline over the remainder of the financial year. Year on year the September results are considerably lower than for the same period in 2017. Much of the following analysis will be based on these year on year comparisons but that will also be put into the context of what has happened since June 2018.

The recent announcements made as part of the release of the Government's Mid-Year Economic and Fiscal Outlook (MYEFO), are unlikely to improve the results of many residential aged care providers with the exception of those that qualify for the viability supplement and they will see some welcomed relief in the form of a 30% increase in those supplements. The release of an additional 10,000 high care packages will provide some relief for those consumers on the waiting list and may provide some additional income to the providers of those packages.

The signs are that 2019 will be another challenging year financially for providers of aged care services.

Residential Aged Care



Facility Results

The *average* facility results for Q1:2019 are significantly less than they were for the same period in 2017 and extend the trend of declining results that started in 2016. This is also the case for the facilities in the *First 25%*.

Since the end of the 2018 financial year there has been a modest increase in ACFI income primarily as a result of the COPE increase, which is greater than the increases in direct care costs and typical for the first quarter each year.

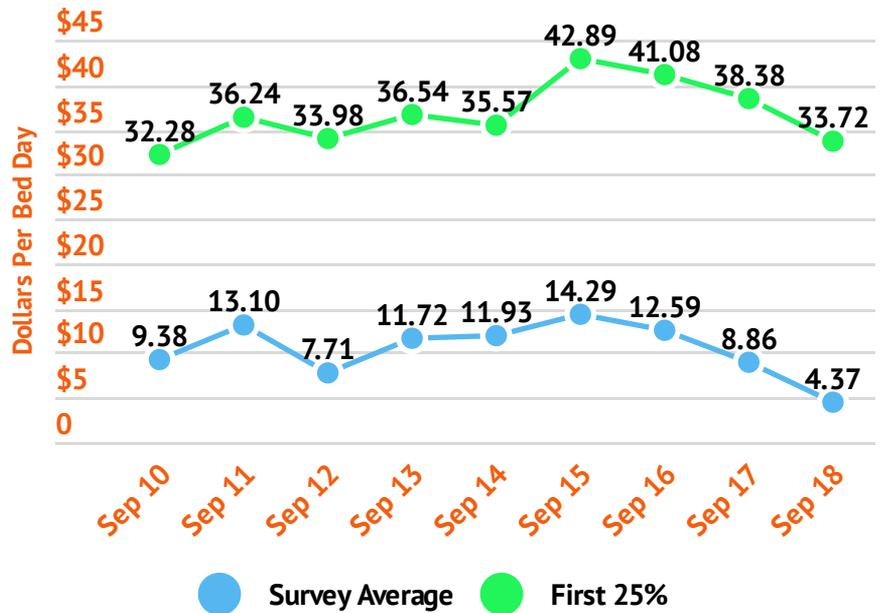
The ACFI Result has increased by \$2.08 in per bed day this quarter and this has been the overwhelming contributor to the overall improvement in results since June 2018 of \$2.00 per bed day.

The Every Day Living result was a deficit of \$6.94 per bed day and the Administration costs were \$34.26 per bed day. The Accommodation result was a surplus of \$11.16 per bed day.

There is still a significant proportion of the facilities with a negative trading profit (EBT) with 41.4% overall compared to 33.9% at the same time last year. The proportion of facilities in outer regional, remote and very remote areas with a negative EBT was 60% for Q1:2019 compared to 52% at the same time in 2017.

