



# StewartBrown

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## ***AGED CARE CORPORATE ADMINISTRATION SURVEY***

### **SUMMARY REPORT – SEPTEMBER 2017**

The StewartBrown *Aged Care Corporate Administration Survey* incorporates detailed financial and supporting data from 58 aged care providers, 457 residential care facilities with 35,164 operational places, 12,972 home care clients and 15,395 occupied ILUs across Australia. This annual survey provides an invaluable insight into the trends and drivers of corporate administration costs at the sector and organisational level.

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# 1. About the 2017 Corporate Administration Survey

The aged care sector has seen administration costs increase significantly over recent years as the burden of compliance continues to weigh heavily with service providers. The high cost of administration has become a focus of many organisations with the introduction of consumer directed care in the home care space, but it is also a continued focus of management and boards as they try and improve overall operating performance and efficiencies. The results of the 2016 Corporate Administration Survey was well received and as a result has been followed up by the *2017 StewartBrown Corporate Administration Survey*.

This survey looks at total corporate administration expenses (regardless of where they are incurred) and the allocation of these expenses. Data was collected at an organisational level and included administration costs, activity as measured by revenue and expenditure, size based on numbers of packages, RACF beds, ILUs as well as the level of assets under management. In addition to the normal financial data, data was also collected on employee numbers and ICT expenditure.

The 2017 Corporate Administration Survey was comprised of 60 respondent organisations. Some organisations were excluded due to inconsistent data so the overall average is comprised of data from 58 organisations and this includes, 457 residential care facilities with 35,164 operational places, 12,972 home care clients and 15,395 occupied ILUs. The data was collected at a provider level across revenue, expenses, activity, assets and liabilities.

The 2017 Corporate Administration Survey was improved as a result of feedback from last year's survey to enable better analysis and comparison across the industry. However, new data issues arose and it is likely that there will continue to be refinements and improvements in the data collection process, guidance and analysis in future surveys. A particular issue encountered was the misalignment of costs and FTEs to corporate cost centres as there were inconsistencies in how providers interpreted the requests and filled in the information.

The 2017 data provided by aged care providers for the *2017 StewartBrown Corporate Administration Survey* is based on forecast/ budget not actuals. The 2016 data is based on actuals.

## Calculation and interpretation of averages

### **Averages**

All *averages* are calculated using the total of the raw data submitted for any one line item and then dividing that total by the total operating revenue for the providers in the group. For example, the *average* for total corporate expenses across all providers would be the total amount submitted for that line item divided by the total operating revenue for all providers in the survey.

### **Average by line item**

This measure is *averaged* across only those providers that provide data for that line item. All other measures are *averaged* across all the providers in the particular group. The *average* by line item is particularly useful for line items that are not applicable to all providers such as property rental expenses.

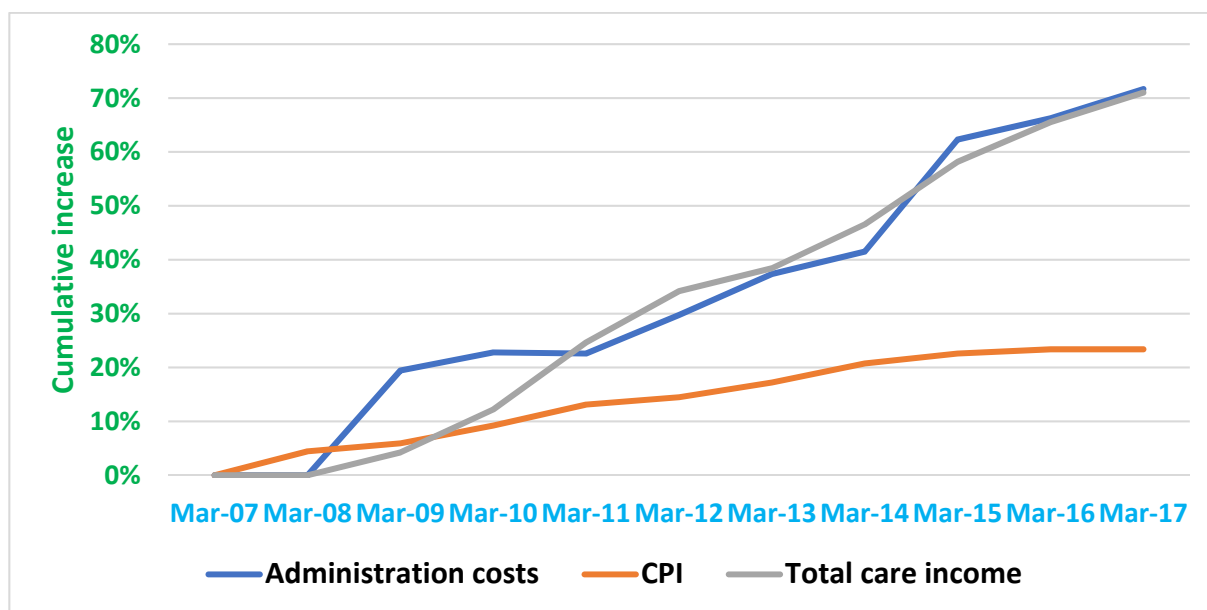
## 2. Corporate Administration Costs in Context

Since 2007 both total Care Income and Administration Costs have been increasing significantly over time and at a rate much greater than CPI as shown in *Figure 1*.

The introduction of the Aged Care Funding Instrument (ACFI) for residential care in 2008 was designed to move aged care providers to admit residents with higher acuity levels. The resultant effect was the significant move of resident mix from low care (formerly hostel care) to high care (formerly nursing care) and therefore requiring greater direct care provision and increased care costs. During the same period, there has also been a larger number of home care packages released, including an increasing number of high care packages. This has also had a flow on effect of increasing the care requirements for in-home care clients.

The administration costs have also increased at the same rate in relative percentage terms. In particular, administration staff costs have been increasing in line with the growth in revenue, whereas it would be expected that administration costs (staffing and other) should be increasing at the same rate as organisation growth (bed numbers, packages, housing units and home support outputs).

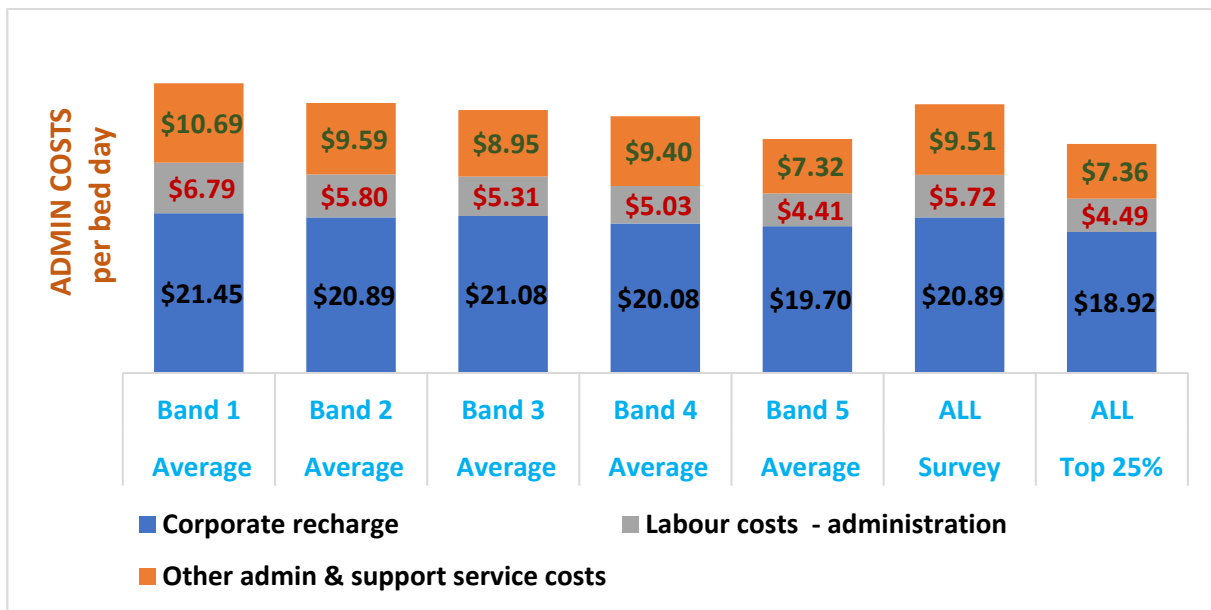
*Figure 1: Cumulative increase in Administration and Other Support Services from StewartBrown's Financial Benchmarking Reports against CPI*



The current trend in administration costs is not optimal or sustainable. Not all administration costs should be variable costs (and increase with care income or operational revenue) but rather should be fixed costs. This means that we would expect that as operating revenue increases, administration costs decrease. There should be some level of benefit from economies of scale. There should also be an efficiency dividend from investments in technology. This will be offset to some degree by increasing levels of compliance.

