



**StewartBrown**

Integrity + Quality + Clarity

## AGED CARE FINANCIAL PERFORMANCE SURVEY

# Choice

## HOME CARE REPORT - DECEMBER 2016

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The StewartBrown Aged Care Financial Performance Survey incorporates detailed financial and supporting data from over 455 Home Care programs and 830 residential aged care facilities across Australia. The quarterly survey is the largest benchmark within the aged care sector and provides an invaluable insight into the trends and drivers of financial performance at the sector level and at the facility or program level.

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## Significant aged care knowledge

If you work in aged care, disability or community services you have likely have heard our name; StewartBrown is trusted by industry experts, providers and government to provide analysis and insights.

We are recognised nationally as the leading provider of audit, accounting and consulting services to the aged care sector in Australia.

We also run Australia's largest aged and community care financial benchmarking survey. Our data is recognised in the industry, by government and the finance sector, as the leading information source and performance monitor for aged care.

We have over 180 providers participating, including 830 residential aged care facilities and 450 home care programs.

"Advice using your language, supporting your goals"

### AGED CARE FINANCIAL PERFORMANCE SURVEY

**830<sup>+</sup>** RESIDENTIAL CARE PROVIDERS

**450<sup>+</sup>** HOME CARE PROVIDERS

**23** MILLION CARE DAYS OF DATA

**6** ANNUAL ROADSHOWS TO 600 ATTENDEES

**30<sup>+</sup>** PRESENTATIONS TO INDUSTRY

**6<sup>+</sup>** CONFERENCE KEYNOTES



PUBLIC REPORTING  
BACK TO 2007



QUARTERLY  
REPORTING

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# HIGHLIGHTS

## RESULTS (EBIT)

1

**\$(4.21)**

**Band 1 Average EBIT - \$(4.21) per client per day**  
**[June 2016 - \$(8.70) per client per day]**

2

**\$0.83**

**Band 2 Average EBIT - \$0.83 per client per day**  
**[June 2016 - \$(0.99) per client per day]**

3

**\$6.63**

**Band 3 Average EBIT \$6.63 per client per day**  
**[June 2016 - \$3.51 per client per day]**

4

**\$16.07**

**Band 4 Average EBIT \$16.07 per client per day**  
**[June 2016 - \$11.77 per client per day]**

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# HIGHLIGHTS

## PACKAGE UTILISATION



**60.0%** Band 1 Average Package utilisation 60.0%



**80.7%** Band 2 Average Package utilisation 80.7%



**82.2%** Band 3 Average Package utilisation 82.2%



**90.7%** Band 4 Average Package utilisation 90.7%

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# HIGHLIGHTS

## REVENUE UTILISATION



**79.7%** Band 1 Average Revenue Utilisation **79.7%**  
[June 2016 - 80.8%]



**90.8%** Band 2 Average Revenue utilisation **90.8%**  
[June 2016 - 85.0%]



