RESIDENTIAL AGED CARE SECTOR SUSTAINABILITY

POTENTIAL IMPACT OF PROPOSED LEVEL OF AN-ACC SUBSIDY

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RESIDENTIAL AGED CARE FINANCIAL SUSTAINABILITY

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FY22 OPERATING RESULT TREND ($ PER BED DAY)

Commentary

This graph highlights the operating results as sourced from the *StewartBrown Survey* for the period FY17 to Mar-22 and the FY22 forecast.

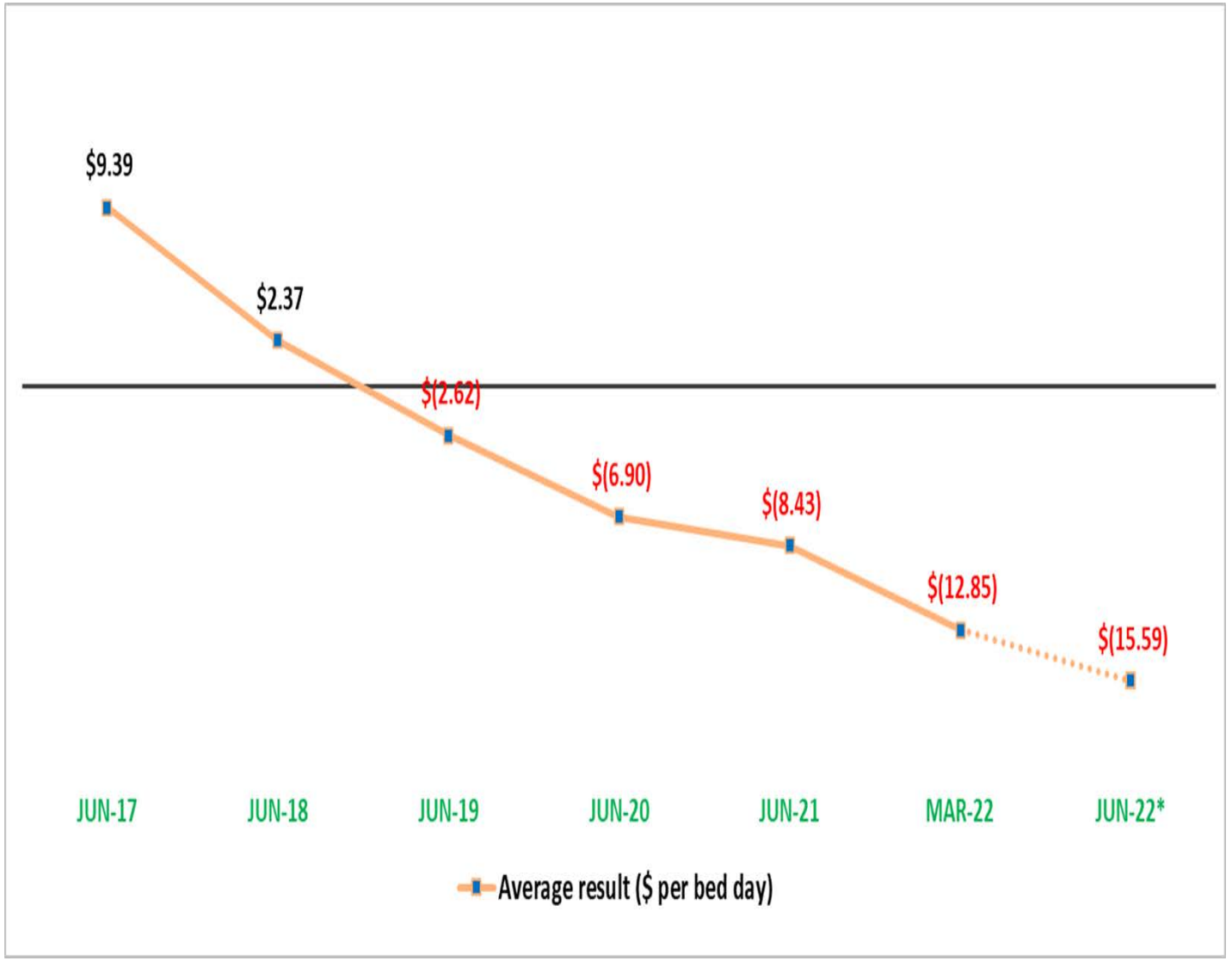
The quarterly Survey provides granular data and analysis from over 1,280 facilities (47% of facilities nationally) which means that the Survey aggregate results has a very low statistical margin of error.