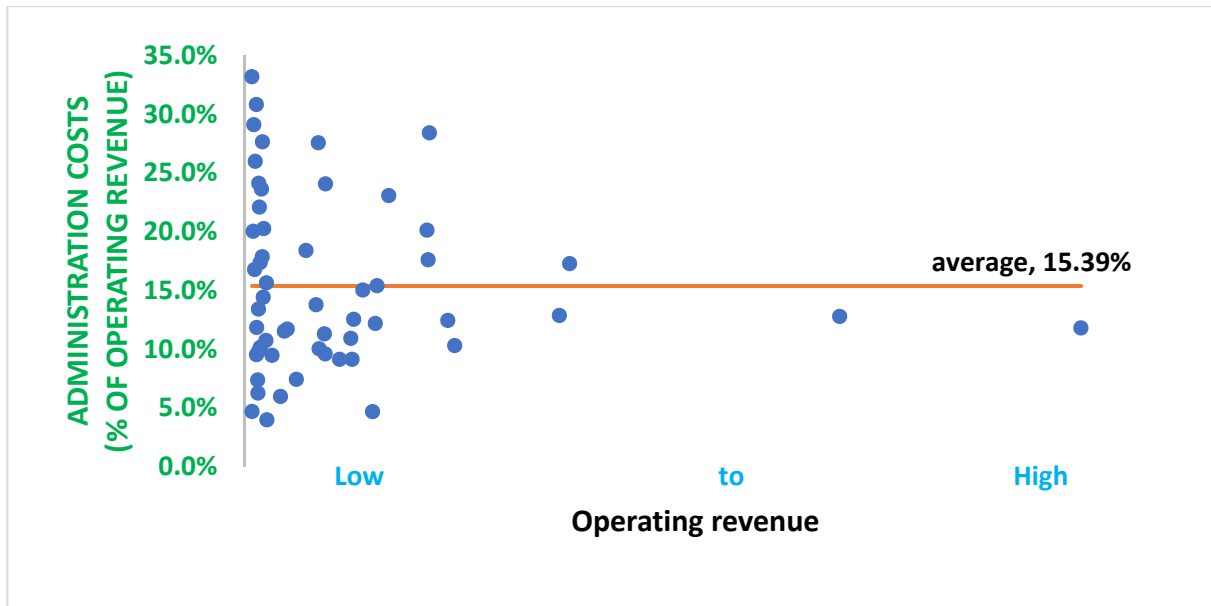
Across all bands, the main component of total administration costs for those that do allocate corporate recharge is the corporate recharge, followed by the labour administration costs - that is these are averages by line item. The overall average is \$20.89 per bed day (pbd) compared to the top quartile average of \$18.92 pbd.

Figure 2: Corporate recharge costs (for those that do recharge) as at March 2017 compared to benchmark



The following figures plots the administration costs as a percentage of operating revenue by the operating revenue in dollars. The orange line at 15.39% is the overall average for all 58 organisations. The median is slightly lower at 13.14%.

Figure 3: Administration costs by operating revenue for organisations



Generally, the higher the operating revenue, the lower the administration costs as a percentage of revenue. In addition, there is a lot more volatility in administration costs for organisations with operating revenue less than \$20m with the results ranging from around 5% to 33%.

### 3. Trends in Corporate Administration Costs

The corporate administration costs as a percentage of operational revenue for all survey respondents averaged 15.39% for FY17. This is an increase of 0.41% from the FY16 average of 14.98%. These figures are around 2% to 3% higher than those in last year's survey of 12.53% for FY15 (actual) and 12.92% for FY16 (forecast).

*Table 1: Comparison of corporate administration costs overtime based on StewartBrown Corporate Administration Surveys*

Financial year	Corporate admin costs (as a % of TOTAL revenue)	Corporate admin STAFF costs	Corporate admin costs (as % of OPERATING revenue)	Corporate admin STAFF costs
FY08*	14.00%	8.33%	n/a	n/a
FY09*	13.35%	7.76%	n/a	n/a
FY15 (Actual)	11.69%	6.78%	12.53%	7.27%
FY16 (Forecast)	12.20%	6.90%	12.92%	7.31%
FY16 (Actual)	14.25%	8.39%	14.98%	8.82%
FY17 (Forecast)	14.79%	8.83%	15.39%	9.19%

\* Approximately equivalent as a different method was used to collect data

Based on the data provided in each of the corporate administration surveys (bearing in mind that the number and type of participants does change): -

- the survey total revenue has increased by 11.3% from FY15 to FY17
- the survey total operational revenue has increase by 14.7%
- the survey total corporate administration costs have increased by 40.9% over the same period
- the survey total corporate staff costs have increased by increased by 45.1% over the period

This clearly shows that corporate administration costs continue to increase at a rate greater than the increase in revenue, with a particular increase in corporate administration staff costs. The following table sets out the high level corporate administration costs as a percentage of total revenue. Note that in order to compare across the surveys some data has been aggregated and presented as percentage of total revenue instead of operational revenue. The grouping is therefore slightly different to than provided in **Section 4** of this report.

Table 2: Trends in corporate administration costs FY15 to FY17 as percentage of total revenue

% of total revenue	FY17 Budget	FY16 Actual	FY16 Budget	FY15 Actual	FY09 Actual	FY08 Actual
Total staff costs	8.83%	8.39%	6.90%	6.78%	7.76%	8.33%
Other expenses line item*	1.38%	1.27%	1.25%	1.29%	3.68%	3.77%
Depreciation & amortisation	1.28%	1.27%	1.25%	0.97%	n/a*	n/a*
IT / computer expenses	0.78%	0.69%	0.76%	0.67%	0.33%	0.37%
Legal and consulting fees	0.72%	0.83%	0.69%	0.65%	0.22%	0.15%
Marketing	0.45%	0.38%	n/a*	n/a*	0.12%	0.11%
Rent and rental property expenses	0.36%	0.49%	0.39%	0.42%	0.40%	0.46%
Workers compensation	0.28%	0.25%	0.22%	0.16%	0.20%	0.12%
Telecommunications	0.19%	0.18%	0.15%	0.15%	0.16%	0.19%
Education / conferences	0.16%	0.15%	0.23%	0.24%	0.19%	0.20%
Travel and accommodation	0.14%	0.14%	0.13%	0.13%	0.14%	0.17%
Audit fees	0.09%	0.08%	0.08%	0.07%	0.11%	0.10%
General Insurance	0.08%	0.08%	0.10%	0.09%	n/a*	n/a*
Postage, courier and freight	0.05%	0.05%	0.06%	0.06%	0.05%	0.04%
<b>Total corporate expenses</b>	<b>14.79%</b>	<b>14.25%</b>	<b>12.20%</b>	<b>11.69%</b>	<b>13.35%</b>	<b>14.00%</b>

\* These line items were not split out in the survey for that year and as a result are included in the other expenses line item

Generally, all corporate administration costs as a percentage of total revenue have increased over the period from FY08 to FY17. In particular, staff costs, legal and consulting fees, ICT/computer expense and marketing cost have increased over the period. The main costs are also shown in the following figures.

Figure 4a& b: Trends in corporate administration costs as percentage of total revenue over time