**90.5%** Band 3 Average Revenue utilisation **90.5%**  
[June 2016 - 89.3%]



**94.2%** Band 4 Average Revenue utilisation **94.2%**  
[June 2016 - 85.4%]

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# HIGHLIGHTS

## GROSS MARGIN ON REVENUE



**(15.8)%** Band 1 Average Gross Margin on Total Revenue (15.8)%  
[June 2016 - (40.7)%]



**2%** Band 2 Average Gross Margin on Total Revenue 2%  
[June 2016 - (2.4)%]



**9.4%** Band 3 Average Gross Margin on Total Revenue 9.4%  
[June 2016 - 5.3%]



**12.1%** Band 4 Average Gross Margin on Total Revenue 12.1%  
[June 2016 - 9.3%]



**8.7%** Survey Average Gross Margin on Total Revenue 8.7%  
[June 2016 - 4.4%]

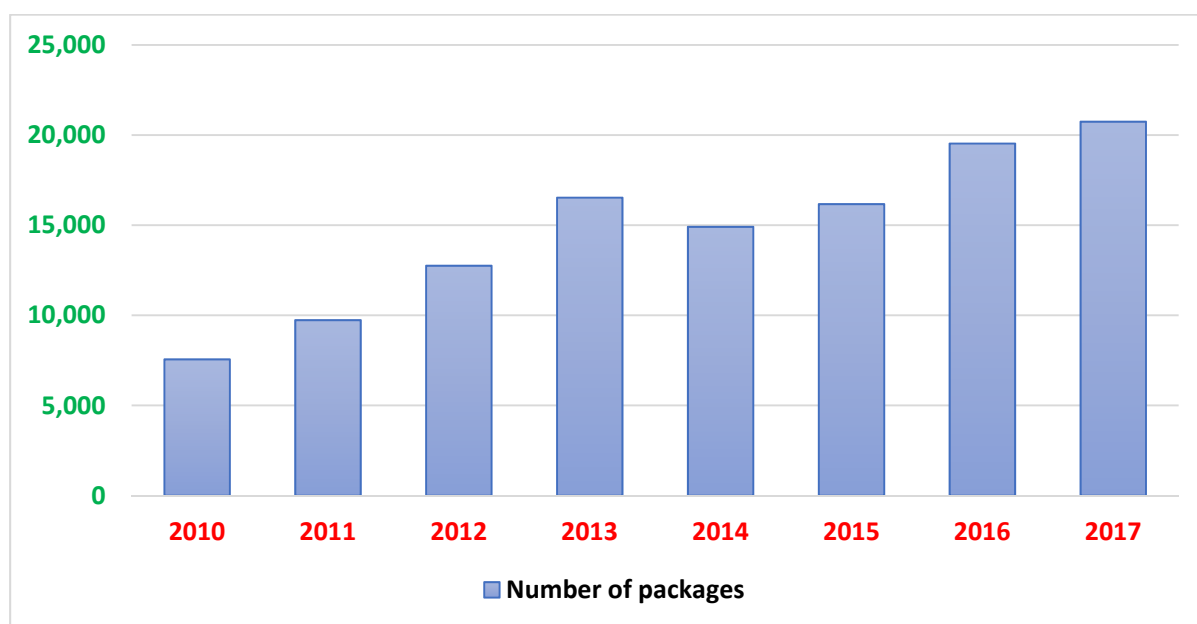


**23.5%** Survey Top 25% Average Gross Margin on Total Revenue 23.5%  
[June 2016 - 21.3%]

## INTRODUCTION

The StewartBrown *Aged Care Financial Performance Survey* half year report includes more than 455 Home Care Programs providing Home Care data for more than 36,265 individual Home Care Packages (HCP) providing 5.5 million care days. The number of packages represented within the survey has grown by more than 174% since 2010 indicating that the data and trends outlined in the report provide the sector's most robust decision support material available today.

*Figure 1: Growth in the Aged Care Financial Performance Survey - Home Care*



This report provides a detailed insight into the financial performance of Home Care Package (HCP) providers during the 18 months of full operation of Consumer Directed Care (CDC) in Home Care. The *Aged Care Financial Performance Survey* is a tool that has been shaped by the sector itself to ensure a customised to the respective home care service and organisation. Should you wish to understand how to use the benchmark data more effectively for your organisation please [let us know](#).

This December 2016 survey report contains the summary analysis of more than 5.5 *million* care days of data to derive insights and assistance to:

- Determine and understand sector trends
- Drive improvements in financial and operational performance
- Measure and compare your operations against other organisations
- Assess your productivity
- Set goals and make informed decisions

StewartBrown will be bringing a number of changes to the *Aged Care Financial Performance Survey* over the course of the year as we continually enhance our service to providers. These will include:

- Significant enhancements to the interactive web site as we progress with the redevelopment of the site to allow better usage of the contemporary and historical data
- Presentations of your results and a sector update upon request (via webinar or in person)
- Additional analysis on specific areas of interest and regular newsletters based on this analysis

There will be further details on these and other enhancements our service offering in coming weeks.