There has been some commentary that the results of the whole residential sector will present a better financial position. This has not been the case for FY17 to FY20 as compared to the ACFA reported results, and based on this continued trend it is still expected that the whole sector results will show a greater deficit (loss) than the Survey for FY21 and FY22.

One of the primary reasons is that the Survey excludes outliers (facilities with sanctions, covid outbreaks, rebuilding, low occupancy etc) as accurate benchmark facility comparisons (the primary reason for the Survey) need to compare like-for-like. The Survey therefore reflects “Mature Homes”.

If the outliers are included the Survey results would be over $2.20 per bed day worse (ie $15.05 loss for the Mar-22 YTD and forecast $17.80 pbd loss for full FY22). This result is referred to as “All Homes”.

Whilst there may be some providers not in the Survey who perform financially better than those in the Survey, these results are overshadowed by the inclusion of the outliers in the full sector results and those providers not in the Survey with worse financial performance.



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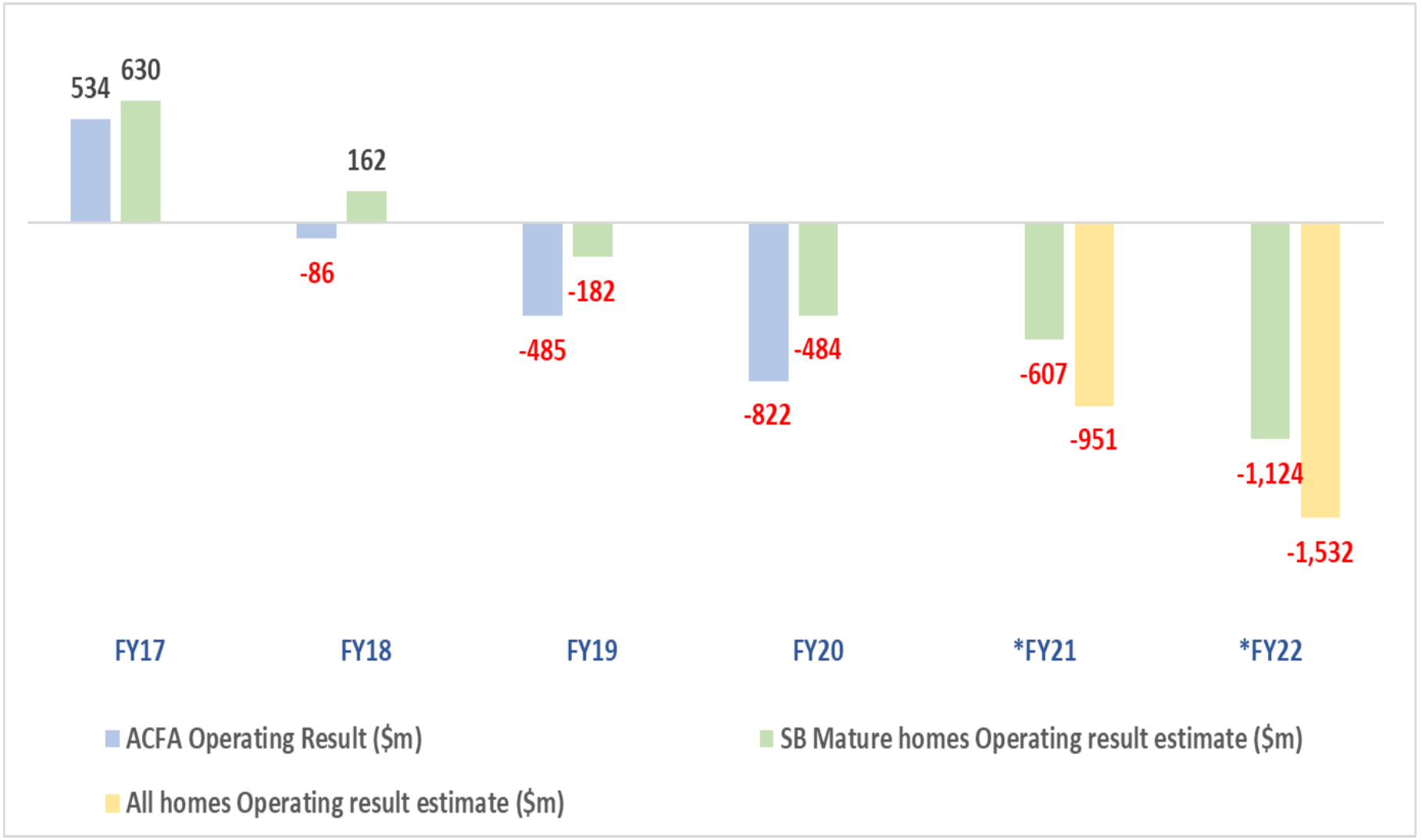
RESIDENTIAL CARE - SECTOR AGGREGATE OPERATING RESULTS ($M)