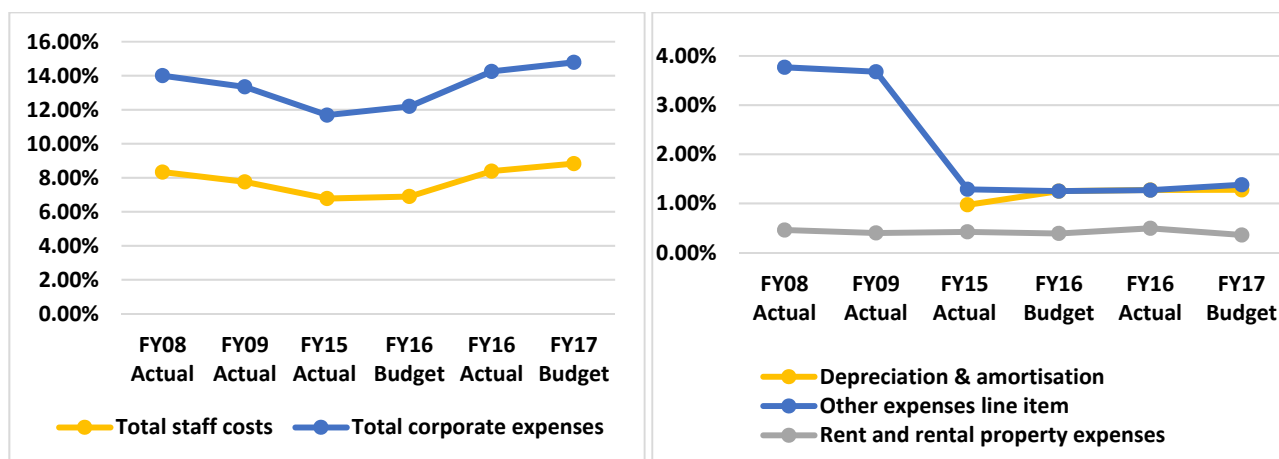
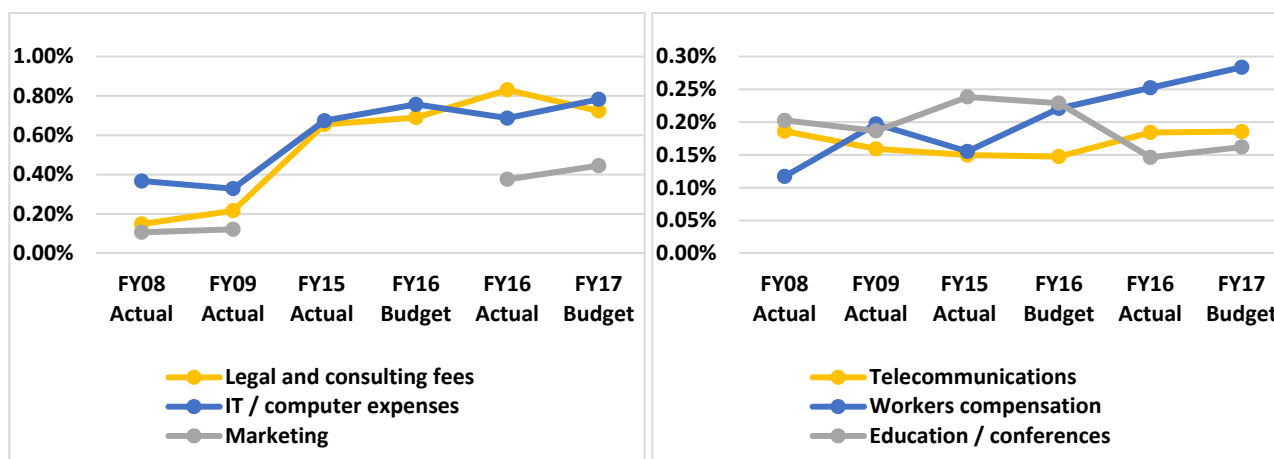


Figure 4c& d: Trends in corporate administration costs as percentage of total revenue over time



Further analysis of the FY16 actual and FY17 Forecast/ Budget results are set out in the **Section 4** of this report.

Due to changes in the design of the 2017 survey, a comparison of corporate staff costs per cost centre is not available. Instead, the following table shows the change in the composition of corporate staff costs from FY16 to FY17. Most categories increased, except for Executive & Mission, Property & Hotel Services, and Marketing which decreased by 0.03% on average.

Table 3: Composition of corporate administration staff costs in FY16 and FY17 as percentage of operating revenue

Corporate administration staff costs (% of operating revenue)	FY17 Budget	FY16 Actual	Difference FY17 - FY16	
Finance and Business Services	1.61%	1.48%	0.13%	Increase
Human Resources	1.22%	1.09%	0.12%	Increase
Executive & Mission	1.07%	1.10%	-0.02%	Decrease
Property & Hotel Services	0.98%	1.01%	-0.04%	Decrease
ICT	0.85%	0.82%	0.03%	Increase
Home Care & Community Management	0.85%	0.84%	0.01%	Increase
Residential Management	0.85%	0.78%	0.07%	Increase
Marketing & Business Development	0.54%	0.57%	-0.03%	Decrease
Quality & Risk/ Compliance	0.51%	0.49%	0.02%	Increase
Other	0.49%	0.42%	0.07%	Increase
Retirement Living Management	0.22%	0.21%	0.01%	Increase
<b>Total corporate staff costs</b>	<b>9.19%</b>	<b>8.82%</b>	<b>0.37%</b>	<b>Increase</b>



## 4. Composition of Administration Costs

The composition of administration costs is shown in the table below. The following definitions apply for the groups: -

- ◆ The **Overall** Average represents the average for the 58 participants of the 2017 Corporate Administration Survey.
- ◆ Top Quartile is the *average of the top quartile* (25%) measured by corporate administration costs as percentage of operating revenue.
- ◆ A **Small with No HCP** organisation is defined as one with operational revenue less than \$20m and with no home care or community operations. These organisations have less than 250 operational places and generally have nil to three residential aged care facilities. There are 16 organisations in this category.
- ◆ A **Small** organisation is defined as one with operational revenue less than \$20m and with home care or community operations. These organisations have less than 250 operational places and generally have nil to three facilities. There are 12 organisations in this category.
- ◆ A **Medium** organisation is defined as one with operational revenue between \$20m and \$85m. These organisations are generally comprised of between four to eight residential aged care facilities with more than 250 but less than 850 operational places in total. The medium sized organisations include those both with and without home care and community operations - although most do have home care and community operations. There are 13 organisations in this category.
- ◆ A **Large** organisation is defined as one with operational revenue more than \$85m. These organisations are generally comprised of nine or more residential aged care facilities with more than 850 operational places in total. Most of the large organisations do have home care and community operations. There are 17 organisations in this category.

Table 4: Administration costs (\$ per \$1.0m of operating revenue) from largest to smallest expenditure

Administration costs FY17 Budget	Overall Average	Top Quartile Average	SMALL NO HCP Average	SMALL Average	MEDIUM Average	LARGE Average
<i>\$ spend per \$1.0m operating revenue</i>						
<b>Total corporate employee expenses</b>	91,888	53,085	78,725	111,364	81,024	94,108
<b>Other expenses</b>	14,365	4,877	7,688	16,029	10,849	15,395
<b>Depreciation &amp; amortisation</b>	13,282	3,895	9,485	14,524	8,852	14,350
<b>IT / computer expenses</b>	8,143	3,306	5,251	7,742	6,722	8,611
<b>Consulting fees</b>	6,727	3,899	5,745	8,226	6,444	6,784
<b>Marketing</b>	4,630	1,112	3,135	2,498	6,064	4,504
<b>Workers Compensation</b>	2,952	1,199	4,953	10,689	1,420	2,858
<b>Rent</b>	2,816	1,134	649	0	1,302	3,353
<b>Telecommunications</b>	1,930	1,730	2,382	2,923	2,967	1,656
<b>Education/ conferences</b>	1,685	1,036	2,062	1,351	1,270	1,761
<b>Travel &amp; accommodation</b>	1,425	355	209	1,287	698	1,646
<b>Rental property expenses</b>	917	1,011	164	379	773	1,010
<b>Audit fees</b>	902	668	2,036	2,642	968	759
<b>General Insurance</b>	843	1,641	3,867	3,791	1,617	403
<b>Legal fees</b>	798	442	1,171	2,005	870	716
<b>Postage, courier &amp; freight</b>	551	194	284	884	631	537
<b>Total corporate administration costs</b>	<b>153,855</b>	<b>79,585</b>	<b>127,806</b>	<b>186,334</b>	<b>132,472</b>	<b>158,454</b>

### **Small organisations have highest corporate administration costs as percentage of operating revenue**

As expected, small organisations have the highest corporate administration costs with the average expense per \$1.0m of operating revenue at \$186.3k (18.6% of operating revenue). This is consistent with last year's survey results and shows that there is a fairly high administration cost to operating in the aged care sector which small organisations have to bear more significantly than larger organisations.

### **Home care and community operations have significant corporate administration costs**

In the analysis this year, small organisations have been split into those with home care and community operations and those without. The average for those without home care and community operations is significantly lower at \$127.8k for every \$1.0m of operating revenue and is even lower than the average corporate administration costs of \$158.5k for the large organisations. This is likely because most of the large organisations do operate home care and community services and as a result have higher corporate administration costs. Comparison of providers by revenue type in **Section 6** also provides further support for the high corporate administration costs relating to home care and community operations.

In addition, StewartBrown has conducted several reviews of home care and community operations within the last 12 months and the findings from these reviews further corroborate this evidence. Often the home care and community business unit will operate in isolation from the rest of the organisation and as a result will replicate many administration and finance functions.