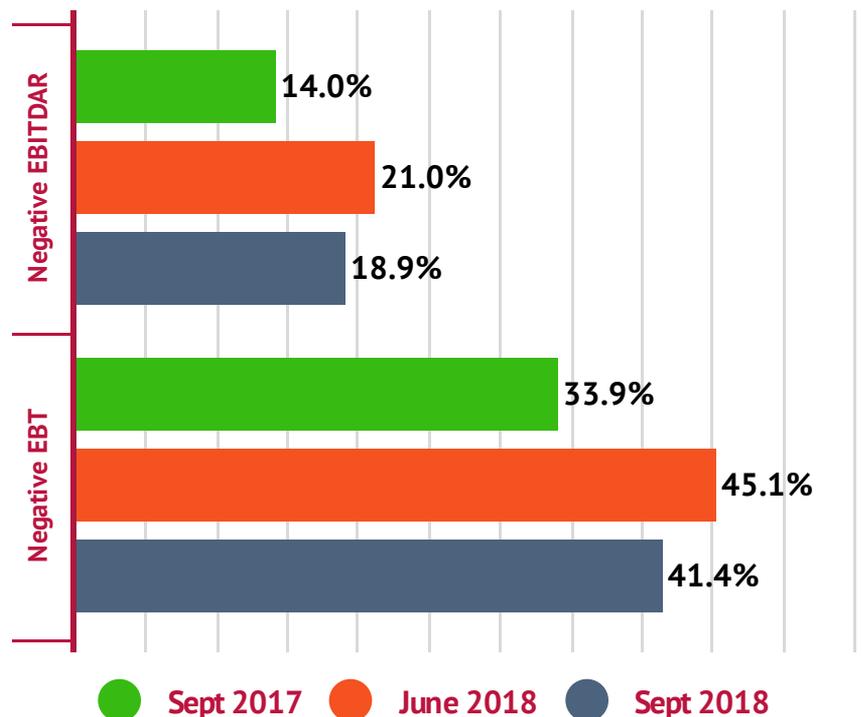
The facilities in these outlying areas that qualify for the viability supplement will benefit from the 30% increase in those supplements announced in the recent MYEFO update.

Facility Result Year on Year Quarter 1



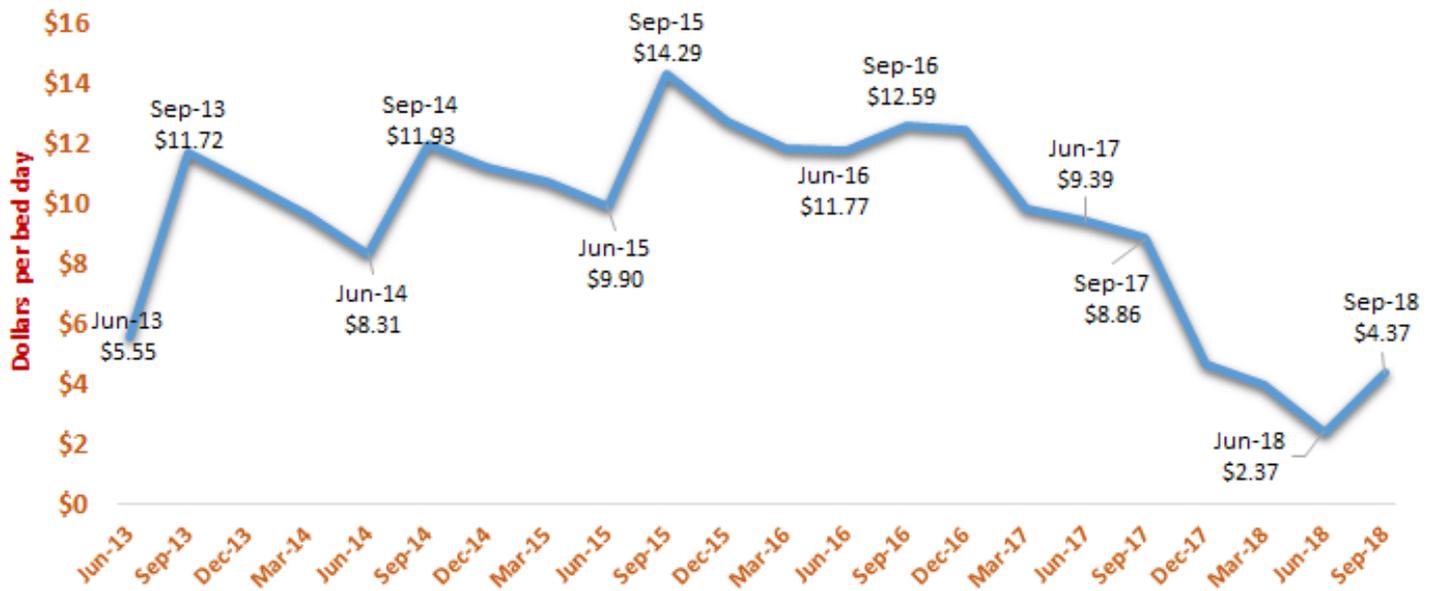
$$\begin{array}{r}
 \text{ACFI Result} + \text{Every Day Living Result} - \text{Administration Costs} + \text{Accommodation Result} \\
 = \text{FACILITY RESULT (EBT)}
 \end{array}$$

Facilities with Negative Results



Residential Aged Care

Seasonal Trends in Facility Result



The results for the September quarter reflect the normal seasonal trend of an increased surplus in the first quarter of each financial year. The exception to this was in FY18 when there was an ACFI subsidy rate freeze which affected the performance.