Sector Aggregate Operating Result - FY17 to FY22 (estimate)

The operating result excludes all non-recurrent revenue (investment income; donations; gains on sale of assets; revaluations) and non-recurrent expenses (finance costs; impairment losses; loss on sale of assets) to show the actual operating performance of the sector.

With the sector having significant losses from FY18 ($3.88 billion) (and an estimated aggregate loss of $1.532 billion for FY22) financial reserves have been eroded, resulting in the ongoing financial sustainability having reached a critical point



* estimate based on StewartBrown Survey results

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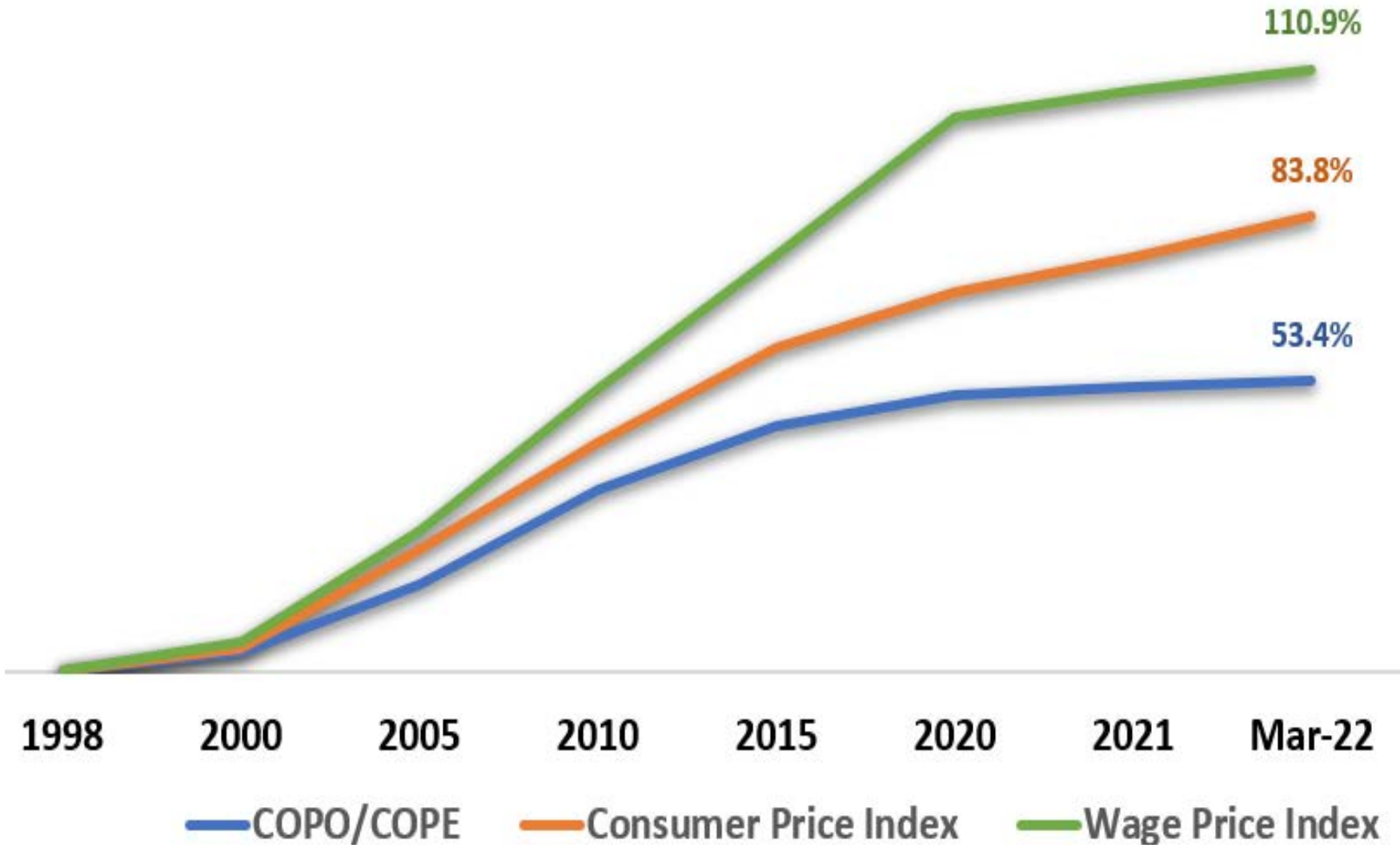
RESIDENTIAL CARE - COPE SUBSIDY INCREASE COMPARISON