### **Economies of scale hold true for some line items but not all**

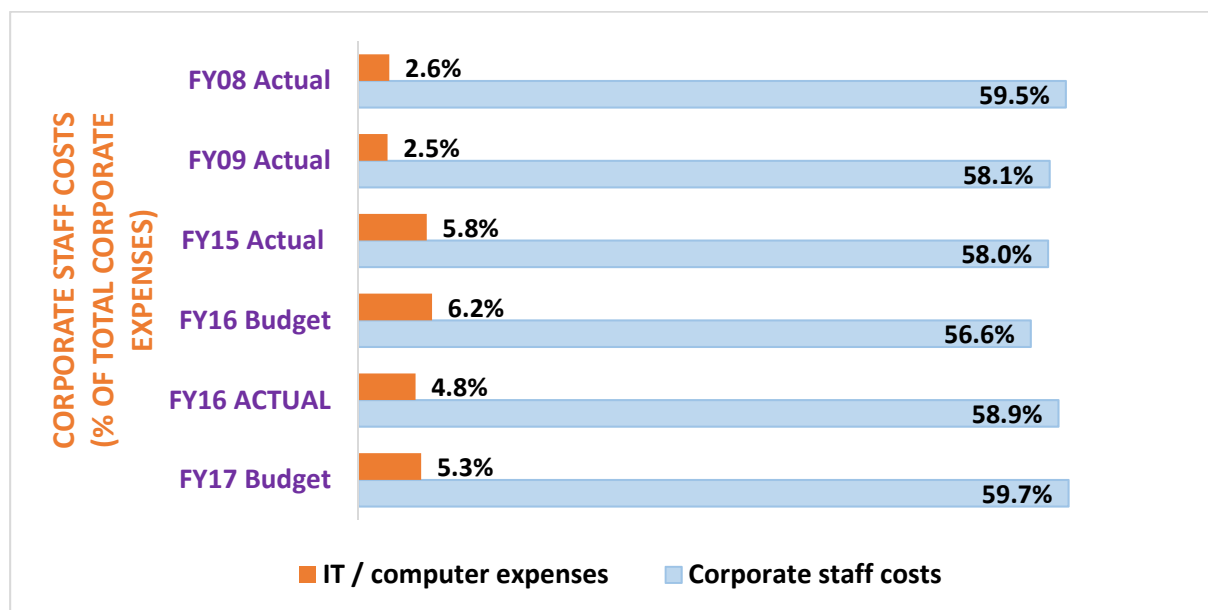
Application of economies of scale would suggest that the larger organisations should have the lowest costs with the smaller organisations have the higher costs. This seems to be true for some line items such as general insurance, audit and legal fees, and telecommunications. However, it is not true of the total corporate administration costs as medium organisations have a lower cost at \$132.5k whereas large organisations average \$158.5k for every \$1m of operating revenue.

This is because staff costs (which are the most significant corporate administration expenses) are the lower for medium sized organisations at \$81.0k. It seems that larger organisations may be required to have more corporate administration staff that are more skilled resulting in the higher corporate administration staff costs.

### **Relationship between corporate administration staff costs and ICT expenditure**

The following figure illustrates the corporate staff and ICT expenditure costs as a percentage of total corporate administration costs.

Figure 5: Corporate staff costs and ICT expenditure costs as percentage of total corporate expenses for 2009, 2016 and 2017 surveys



It is not unexpected that the staff costs comprise a large proportion of total corporate expenditure ranging from 59.5% in FY08 to 59.7% in FY17. What is interesting is to see the relationship between ICT costs and corporate staff costs. The hypothesis is that investment in ICT and the increased technology allows for lower staff costs.

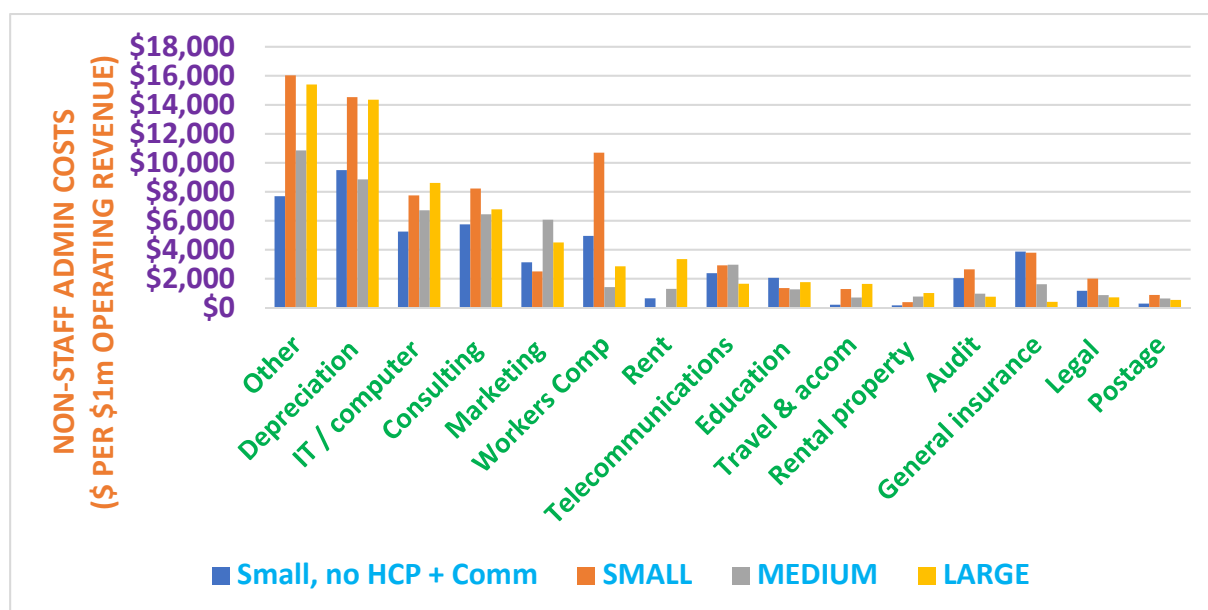
However, the comparison of the data from the 2009, 2016 and 2017 surveys show that whilst ICT costs have more than doubled as a percentage of total corporate expenses, there has been little to no reduction in corporate staff costs on average as a percentage of total corporate expenses.

Further analysis on staff costs is set out in **Section 5**.

### Non-staff corporate administration costs

The non-staff corporate expenses by organisation size as depicted in Table 3 are also shown in the figure on the following page.

Figure 6: Administration costs for every \$1m of operating revenue for overall average



\* Other expenses include all other corporate administration expenses apart from those listed in the survey template

◆ **Other**

Other is comprised of all other corporate administration expenses that are not listed by line item in the survey template. It is difficult to determine what drives these expenses as they are most likely an aggregate of many smaller expenses. The small and large sized organisations appear to have a higher cost per \$1.0m of operating revenue at \$16.0k and \$15.3k compared to the small with no HCP and medium organisations at \$7.7k and \$10.8k respectively.

◆ **Depreciation & Amortisation and Rent**

The majority (58.6%) of the peer organisations do not pay any form of rent expense and instead should have higher depreciation costs due to ownership of land and buildings. None of the small organisations in the survey pay rent therefore having a higher depreciation cost. 38% of the medium organisations pay rent therefore having lower depreciation costs. Large organisations have both high depreciations costs and rent expense probably due to a result of owning some facilities and renting out space for head office and other activities - 94.12% of the large organisations pay some form of rent.

◆ **ICT/Computer expenses**

The overall average ICT/Computer expense is \$8.1k per \$1.0m of operating revenue. Organisations should consider if this a reasonable investment; the increased level of investment and resources in ICT needs to result in outcomes that includes greater operational efficiencies and cost savings in the long term. This expense tends to increase in line with the size of the organisation, with the exception that small organisations with home care and community operations having higher expenditure on this item than the medium organisations.

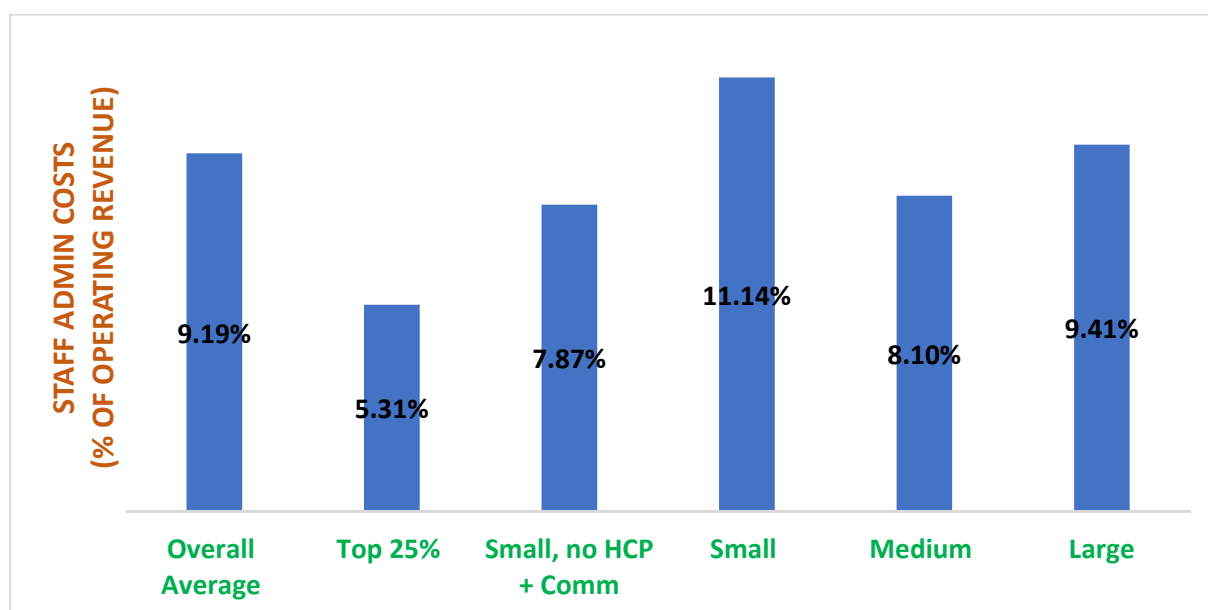
- ◆ **Consulting fees**  
Consulting fees are roughly the same for all organisations regardless of size averaging \$6.7k per \$1.0 of operating revenue, except for small organisations with a slightly higher cost at \$8.2k of operating revenue.
- ◆ **Marketing expenses**  
The overall average for marketing expenses is \$4.6k for every \$1.0m of operating revenue. Medium and large organisations tend to spend more on marketing than the small organisations. Marketing and business development costs are organisational specific and it could be that the investment into the business that the organisation is making is important. Appropriate KPI's should be established and monitored in order to determine the return on the investment. Sector KPI's for marketing and business development are linked to accommodation pricing growth, client increases; acquisitions; donations and bequests; fundraising and market penetration.
- ◆ **Workers compensation**  
Workers compensation costs are significant for small organisations (both those with home care and community operations and those without) at \$5.0k and \$10.7k per \$1.0m of operating revenue compared to \$1.4k for medium organisations and \$2.9k for large organisations.
- ◆ **Telecommunications, Education, Audit, General insurance, Legal, Postage**  
All these categories generally decrease as organisation size increases reflecting economies of scale.
- ◆ **Travel and accommodation and rental property expenses**  
Large organisations have greater travel & accommodation costs and rental property expenses compared to small and medium organisations perhaps reflecting the geographic distribution of their many locations.