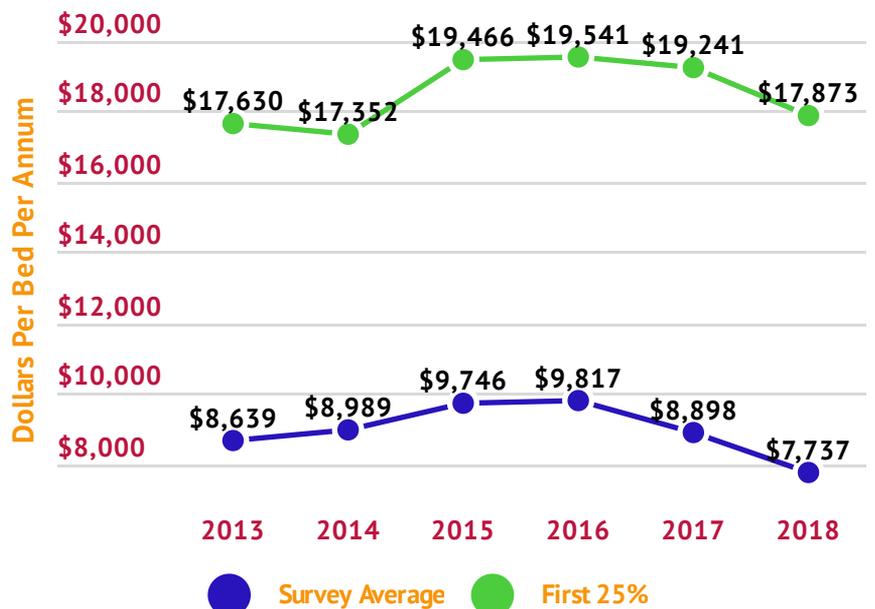
Based on the historical average decline in financial performance from the September quarter peak to the following June, the *average* result would continue to deteriorate by the end of the 2019 financial year. The detailed forecast we undertook based on the June 2018 figures estimated the results for the FY19 would *average* a deficit of \$0.20 per bed day and based on the actual September quarter results it is likely to be within this range unless there is a general funding increase.

EBITDAR has continued its decline year on year for the September quarter and was an *average* of \$7,737 per bed per annum for Q1:2019 which is a reduction of \$1,161 from the same period in 2017.

The facilities in the *First 25%* saw a decrease in EBITDAR since September 2017 of \$1,368 to \$17,873 per bed per annum.

Similar to the facility surplus, it is anticipated that these results will decline over the remainder of the 2019 financial year based on the current business settings.

Facility EBITDAR September year on Year



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Results in Detail

	Survey Average			Survey First 25%		
	Sept 18 946 Facilities	FY18 974 Facilities	Sept 17 834 Facilities	Sept 18 236 Facilities	FY18 244 Facilities	Sept 17 209 Facilities
ACFI						
Revenue	176.80	172.57	172.52	181.12	176.29	176.69
Expenditure						
Labour costs	134.58	132.55	127.70	119.14	115.92	111.75
Other direct costs	7.81	7.69	7.48	6.65	6.67	6.59
	142.39	140.24	135.18	125.79	122.59	118.34
ACFI RESULT	\$ 34.41	\$ 32.33	\$ 37.34	\$ 55.32	\$ 53.69	\$ 58.35
EVERYDAY LIVING						
Revenue	51.67	50.94	50.05	52.73	51.90	50.87
Expenditure						
Catering	28.55	28.87	28.00	27.37	27.94	27.26
Cleaning	8.18	8.20	7.82	7.45	7.37	6.74
Laundry	3.85	3.91	3.78	3.48	3.46	3.35
Overhead allocation (W/comp & Education)	0.67	0.58	0.62	0.51	0.46	0.50
Utilities	7.39	6.80	6.82	6.81	6.33	6.34
Property & maintenance & motor vehicle	9.97	10.43	9.67	9.01	9.79	8.78
	58.61	58.80	56.70	54.64	55.34	52.96
EVERYDAY LIVING RESULT	\$ (6.94)	\$ (7.85)	\$ (6.65)	\$ (1.90)	\$ (3.45)	\$ (2.10)
ADMINISTRATION RESULT	\$ (34.26)	\$ (33.26)	\$ (31.60)	\$ (29.46)	\$ (29.41)	\$ (26.54)
CARE RESULT	\$ (6.79)	\$ (8.78)	\$ (0.91)	\$ 23.96	\$ 20.84	\$ 29.72
ACCOMMODATION						
Revenue						
Residents	13.30	13.16	12.61	12.97	12.26	12.24
Government	17.36	16.69	15.29	15.17	15.65	14.22
	30.66	29.85	27.89	28.15	27.91	26.46
Expenditure						
Depreciation	16.72	16.18	15.62	15.90	16.51	15.20
Property rental	1.25	1.10	1.22	1.10	0.44	1.05
Other	1.53	1.42	1.29	1.39	1.54	1.52
	19.50	18.70	18.13	18.39	18.49	17.77
ACCOMMODATION RESULT	\$ 11.16	\$ 11.15	\$ 9.76	\$ 9.76	\$ 9.42	\$ 8.69
FACILITY EBT (\$pbd)	\$ 4.37	\$ 2.37	\$ 8.86	\$ 33.72	\$ 30.26	\$ 38.41
FACILITY EBT (\$pbpa)	\$ 1,513	\$ 816	\$ 3,068	\$ 11,880	\$ 10,620	\$ 13,534
FACILITY EBITDAR (\$pbpa)	\$ 7,737	\$ 6,760	\$ 8,898	\$ 17,873	\$ 16,570	\$ 19,260