Cumulative Trend year-on-year from 1998 to Mar-22

This graph shows the cumulative increase of COPE (subsidy indexation) since 1998 (53.4%) as compared to cumulative CPI (83.8%) and cumulative Wage Price Index (110.9%)

Staff costs represent in excess of 75% of all residential aged care costs and the COPE increase has not matched the other indices, resulting in the deteriorating financial performance



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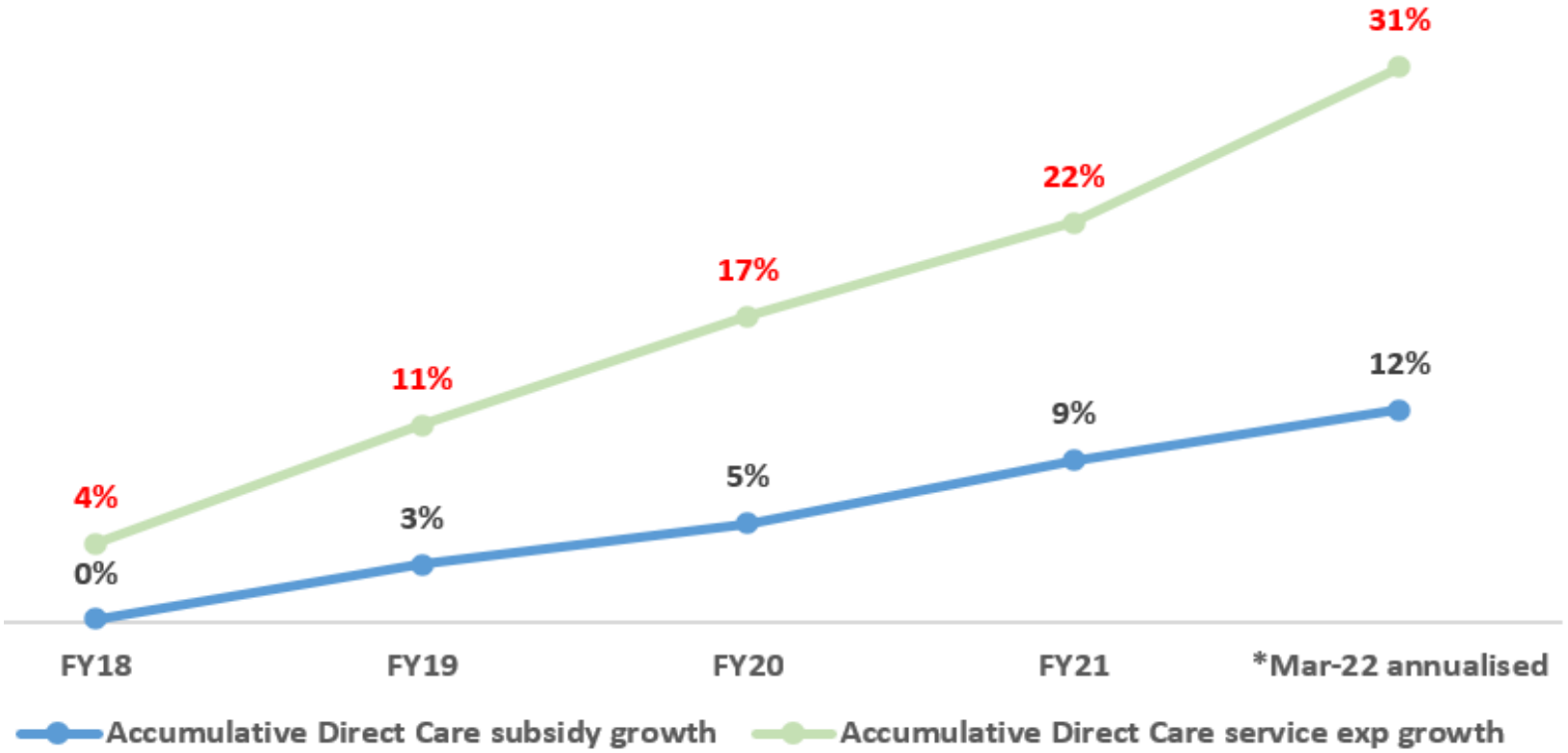
RESIDENTIAL CARE - ACCUMULATED DEFICIENCY IN COPE (FY17 TO FY22)