## 5. Corporate Staff Costs and FTE Breakdown

Averages in this section of the report are the group averages and the same definitions apply as set out in **Section 4** for the overall Average, Top Quartile, and Small, Medium and Large organisations.

The majority of administration costs are comprised of staff costs across the industry. The average corporate employee expenses comprise 9.19% of total operating revenue when compared to the Top Quartile average of 5.31%. Small organisations with no home care and community operations have the lowest staff costs at 7.87% of operating revenue, followed by medium organisations at 8.10%, then large organisations at 9.41% and small organisations at 11.14%.

Figure 7: total staff administration costs as a percentage of operational revenue



Providers were asked to provide a breakdown of staff costs by cost where the cost centres were defined as follows:

- ◆ Executive & Mission - corporate costs related to the Executive office, Executive team, Executive support staff, and Mission
- ◆ Quality & Risk/Compliance - corporate costs related to quality & risk, compliance, education and training
- ◆ Marketing & Business Development - corporate costs related to marketing, advertising and business development
- ◆ HR - corporate costs relating to HR such as people services, workplace health and safety
- ◆ ICT - corporate costs relating to Information systems, communications and technology
- ◆ Finance & Business Services - corporate costs related to finance AP, AR, Payroll, and other business support services such as business analysis, management reporting
- ◆ Property & Hotel Services - corporate costs relating to property management, property development, hotel services, infrastructure

- ◆ Residential Management & Corporate Administration - corporate costs relating to corporate management and administration of residential business segment
- ◆ Home Care & Community Management & Corporate Admin - corporate costs relating to corporate management and administration of home care & community business segment
- ◆ Retirement Living Management & Corporate Admin - corporate costs relating to corporate management and administration of retirement living business segment

The following table sets out the breakdown by cost centre for the overall Average, Top Quartile and Small, Medium and Large organisations. The top four cost centres for all organisations are Finance & Business Services, Human Resources, Executive & Mission and Property & Hotel Services.

*Table 5: Staff costs for administration and shared services with comparisons based on 2017 StewartBrown Administration Survey data*

Administration staff costs FY17 Budget	Overall Average	Top Quartile Average	SMALL NO HCP Average	SMALL Average	MEDIUM Average	LARGE Average
<i>\$ per \$1m operating revenue</i>						
<b>Finance and Business Services</b>	16,119	17,143	16,772	26,293	14,390	16,050
<b>Human Resources</b>	12,171	7,284	5,275	8,627	11,240	12,885
<b>Executive &amp; Mission</b>	10,743	12,031	19,730	27,735	15,255	8,676
<b>Property &amp; Hotel Services</b>	9,762	1,953	8,378	9,089	6,457	10,537
<b>ICT</b>	8,489	3,396	968	1,365	7,440	9,397
<b>Home Care &amp; Community Management</b>	8,464	0	0	4,694	2,740	10,249
<b>Residential Management</b>	8,462	3,808	17,199	14,882	7,679	7,882
<b>Marketing &amp; Business Development</b>	5,440	1,989	460	3,174	5,628	5,770
<b>Quality &amp; Risk/ Compliance</b>	5,081	3,924	4,805	6,622	5,682	4,916
<b>Other</b>	4,935	996	1,166	5,688	3,666	5,379
<b>Retirement Living Management</b>	2,224	561	3,973	3,193	848	2,367
<b>Total corporate staff costs</b>	<b>91,888</b>	<b>53,085</b>	<b>78,725</b>	<b>111,364</b>	<b>81,024</b>	<b>94,108</b>

A comparison of staffing levels measured by FTEs is included in the table below. The overall average is less relevant as a comparator for smaller organisations here as the average is heavily skewed by the larger organisations.

Organisations have used slightly different methodologies to allocate corporate employee costs and FTEs. For example, where a staff member has responsibilities for finance and property the cost will be allocated between finance and property say 70%, 30% however the FTE will not be allocated and remain in finance. Despite this, it is still helpful to examine both the staff costs and staff FTEs in parallel with each other.

The top four cost centres based on average number of FTEs for all organisations are Finance & Business Services, Residential Management & Corporate Administration, Property & Hotel Services and Human Resources. This inclusion of Residential Management & Corporate Admin replaces Executive and Mission when compared to the top four by cost.

Table 6: Administration and Shared Service staff FTEs by type

FY17 Budget	Average	Top Quartile	SMALL NO HCP	SMALL	MEDIUM	LARGE
<i>Average number of FTEs</i>						
<i>Finance and Business Services</i>	13.9	6.2	2.5	3.3	10.1	34.9
<i>Residential Management</i>	9.4	1.3	2.6	2.0	16.3	15.9
<i>Property &amp; Hotel Services</i>	9.1	3.0	1.2	3.0	7.1	22.4
<i>Human Resources</i>	8.1	2.3	0.9	1.1	4.7	22.4
<i>Home Care &amp; Community Management</i>	7.2	0.2	0.0	0.8	2.6	21.9
<i>ICT</i>	6.4	1.5	0.2	0.3	4.1	18.5
<i>Executive and Mission</i>	4.7	2.0	1.9	2.5	4.4	9.2
<i>Marketing and Business Development</i>	4.5	1.6	0.0	0.5	4.5	11.5
<i>Quality &amp; Risk/Compliance</i>	4.1	1.3	0.5	1.0	2.4	10.8
<i>Other</i>	3.5	4.9	0.3	1.3	7.5	5.1
<i>Retirement Village Management</i>	1.1	0.3	0.6	0.7	0.8	1.9
<b>Total Corporate Office</b>	<b>71.9</b>	<b>24.7</b>	<b>10.6</b>	<b>16.5</b>	<b>64.6</b>	<b>174.4</b>

Table 7: Number of cost centre FTEs for every 10 corporate office FTEs

FY17 Budget	Average	Top Quartile	SMALL NO HCP	SMALL	MEDIUM	LARGE
<i>Number of FTEs per every 10 FTEs</i>						
<i>Finance and Business Services</i>	1.9	2.5	2.3	2.0	1.6	2.0
<i>Residential Management</i>	1.3	0.5	2.4	1.2	2.5	0.9
<i>Property &amp; Hotel Services</i>	1.3	1.2	1.1	1.8	1.1	1.3
<i>Human Resources</i>	1.1	0.9	0.8	0.7	0.7	1.3
<i>Home Care &amp; Community Management</i>	1.0	0.1	0.0	0.5	0.4	1.3
<i>ICT</i>	0.9	0.6	0.2	0.2	0.6	1.1
<i>Executive and Mission</i>	0.7	0.8	1.8	1.5	0.7	0.5
<i>Marketing and Business Development</i>	0.6	0.6	0.0	0.3	0.7	0.7
<i>Quality &amp; Risk/Compliance</i>	0.6	0.5	0.5	0.6	0.4	0.6
<i>Other</i>	0.5	2.0	0.2	0.8	1.2	0.3
<i>Retirement Village Management</i>	0.1	0.1	0.6	0.4	0.1	0.1
<b>Total Corporate Office</b>	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>

Figure 8: Administration staff cost centre FTEs for every 10 corporate office FTE by size