Residential Aged Care



Commentary and Analysis

There remains a stark contrast in the financial performance across the survey (*survey average*) and that of the *First 25%*. The better results are achieved through both revenue and expenditure measures with the *First 25%* having consistently higher ACFI revenues and lower costs across all categories.

This results in a Care result for the *First 25%* of \$23.96 surplus per bed day for the September quarter compared to the *survey average* of a deficit of \$6.79 per bed day, a difference of \$30.75 per bed day.

Of this, \$20.91 per bed day is achieved at the ACFI result level of which \$4.32 per bed day is revenue related and the remaining \$16.59 is contributed by cost and efficiency savings.

While the differences between these two groups are significant in many respects, the trends are similar. Results for the September quarter are well below what they were in September 2017. Administration costs have risen and labour costs have risen significantly. Direct care labour costs for the *First 25%* have risen by 6.6% from the September 2017 quarter. For the *survey average* the increase was 5.4% in the same period.

The Everyday Living result continues to be deficit for both the *survey average* and the *First 25%* as expenditure continues to be in excess of revenues. There is some increase in additional service fees but at this point is only minor.

The table below highlights the strains that facilities are under when located outside the major cities, and in particular, in the rural and remote areas of the country. There is a difference of \$12.09 per bed day in EBT between the Rural and Remote facilities and those in the major cities. This equates to a difference of \$4,079 per bed per annum. The additional viability funding being provided will help but it will not solve their issues.

	Metric	Sep-18 Major Cities of Australia (615 Facilities)	Sep-18 Inner Regional (239 Facilities)	Sep-18 Rural & Remote (92 Facilities)
ACFI result	Per bed day	\$34.12	\$29.15	\$25.42
Everyday living result	Per bed day	(\$6.69)	(\$9.27)	(\$14.70)
Administration result	Per bed day	(\$33.49)	(\$32.51)	(\$33.59)
=				
Care Result	Per bed day	(\$6.06)	(\$12.63)	(\$22.87)
+				
Accommodation Result	Per bed day	\$10.42	\$11.95	\$15.14
=				
Facility EBT (\$pbd)	Per bed day	\$4.36	(\$0.68)	(\$7.73)
Facility EBT (\$pbpa)	Per bed pa	\$1,507	(\$234)	(\$2,572)
Facility EBITDA (\$pbpa)	Per bed pa	\$7,591	\$5,468	\$2,833

Residential Aged Care



Workforce Metrics

Average direct care hours worked per resident per day have increased from 2.92 hours at September 2014 to 3.17 hours for Q1:2019. That is an increase of 15 minutes per resident per day and reflects a 9% increase over that period.

Similarly, there has been an increase from FY18 where *average* hours worked were 3.06 hrs per resident per day.

Total labour costs have also increased in the current quarter by \$2.03 per resident per day, however the unit cost of direct care staff, on a per hours worked basis has in fact declined slightly indicating a change in the cost mix of care staff utilised.