Cumulative Trend year-on-year from FY17 to FY22

Accumulated COPE (inflation) deficiency for the period FY17 to FY22 amounts to **$1.436 billion**

*ACFI has had an accumulated increase of **12%** over the 5 years, however direct care costs have increased by **31%***



Direct Care subsidy growth v Direct Care expense growth	FY18	FY19	FY20	FY21	*Mar-22 annualised
Accumulative Direct Care subsidy growth	$17,050,979	$368,945,601	$636,525,185	$1,044,492,136	$1,372,486,811
Accumulative Direct Care service expense growth	$391,118,263	$993,025,423	$1,543,020,438	$2,021,180,951	$2,809,483,549
Accumulative COPE (deficiency)/surplus	($374,067,284)	($624,079,822)	($906,495,253)	($976,688,815)	($1,436,996,738)
Year on Year COPE (deficiency) /surplus	($374,067,284)	($624,079,822)	($282,415,431)	($70,193,562)	($460,307,923)

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AUSTRALIAN NATIONAL AGED CARE CLASSIFICATION (AN-ACC)

MANDATED DIRECT CARE MINUTES

AN-ACC SUBSIDY AND DIRECT CARE MINUTES

AN-ACC Subsidy Funding Model

The Australian National Aged Care Classification (AN-ACC) funding system will commence from 1 October 2022. The legislative authority is included in the *Aged Care and Other Legislation (Royal Commission Response) Bill 2022* which received assent on 5 August 2022. This will amend the *Aged Care Act 1997.*

The sector is now progressing based on the understanding of how AN-ACC will be implemented from an operational perspective.

There are several elements to the new AN-ACC funding model including:

- A fixed and variable component
- A one-off payment for any residents entering the home

New rates for residents receiving respite care, including an accommodation payment set at the rate applicable to the home (depending on whether it is new or significantly refurbished) and it assumes a supported resident ratio of 40%

The Government has set a starting AN-ACC price of $216.80 per resident per day and has stated that the sector average AN-ACC has been estimated to be $225 per resident per day. Note that the AN-ACC estimate is inclusive of the Basic Daily Fee supplement of $10 per bed day, homeless supplements and viability supplements.

Mandated Direct Care Minutes

The Government is introducing mandatory care minute standards for residential aged care in response to the 2021 final report of the Royal Commission into Aged Care Quality and Safety (the Royal Commission).

Effective from 1 October 2023 there is a requirement for facilities to have a minimum number of direct care minutes which will be tied to the AN-ACC funding model. At the expected average rate of AN-ACC of $225 per resident per day, the sector average direct care minutes will be 200 minutes per resident per day, of which 40 minutes per resident per day will need to be provided by a Registered Nurse (RN).