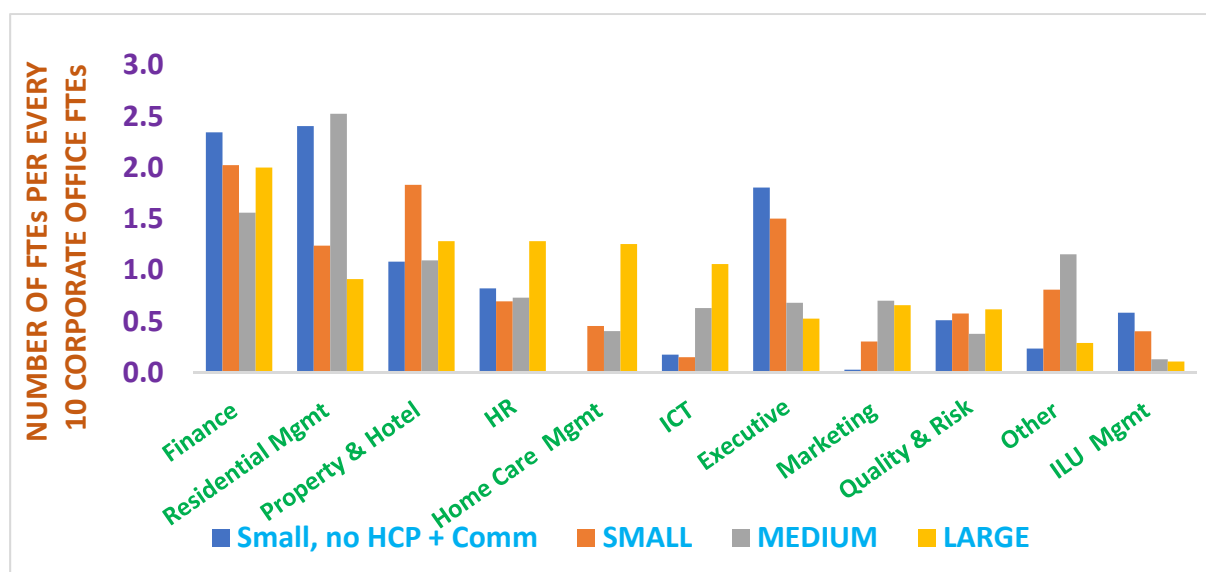
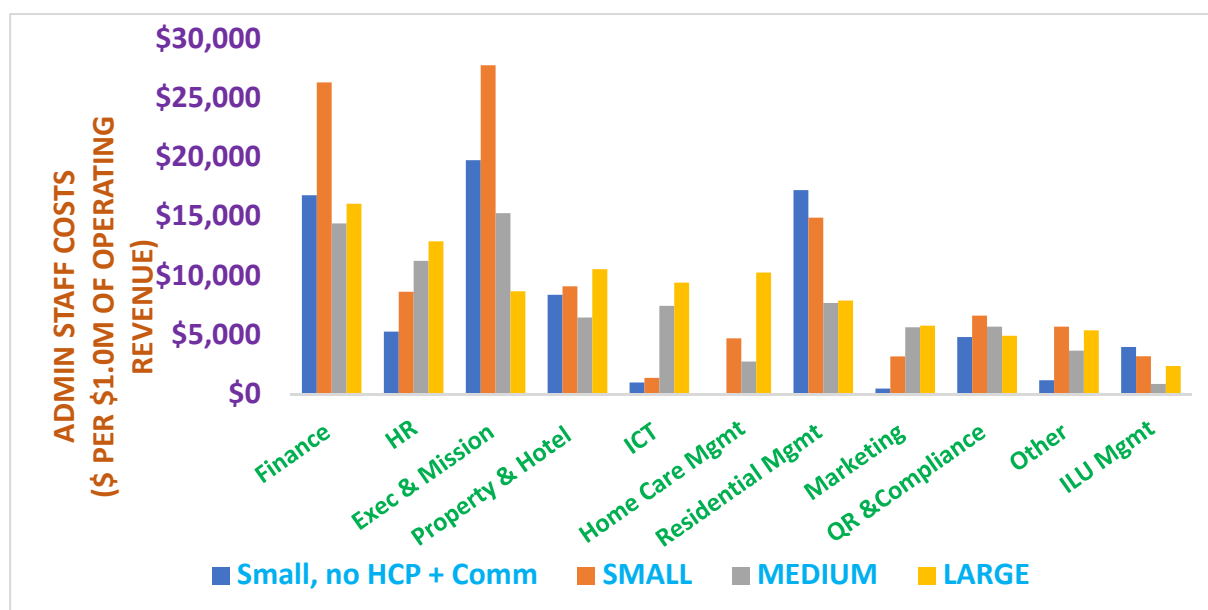




Figure 9: Administration and Shared Service staff costs by type by organisation size



### Commentary

#### ◆ Finance and Business Services

Finance and Business Services staff costs are the most significant staff costs for the overall average, reflecting the minimum level of financial and business services skills and staff required to operate within the aged care sector. The small organisations with home care and community operations are unable to achieve economies of scale and thus have higher costs at \$26.3k per every \$1.0m of operating revenue compared to the medium and large organisations at around 14.4k and 16.1k.

#### ◆ Human Resources

Human Resources includes People Services, OH&S and Training. Medium and large organisations have higher costs in this area as often the smaller organisations do not have a full time HR general manager. The proportion of FTEs in this category also increases as the organisation size and hence staff numbers and Human Resource requirements increase.

#### ◆ Executive and Mission

Many of these costs are organisation and governance specific and will mostly consist of the CEO salary and hence variances based on size and operations of the organisation is to be expected. The cost of executive and mission to small organisations is much higher as there is a certain minimum cost which is necessary to attract the appropriately qualified and experience staff.

#### ◆ Property and Hotel Services

Small organisations (both those with and without home care and community operations) appear to have higher property and hotel services corporate staff costs than the medium organisations. This is likely to be because they are unable to benefit from economies of scale.

◆ **ICT**

The number of FTEs in ICT and the ICT corporate costs increase as the organisation increases in size. The proportion of FTEs in this category also increases as the organisation size and hence ICT requirements increase resulting in large organisations spending more in this category compared to small and medium organisations.

◆ **Home Care & Community Management**

Large organisations have a more staff FTEs and higher costs in home care and community management than other sized organisations. This may be because home care and community services are often operating in isolation from the rest of the organisation with their own administration and finance staff resulting in high corporate administration costs.

◆ **Residential Management**

Small organisations (both those with and without home care and community operations) appear to have higher residential management corporate staff costs than the medium and large organisations. This is likely to be because they are unable to benefit from economies of scale.

◆ **Marketing**

Marketing staff costs are lower for smaller organisations consistent with the overall marketing expenses and reflecting the fact that smaller organisations generally conduct less marketing and do not employ full-time marketing staff but will outsource when marketing campaigns are required.

◆ **Quality & Risk/Compliance**

There do not appear to be significant differences by size or FTEs for this category. This may be because, generally, small organisations perform this function as a facility level rather than centralised within corporate and hence the costs would not be included in the corporate administration costs. Or it could be that the administration costs are influenced mostly by compliance requirements relating to organisation size.

◆ **Other**

Other is comprised of all other corporate administration staff expenses that are not listed by line item in the survey template. It is difficult to determine what drives these expenses as they will vary from provider to provider and will reflect the operation of any other business unit such hospitals, children's services, etc. Given this, there is not much variation in costs by size for this category. The number of FTEs is higher for small and medium organisation but this may be due to outliers with other business operations

◆ **Retirement Village (ILU) Management**

Large and medium organisations appear to again be able to achieve economies of scale that small sized organisations don't.

## 6. Analysis by Different Groupings

In addition to the size analysis, several different grouping analyses have been conducted including:

- Location
- Net asset size
- Activity measure
- Operational revenue per activity measure per day
- Revenue type
- Rent/own
- ICT and computer expenditure.

Often there will be overlap between these categories, for example regional only providers are likely to also have lower revenue and smaller net assets on average compared to the other providers. However, the data analysis can be indicative of what is driving differences in corporate administration costs.

### 6.1 Location

Providers may have many facilities across both city and regional areas, therefore the location of each residential aged care facility was obtained. Providers have been into one of three categories regional only, city only and regional & city. The ABS remoteness definitions have been used to determine the location. City only is comprised of providers with facilities in the Major Cities only. Regional is comprised of providers with facilities in inner regional, outer regional, remote and very remote areas as per the ABS remoteness definitions.

*Table 8: Analysis by location*

Class	Count	FY17 Budget Total Admin Costs/ operating revenue	FY16 Budget Total Admin Costs/ operating revenue	FY17 Budget STAFF Admin Costs/ operating revenue	FY16 Budget STAFF Admin Costs/ operating revenue
Regional only	15	14.46%	15.20%	9.43%	9.59%
City only	19	12.75%	13.10%	7.51%	7.49%
City & Regional	24	15.75%	15.17%	9.35%	8.90%
<b>Survey Total</b>	<b>58</b>	<b>15.39%</b>	<b>14.98%</b>	<b>9.19%</b>	<b>8.82%</b>

### Key findings

Providers with city only locations have the lowest corporate administration expenses. It is likely that this is also influenced by the size and type of the provider as those with city locations are generally small providers with no home care or community operations. Regional providers are mostly comprised on small providers with home care and community operations. City & Regional providers are mostly medium and large organisations.