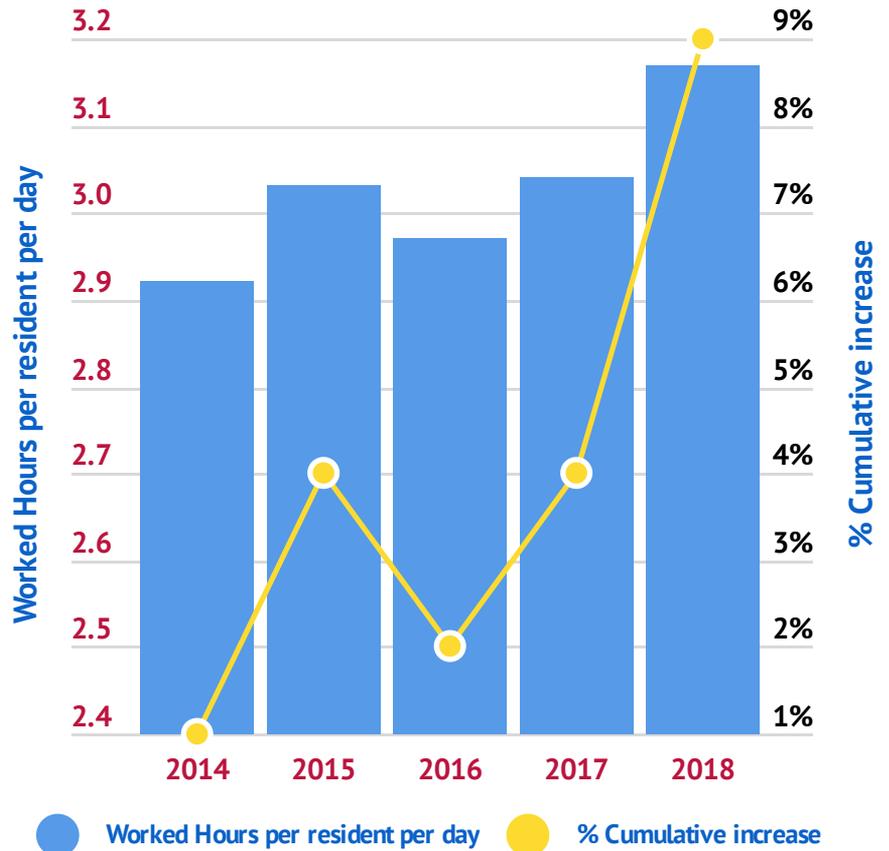
Of note is that these shifts in staff mix appear to be within individual staff categories rather than between categories. We will be providing additional analysis of these staff cost metrics in a separate newsletter in January to participants.

It is also clear that the growth in direct care staff costs has outstripped increases in ACFI funding over the past five years.

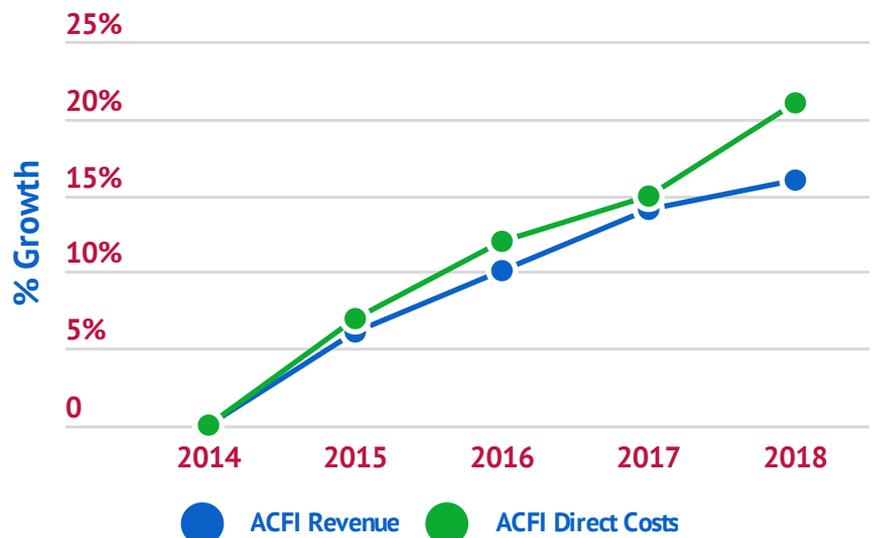
The increase in the overall direct staff costs are a result of the combination of increase hours and increasing pay rates.

The fact that the growth in costs have exceeded growths in ACFI income, means that providers have had to examine areas such as staff mix so as to protect the overall level of care hours provided to residents.