StewartBrown have estimated the sector average care minutes delivered in 2021 under this definition was approximately 175 minutes. The cost of funding this uplift across the sector would need to be considered by IHACPA in their recommendation to government for funding levels from July 2023.

StewartBrown have estimated that to meet the average mandated minutes would require in excess of an additional 9,000 full-time equivalent aged care staff across the sector.

RESIDENTIAL CARE: AN-ACC FUNDING ANALYSIS

Department Fact Sheet

StewartBrown survey (2021) identified that registered nurses, enrolled nurses and personal care workers' wages account for 78% of the total care costs for providers

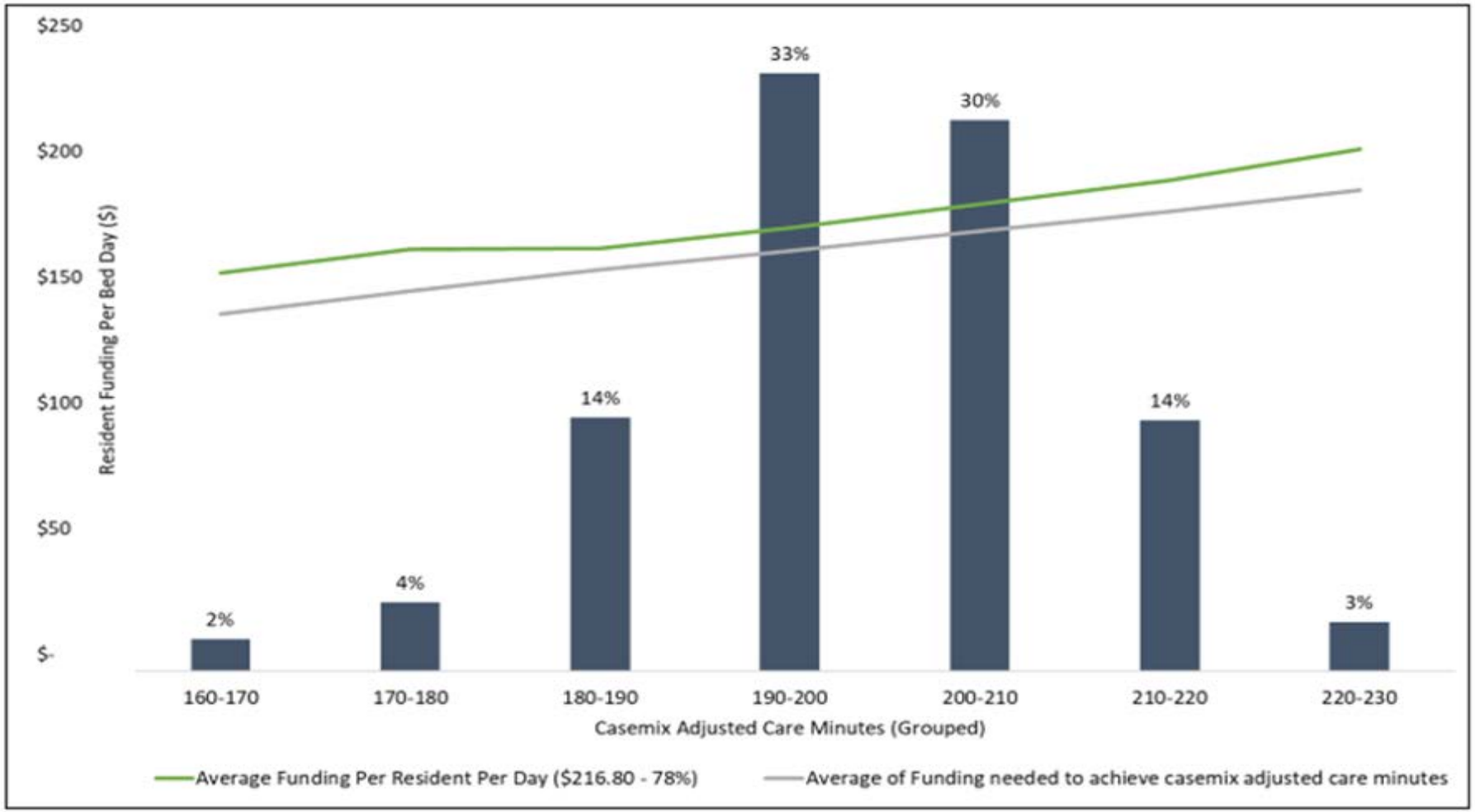
The chart (opposite) shows the adequacy of care minutes funding by the green line (average funding per resident per day using 78% of AN-ACC funding) always being above the grey line (average of funding needed to achieve casemix adjusted care minutes)

Commentary

The comparison should be the percentage of costs compared to AN-ACC subsidy (revenue) rather than direct care costs as a percentage of costs.