## 6.2 Net Assets

The median net asset was \$33.8m with a range from \$0.5m to of \$950m in FY17. Providers were grouped into the following groups:

Table 9: Analysis by net assets

Class	Count	FY17 Budget Total Admin Costs/ operating revenue	FY16 Budget Total Admin Costs/ operating revenue	FY17 Budget STAFF Admin Costs/ operating revenue	FY16 Budget STAFF Admin Costs/ operating revenue
Less than 10M	10	14.75%	15.21%	8.65%	8.47%
10M-20M	10	14.92%	13.29%	8.86%	8.21%
20M-50M	12	11.92%	10.70%	7.18%	6.44%
50M-100M	10	12.13%	13.44%	8.19%	9.02%
100M-250M	9	15.93%	16.80%	10.16%	10.34%
More than 250M	7	16.89%	15.70%	9.41%	8.51%
<b>Survey Total</b>	<b>58</b>	<b>15.39%</b>	<b>14.98%</b>	<b>9.19%</b>	<b>8.82%</b>

### Key findings

As organisation net asset size increase the corporate administration expense as a percentage of operating revenue decreases generally decreases falling from around 15% for providers with net assets less than \$20m, to a low of 11.92% for providers with net assets between \$20m and \$50m. After this as the net asset size increases the corporate administration costs rise, with those providers with net assets greater than \$250m having the higher corporate administration costs at 16.89% of operating revenue.

## 6.3 Activity Measure

Providers were grouped into five cohorts based on their activity measure. Activity measure is defined as the number of residential operational places plus the number of occupied ILUs plus number of home care clients.

Table 10: Analysis by activity measure

Class	Count	FY17 Budget Total Admin Costs/ operating revenue	FY16 Budget Total Admin Costs/ operating revenue	FY17 Budget STAFF Admin Costs/ operating revenue	FY16 Budget STAFF Admin Costs/ operating revenue
Less than 170	12	15.33%	15.47%	8.93%	8.76%
Between 170 and 300	12	14.11%	14.70%	8.97%	8.99%
Between 300 and 1000	11	11.47%	11.06%	6.82%	6.62%
Between 1000 and 1750	11	14.39%	14.42%	9.72%	9.39%
Greater than 1750	12	16.38%	15.78%	9.30%	8.83%
<b>Survey Total</b>	<b>58</b>	<b>15.39%</b>	<b>14.98%</b>	<b>9.19%</b>	<b>8.82%</b>

## Key findings

This grouping shows a similar trend to that of net assets. Initially there is a reduction in corporate administration expense from 15.33% to 11.47% as the activity measure increases from less than 170 to between 300 and 1000. After that as the activity measure increases the corporate administration costs increase with those providers with an activity measure of more than 1750 with the highest corporate administration costs as a percentage of operating revenue at 16.38%.

## 6.4 Operational Revenue per Activity Measure per day

Operational revenue includes residential aged care revenue, home care revenue, other community care revenue, retirement living revenue and other business unit revenue. The activity measure is defined as the number of residential operational places plus the number of ILUs plus number of home care clients. The providers were grouped by operational revenue per client per day as follows:

*Table 11: Analysis by operational revenue per activity measure per day*

Class	Count	FY17 Budget Total Admin Costs/ operating revenue	FY16 Budget Total Admin Costs/ operating revenue	FY17 Budget STAFF Admin Costs/ operating revenue	FY16 Budget STAFF Admin Costs/ operating revenue
\$0-\$135	10	20.47%	19.43%	13.16%	12.97%
\$135-\$175	14	16.96%	18.39%	8.69%	10.08%
\$175-\$205	12	16.59%	12.24%	10.07%	7.57%
\$205-\$235	11	13.78%	14.79%	8.76%	8.53%
\$235+	11	12.63%	12.22%	7.98%	7.56%
<b>Survey Total</b>	<b>58</b>	<b>15.39%</b>	<b>14.98%</b>	<b>9.19%</b>	<b>8.82%</b>

## Key findings

The corporate administration costs decrease as the operational revenue per activity measure per day increases.

## 6.5 Revenue Type

The number and type of operational revenue was looked at in relation to corporate administration costs. The five revenue streams are:

- Residential aged care
- Home care
- Other community care
- Retirement living revenue
- Other business unit revenue

Table 12: Analysis by revenue type

Class	Count	FY17 Budget Total Admin Costs/ operating revenue	FY16 Budget Total Admin Costs/ operating revenue	FY17 Budget STAFF Admin Costs/ operating revenue	FY16 Budget STAFF Admin Costs/ operating revenue
Residential	9	12.22%	11.52%	7.40%	6.77%
Resi, HCP, Community	7	14.75%	15.61%	9.52%	9.97%
Resi, ILU	12	11.73%	11.85%	7.83%	7.72%
Resi, HCP, Community, ILU	15	16.75%	17.43%	9.23%	9.93%
Resi, HCP, Community, ILU, Other BU	15	15.50%	14.00%	9.42%	8.23%
<b>Survey Total</b>	<b>58</b>	<b>15.39%</b>	<b>14.98%</b>	<b>9.19%</b>	<b>8.82%</b>

### Key findings

Providers with home care and community operations have higher corporate administration costs than those with no home care and community operations. Residential and ILU only providers have the lowest corporate administration costs as a percentage of operating revenue at 11.73% followed by residential only at 12.22%. Those providers with residential, home care and community and ILU operations with no other business units have the highest corporate administration costs at 16.75%.

## 6.6 Rent vs Own

Providers were separated into two groups, renters and owners, based on their P&L and assessed whether there was any difference in total corporate administration expenses on average.

Table 13: Analysis by rent/ own

Class	Count	FY17 Budget Total Admin Costs/ operating revenue	FY16 Budget Total Admin Costs/ operating revenue	FY17 Budget STAFF Admin Costs/ operating revenue	FY16 Budget STAFF Admin Costs/ operating revenue
Pay rent	24	15.77%	15.18%	9.39%	8.92%
Don't pay rent (Own)	34	13.73%	14.18%	8.32%	8.41%
<b>Survey Total</b>	<b>58</b>	<b>15.39%</b>	<b>14.98%</b>	<b>9.19%</b>	<b>8.82%</b>

### Key findings

It appears that providers who do not pay rent have lower corporate administration costs than those that rent. This may be due to the method and cost of depreciation and amortisation not being as high as rent expenses. However, since the staff administration costs differ by around 1.1% for those that rent (9.39% of operating revenue) and those that don't (8.32% of operating revenue), there are other factors likely to be causing the difference in administration costs.

## 6.7 ICT and Computer Expenditure

Providers were allocated into one of three groups (low, medium or high) based on their ICT expenditure (P&L expenses plus hardware and software capital expenditure) as a percentage of operating revenue.

- Low includes providers with ICT & Computer Expenditure less than 0.5% of operating revenue
- Medium includes providers with expenditure that is more than 0.5% of operating revenue but less than 1.5%
- High includes providers with expenditure that exceeds 1.5% of operating revenue

*Table 14: Analysis by IT and computer expenditure*

Class	Count	FY17 Budget Total Admin Costs/ operating revenue	FY16 Budget Total Admin Costs/ operating revenue	FY17 Budget STAFF Admin Costs/ operating revenue	FY16 Budget STAFF Admin Costs/ operating revenue
<b>Low</b>	19	10.02%	7.55%	6.54%	5.43%
<b>Medium</b>	21	11.99%	14.70%	7.04%	8.95%
<b>High</b>	18	18.65%	15.49%	11.15%	9.02%
<b>Survey Total</b>	<b>58</b>	<b>15.39%</b>	<b>14.98%</b>	<b>9.19%</b>	<b>8.82%</b>

### Key findings

Providers with low ICT expenditure have lower corporate administration costs at 10.02% compared to those with high ICT expenditure (18.65%). There is also likely to be a relationship between the size of the provider and the ICT expenditure with larger provide requiring more investment in ICT.

Looking at the staff administration costs as percentage of operating revenue it appears to increase as ICT expenditure increases. It is difficult to show whether ICT investments result in staff and overall efficiencies as this table only examines a two-year period. Refer to Section 4 for comparison of staff costs and ICT costs over the 2009, 2016 and 2017 Corporate Administration Survey.