Average Direct Care Hours worked per resident per day and cumulative growth since September



Cumulative Growth in ACFI revenue and Direct Services Costs since September 2014

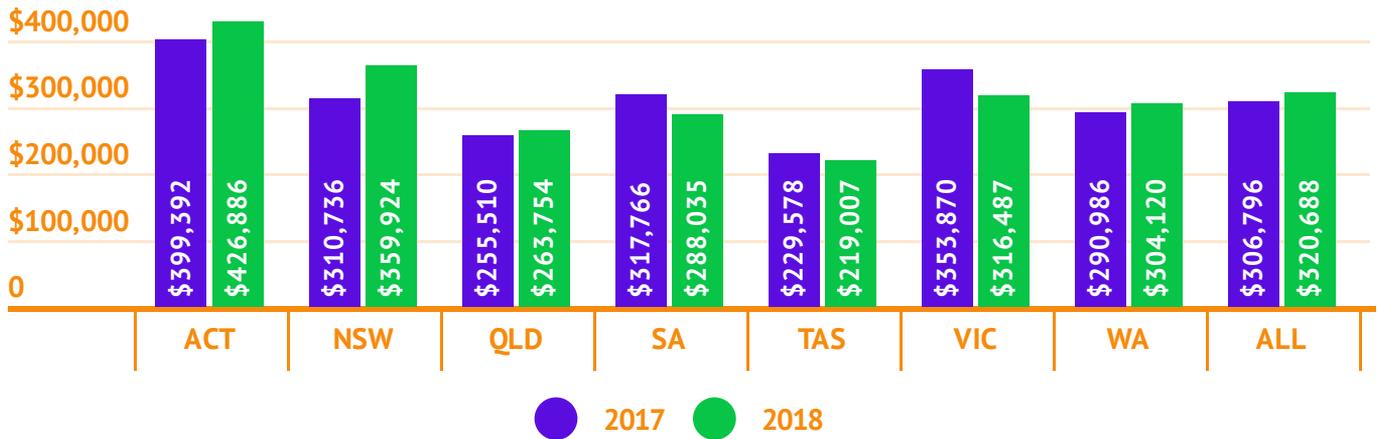


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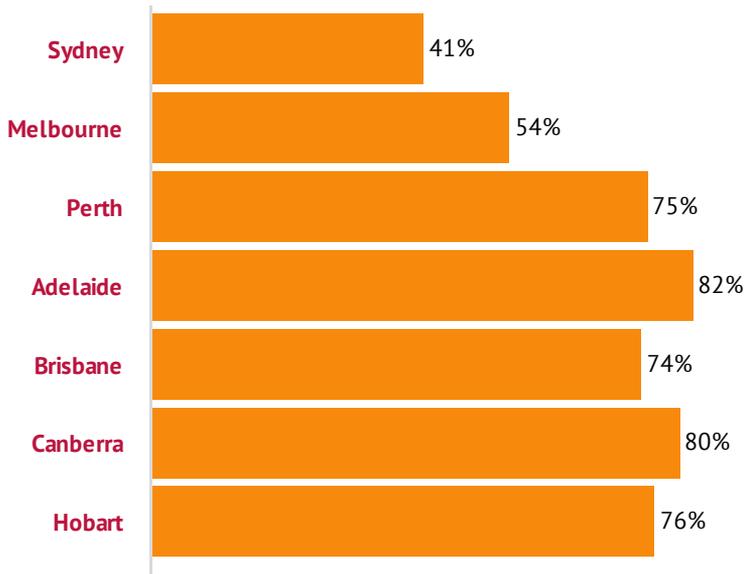
Accommodation Metrics

Average RAD Taken by State and Territory - Financial Year Quarter 1



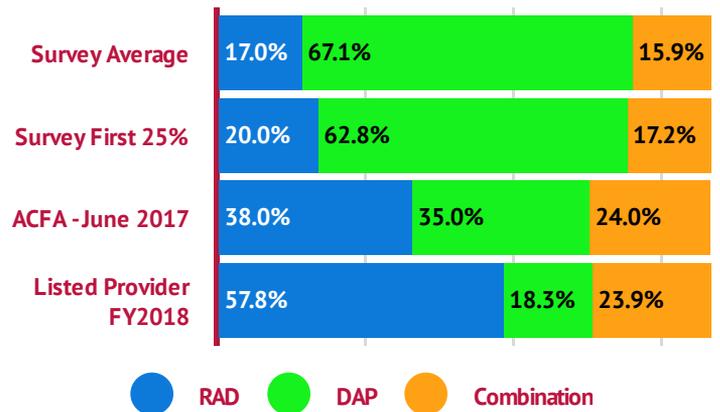
With some exceptions the average RADs received has increased across the various State and Territory jurisdictions. The exceptions to this are in the Tasmania where there is a marginal reduction and Victoria where the decrease in the average RAD level has been significant.