When considering the adequacy of AN-ACC funding, the measurement must relate to the percentage of direct care costs to the subsidy (ie around 65% - 70% of subsidy)

The table below indicates that if the revenue does not increase in the same percentage as the costs there is a funding shortfall (table contains actual data)



Year / Period	ACFI Revenue $ per bed day	Direct Care costs $ per bed day	Difference $ per bed day	Margin %
FY20	$181.42	$156.99	$24.44	13.5%
FY21	$187.73	$164.05	$23.68	12.6%
Mar-22	$192.80	$175.54	$17.25	8.9%

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AN-ACC FUNDING POTENTIAL SHORTFALL (ESTIMATE)

	Amount	Calculation Notes
Average ACFI and supplements ($ pbd)	**$ 191.90**	Includes ACFI + supplements + MTCF *(Mar-22 Survey)*
Indexation to cover cost increase	4.70%	5.1% CPI (20%), 4.6% wage increase (80%)
ACFI after staff cost and CPI increase ($ pbd)	**$ 200.92**	A
Additional direct care labour costs to meet minutes target		
Registered Nurse (RN) minutes gap (per resident per day)	12.42	40 minutes less 27.58 minutes *(Mar-22 Survey including agency)*
Other direct care (EN/PCA) minutes gap (per resident per day)	8.69	160 minutes less 151.31 minutes *(Mar-22 Survey including agency)*
RN average hourly rate *(incl on-costs, shift loadings etc)*	$ 68.11	Includes agency rate, 4.6% Wage increase
Other direct care average hourly rate *(incl on-costs, shifts etc)*	$ 43.76	Includes agency rate, 4.6% Wage increase
Additional labour costs to meet minutes target ($ pbd)	**$ 20.44**	B
ACFI after direct care minutes uplift ($ pbd)	**$ 221.36**	C = A + B
Basic Daily Fee (BDF) supplement ($ pbd)	$ 10.51	D (includes 5.1% CPI)
Projected $ pbd required *(wage increase/CPI/mandated minutes)*	**$ 231.87**	E = C + D
Gap between projected requirement and AN-ACC average $225 pbd (F)	**($ 6.87)**	per bed day G = F - E
Estimated occupied bed days in FY23 (195,000 per day x 365 days)	*71,175,000*	*195,000 average occupied beds* H
Estimated additional funding to meet the gap	**$ 488,972,250**	Aggregate G x H

The AN-ACC funding model has been designed to ensure a stronger relationship between the resident acuity and funding than is the case with ACFI, and will certainly prove to be a more robust and appropriate instrument. The potential shortfall as calculated in the above table is not a reflection of the AN-ACC model conceptually. The shortfall is entirely due to the indexation required to meet the increased award (4.6%) and related staff costs and the current CPI (5.1%) has not been fully reflected in the current AN-ACC price. The additional labour costs to meet the minutes target of $20.44 per resident per day (item B) represents an increase of 14.4% of the existing direct care labour costs of $141.61 per bed day as per the StewartBrown Mar-22 Survey