## 7. Allocation of Corporate Costs

The survey did not ask organisations to provide their corporate allocation methodology, only the allocation of corporate administration costs to business units at a high level. The following analysis is provided for those organisations that do allocate corporate costs only and excludes those that don't. The average allocation split shows that the majority of FY17 costs (42.8%) - consistent with the 2016 corporate administration survey experience- are allocated to Residential Aged Care. However, a large percentage, 29.2% remain in corporate / strategic and are not allocated to a revenue unit, this likely reflects different methodology for corporate costs allocations across providers.

Figure 10: Allocation of business unit revenue as a percentage of operating revenue and business unit corporate administration expenses as percentage of total corporate administration expenses by business unit

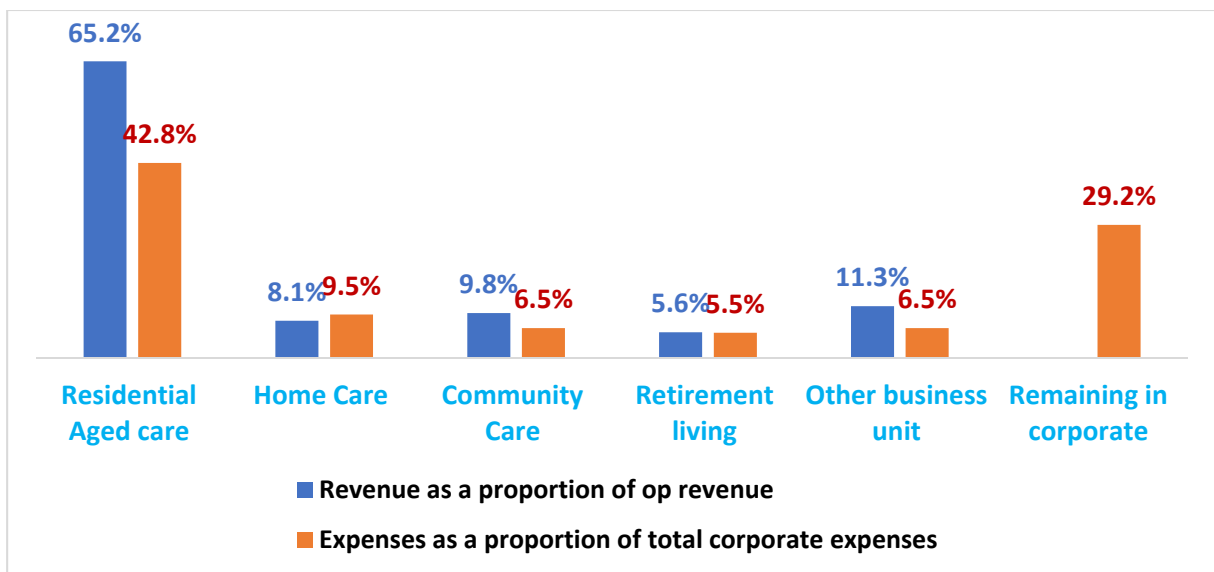
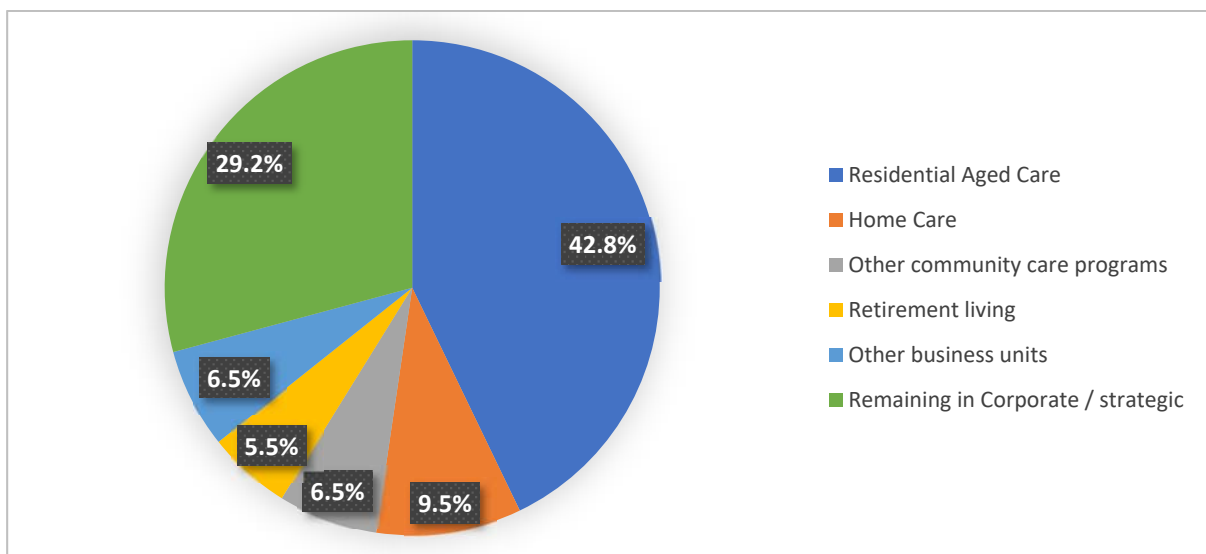


Figure 11: Breakdown of corporate administration costs to operating unit





## 8. Conclusion and Implications

Administration staff costs have been at a greater rate than the growth in revenue since 2007. Comparing FY16 and FY17 corporate administration expenses as a percentage of operating revenue have increased from 14.98% to 15.39%. This is an increase from the 2016 Corporate Administration Survey of 12.53% in FY15 and 12.92% Budgeted for FY16. This trend is neither sustainable nor optimal. It is important for providers to comprehensively analyse their corporate overheads and to be monitoring them in order to keep growth at a reasonable level. Some general ways of achieving this could include:

- ✓ Setting a minimum target corporate overhead cost as a percentage of operating revenue (eg say 11.0%) and determined how to best achieve this on an ongoing basis
- ✓ Comparison to peer organisations and benchmarking appropriate KPIS for each business unit
- ✓ Reviewing the organisational structure to ensure it is appropriate for the location, size and services provided

In addition, more specific actions could be taken by each provider depending on their individual situation, policies and practices.

# StewartBrown Aged Care Executive Team



**Stuart Hutcheon**  
Managing Partner

Stuart Hutcheon is the firm's Managing Partner and the head of our Audit & Assurance Division, and also provides consulting services to a diverse client base. He has had considerable experience with both commercial and not-for-surplus organisations. This experience covers all areas of professional services including auditing, management accounting, budgeting, salary packaging and FBT advice. Stuart has been involved in providing professional services to the aged care and community care sectors for over 20 years.



**Grant Corderoy**  
Senior Partner

Grant Corderoy is the head of the Aged and Community Care and Business Consulting Division. Grant first established the *Aged Care Financial Performance Survey* in 1995. He specialises in a range of services for his clients including undertaking complex accounting assignments, business performance reviews, organisation and governance reviews, system reviews, management consulting, strategic planning and general business advice. He also has considerable experience in advising clients on the sale and purchases of businesses, business valuations and due diligence.



**Patrick Reid**  
Director

Patrick has recently joined StewartBrown in the position of Director - Aged Care, Community and Disability after serving as CEO of LASA. As an experienced CEO, board director, business owner and executive with more than 20 years' success in business, association management and lobbying, Patrick possesses a proven track record in business, leadership, change management and advocacy. Patrick has highly developed financial, commercial, negotiation and management skills.



**David Sinclair**  
Director

David Sinclair has been with the firm for over 20 years and has been involved in the *Aged Care Financial Performance Survey* for the duration of that service and now heads the team undertaking the survey. David is also heavily involved in consulting assignments for aged care and community service clients including strategic planning, financial modelling, budgeting and governance reviews.



**Tracy Thomas**  
Senior Manager | Business Analyst Division

Tracy is a Chartered Accountant with over six years post qualification experience. She has a diverse background having worked in audit and assurance, for the regulator of private health insurance and for a private health insurance company. Since joining StewartBrown she has worked with several providers of residential aged care and home care and produced the *Aged Care Financial Performance Survey* Corporate Administration Report and Listed Providers Analysis for year ended June 2016. She specialises in data analysis and financial modelling.

## StewartBrown - Our Knowledge is your success

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 benefitting 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 division. StewartBrown adopts a risk based audit approach which is performed strictly in accordance with Australian Auditing Standards. 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 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.

### Specialty 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

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# StewartBrown Audit Capability

“StewartBrown has over 78 years' experience providing professional services to the aged care, disability, community service and not-for-profit organisations.”

**78** YEARS IN BUSINESS

**140+** AUDITS IN TOTAL

**40+** YEARS IN AGED CARE

**50+** AGED CARE AUDITS PER YEAR

**70+** NFP AUDITS PER YEAR

**50+** ACCOUNTING STAFF



AUSTRALIA WIDE

**2** PARTNERS

**30+** SPECIALIST AGED CARE STAFF



LARGEST AGED CARE AUDIT TEAM IN AUSTRALIA

**7** MANAGERS

**4** AUDIT DIRECTORS



AUDIT TEAM HAS TRIPLED IN 5 YEARS