Median RAD as Proportion of Median House Price



Sydney and Melbourne continue to sit well below the other States and Territories with respect to the relationship between the Median published accommodation price compared to the Median house price in each respective capital city.

Accommodation Payment Method



In the September quarter the *average* number of incoming residents that have paid for their accommodation by way of DAP of 67.1% has increased significantly on the *average* for the FY2018 of 44.9%.

A contributing factor is that the default position when a resident enters is to pay a DAP until the accommodation choice is agreed. The percentage of DAPs is likely to decline over the remainder of the year.

Home Care



Financial Performance (Survey Average)

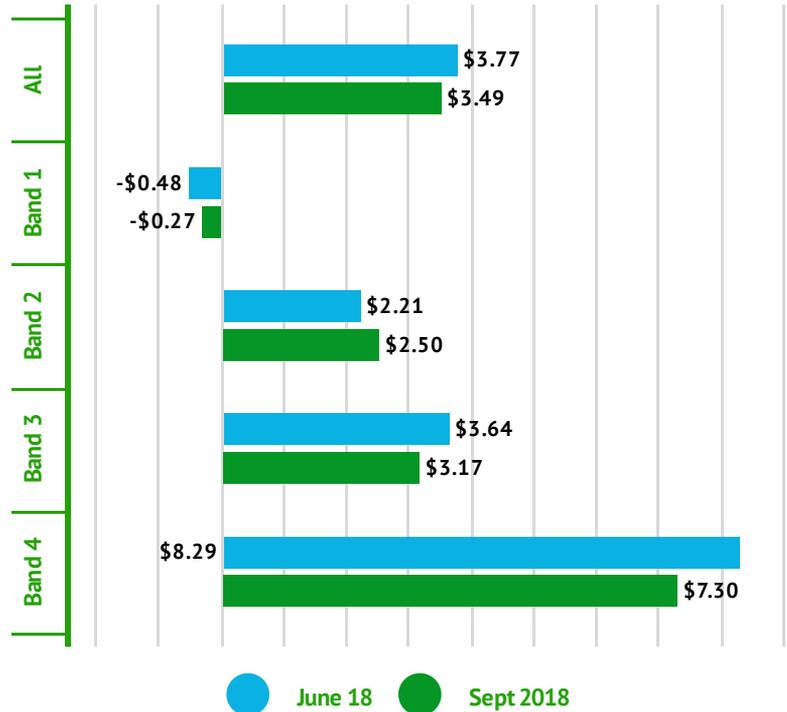
On average, the HCP provider results have declined since the same period last year.

The exception to this is for packages in the low care Bands 1 and 2 where the results for the September quarter are marginally better than for the FY18.

Historically, given the increase in subsidy rates effective from 1 July, the results would normally be better in the first quarter compared to the previous financial year as is the case with residential care.

The continued low revenue utilisation rates (see below) is a major contributing factor to the declining financial performance.

EBT per client per day - September quarter



Revenue Utilisation - September quarter



Revenue utilisation, on average is the same in the September quarter when compared to FY18. It remains unsustainable at 86.7%. The revenue utilisation for Band 4 (high care) packages remains the highest at 90.2%.

Unspent Funds Balance - September



A combination of low revenue utilisation and increased package funding has seen the average unspent funds per package increase from \$6,022 for FY18 to \$6,720 for the September quarter.

Home Care



Financial Performance (*First 25%*)



\$17.53 *First 25% EBT per client per day*

[June 2018 - \$17.17]



\$6,511 *First 25% EBITDA per client per annum*

[June 2018 - \$6,488]



87.5% *First 25% Revenue utilisation*

[June 2018 - 88.3%]



\$6,530 *First 25% Unspent funds*

[June 2018 - \$5,693]

The *First 25%* have a better financial performance across all package levels as highlighted in the table below. The EBT of \$17.53 per client per day is marginally better than at June 2018 and is significantly higher than the *average* of \$3.49 per client per day.

The *First 25%* has a better package utilisation rate of 87.5% compared to the *average* of 86.7%. Similarly, unspent funds for the *First 25%* of \$6,530 per client are lower than the *average* of \$6,720 per client.

The average income for the *First 25%* of \$88.27 per client day is considerably higher than the *average* of \$72.15 per client day.