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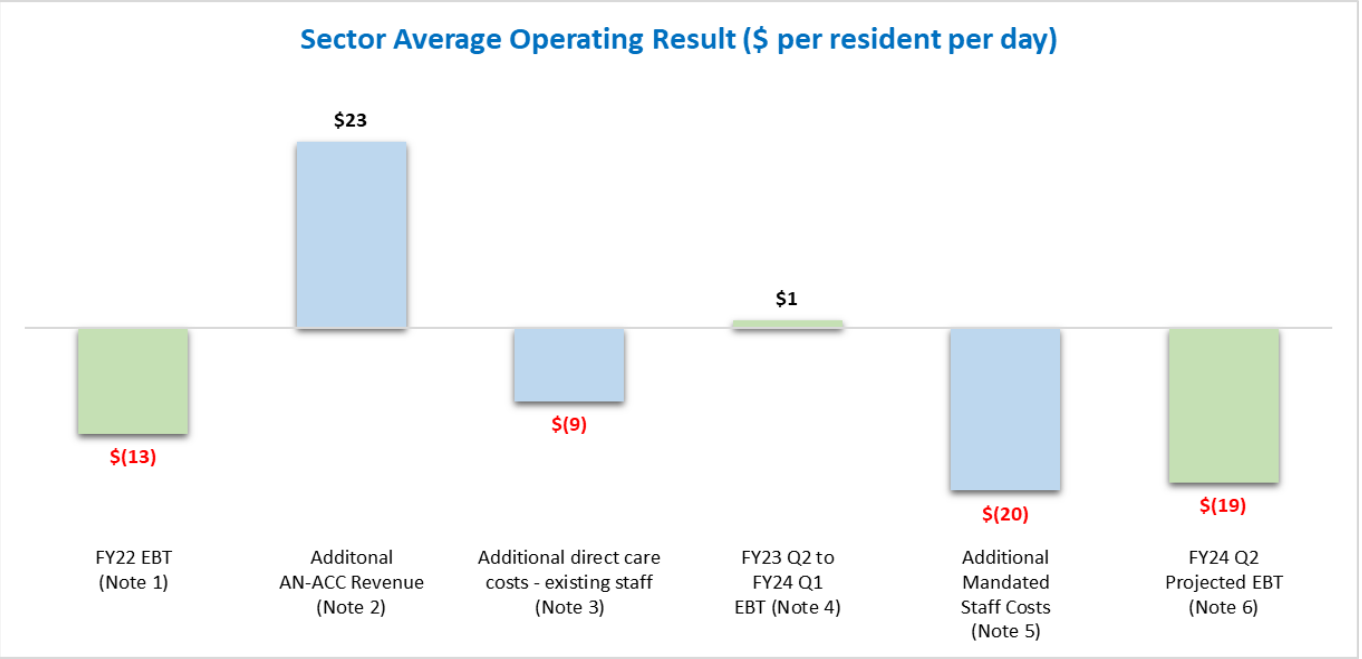
FINANCIAL EFFECT OF POTENTIAL AN-ACC FUNDING SHORTFALL

It is currently expected that daily care subsidy rates per day will increase in FY23 under the new AN-ACC funding model that will commence from 1 October 2022. However, there will be incremental increased costs associated with meeting legislated mandated minimum direct care staffing minutes from 1 October 2023.

StewartBrown has estimated that the impacts will be fully carried from 1 October 2023 and if the full cost of care minutes are not met there may be a negative impact on EBT. The level of impact will depend on actions taken by providers to mitigate the additional cost impost and the current level of care minutes in place. The extremes of the possible impacts based on the overall Sector Average is represented in the graph below. There is no indexing of revenues or costs in this example.



Note 1: FY22 Earnings Before Tax (EBT) - based on YTD March 2022 StewartBrown Survey
Note 2: Additional AN-ACC Revenue - assumes that the AN-ACC subsidy moves from current (ACFI) levels to average of $225 per bed day
Note 3: Additional cost for existing staff and other care costs due to current AN-ACC price not meeting award wage increase and CPI
Note 4: FY23 Q2 to FY24 Q1 EBT - assumes that there will be no increase in direct care staff minutes during the year leading up to the mandated minutes from 1 October 2023. *This would be considered best case scenario however most providers are likely to start to phase in minutes during this period which will have a cost impact* (EBT *note 1* plus additional subsidy *note 2* less additional costs *note 3*)
Note 5 Additional Staff Costs - for the mandated minutes from 1 October 2023 assuming that all mandated minutes are met from that date
Note 6: FY24 Q2 projected EBT - takes into account the AN-ACC revenue and cost impact once mandated minutes are in place without any additional funding (EBT *note 4* minus additional costs *note 5*). *The comparison of FY22 EBT (note 1) and FY24 Q2 EBT (note 6) is relevant when comparing the current state and future state based on the current legislation and assuming inflation is neutral.*