Contribution to Results

	All					All				
	Programs Average	Band 1 Average	Band 2 Average	Band 3 Average	Band 4 Average	Programs <i>First 25%</i>	Band 1 <i>First 25%</i>	Band 2 <i>First 25%</i>	Band 3 <i>First 25%</i>	Band 4 <i>First 25%</i>
Income	72.15	36.20	55.72	73.04	109.08	88.27	34.65	60.36	76.12	107.73
Direct Services costs	43.15	20.32	34.34	43.99	64.26	44.18	15.91	34.63	37.07	51.40
Case Management	7.27	5.33	5.16	7.64	10.02	7.42	2.93	1.95	3.63	11.17
	50.42	25.64	39.50	51.64	74.28	51.60	18.84	36.58	40.69	62.57
Contribution Margin	21.74	10.56	16.22	21.40	34.80	36.68	15.80	23.78	35.43	45.16
Package Administration	17.85	10.53	13.44	17.85	26.87	18.84	7.20	11.12	15.68	20.65
Depreciation	0.40	0.31	0.28	0.38	0.62	0.30	0.23	0.15	0.26	0.28
	18.25	10.83	13.72	18.23	27.49	19.14	7.44	11.27	15.94	20.93
Result (EBT)	3.49	(0.27)	2.50	3.17	7.30	17.53	8.37	12.51	19.49	24.23

With the new pricing transparency regime due commence from May 2019, and the likelihood that administration fees will need to be rolled into the service fees, it is timely to review the current unit costs and pricing and determine what level of contribution is required to cover these administration and support overheads.

Overall, when the total direct costs of service provision, including case management services, are taken into account, the average contribution to administration and support services costs are \$21.74 per client per day. This does not generate sufficient margin for administration overheads, which for the September quarter averaged \$18.25 per client per day.

Given that these administration costs will need to be rolled into the service prices, it appears likely that unit price rises between \$10 and \$20 per hour may be required to adequately recover these costs.

Our Knowledge is Your Success



Integrity + Quality + Clarity

StewartBrown, Chartered Accountants, was established in 1939 and is one of the leading boutique accountancy firms in Australia combining a full range of professional services with varied corporate assignments. Our professional mission statement is “we deliver service beyond numbers”, which reflects the commitment to helping our extensive range of clients to achieve their financial goals.

We offer a depth of technical knowledge and varied professional experience, with many of our senior staff now having well over 10 years' of service with the firm, resulting in our clients benefiting from continuity and accountants who really understand their business.

What a boutique firm offers

Whilst StewartBrown provides a range of professional services, our “point of difference” is our ability to engage in assignments of a complex nature by providing a varied mix of experience and corporate skills. Examples of recent consulting assignments include:-

- Contract accounting
- Payroll processing and billing processing
- Financial modelling and unit costing analysis
- Strategic planning facilitation
- ITSC Project management
- Governance reviews
- Organisation restructures
- Risk management reviews
- Due diligence
- Work-flow building design
- FBT and GST reviews
- Detailed forecasting modelling
- Audit and assurance services

Complementing our consulting services is our dynamic Audit and Internal Audit divisions. Our engagements involve a detailed analysis of the client's business and systems of internal control to ensure we fully understand how the client operates and identify areas that pose the greatest risk of being materially misstated in the financial statements.

Our detailed testing procedures are then tailored to meet the risks identified and also ensure an efficient and effective audit is performed.

What we offer our audit and internal audit clients are a mix of experience and knowledge well beyond that of most other firms. Our audit staff all have regular exposure to consulting and secondment assignments which significantly enhances the “value add” we bring to our audit clients.

Speciality in the aged care, community and disability sectors

StewartBrown is widely regarded as being a leading specialist within the aged care, community and disability sectors. Our client base includes many large national providers in addition to independent stand-alone providers, faith-based and community providers, culturally specific providers, as well as government and statutory bodies.

Our commitment to these important social sectors each year involve 30+ plus speaking engagements at Conferences, sector briefings, workshops, department briefings, organisation presentations and community consultations.

Integrity + Quality + Clarity

These terms which appear on our logo are more than aspirations, they appear for a very important reason they encapsulate the professional standards that we strive to continually maintain and ensure best practice.

StewartBrown Aged Care Executive Team



Integrity + Quality + Clarity



Stuart Hutcheon
Managing Partner



Grant Corderoy
Senior Partner



David Sinclair
Partner



Siobhain Simpson
Audit Partner



David Gallery
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Travis Rickard
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