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## EXECUTIVE SUMMARY

Reform of the aged care sector has delivered a range of challenges and opportunities to those who operate within the *Aged Care Act*. None has caused quite as much fear, consternation and trepidation – often equally matched by enthusiasm, excitement and furious activity as one word:

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*Choice - noun; the right, power, or opportunity to choose.*

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Portability of Home Care Packages started on the 27 February 2017 and significant analyses has been written about what might happen - now we will see it *in vivo*. It is more important than ever that the aged care sector as a whole, and aged care providers individually, have access to data to assist them to monitor and improve their financial performance, and to understand the trends in financial performance across the sector.





Some areas of operation remain a live discussion for Home Care providers. In our interactions with clients, participants of the survey and other providers there are a few themes that carry though in our discussions that are presenting issues with reform and the sector environment generally:

- Pricing and pricing strategies
- Service delivery models
- Competition
- Exit fees
- Systems
- Governance

The year ahead will also bring a change to the way we look at Home Care from a business perspective, including benchmarking. We have taken feedback from providers and have now aligned our revenue bands so that they better reflect the package levels. This has one consequence in that there are not many programs in Band 1, as the reality is that there are not too many Level 1 packages being activated and this is unlikely to change. As a result we caution providers to check with us before using the Level 1 package data as gospel to ensure that it correlates with your organisations requirements. However the distribution of programs across the bands represent the distribution of packages in the sector.

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*Figure 2: Band Definitions - Based on Total Revenue (Direct Care + Brokered + Case Management + Administration)*

-  **Band 1 less than \$30 per day**  
Provider income under \$30 per client per day
-  **Band 2 between \$30 <=> \$50 per day**  
Provider income between \$30 and \$50 per client per day
-  **Band 3 between \$50 <=> \$100 per day**  
Provider income between \$50 and \$100 per client per day
-  **Band 4 over \$100 per day**  
Provider income over \$100 per client per day

Over the coming year we will also be adding some metrics to our benchmarks as well as removing one or two.

From the March 2017 quarter we will be adding two new metrics, one being **package retention and growth rates**. For providers, these KPIs will be increasingly important.

Firstly it will be important that at a minimum, package numbers are maintained (retention rate) so that there is no diminution in the recovery rate of fixed costs.

Secondly, the ability to grow the number of packages will assist in maintaining or increasing overall profitability, particularly as margins are likely to continue to decline as competition increases. Increasing volume will be the key in gaining economies of scale in areas such as administration as well as justifying investment in technologies that will also provide long term efficiencies.

These two metrics will replace the current package utilisation rate. This will no longer be a relevant measure as providers will no longer have a package allocation against which we can measure “occupancy”.

The other metric that we will be starting to provide is in relation to **staff productivity**. Our preference is to collect data in relation to Billable Hours and compare this to the total hours paid to staff which we already collect. Our ability to do this will of course rely on our benchmark participants recording and collecting this information themselves.

This measure will become vitally important to Home Care providers moving forward to ensure that their business remains viable. As a public accounting practice billable hours is certainly one of our key KPIs, and as Home Care providers become more commercial in their approach to business, productivity will need to be one of their key performance indicators.

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So for those participants completing the survey into the future we will be seeking a couple of different inputs to the *Aged Care Financial Performance Survey* input forms:

- Billable hours (*NEW*)
- Opening and closing package numbers (slightly different to now)

We encourage all Home Care providers to start putting systems in place to be able to collect, record and monitor the billable hours of their service staff, and case management staff for that matter, and set targets for the staff to meet. In fact these productivity rates should be built into the costings of the services upon which the selling prices are based.

As the sector changes in response to the reforms, competition and the mores of clients there will need to be a number of headline Key Performance Indicators (KPIs) that providers utilise to understand their business at a higher level. In working with a large cross section of providers in Home Care we see that there are 5 very important KPIs post February 2017, namely:

- Client care plan engagement time
- Package retention and growth rates
- Revenue utilisation
- Direct care % to revenue
- Employee productivity

As we will discuss later in the report, these KPIs will require providers to consider how their systems and processes are managed to collect this information at more than one level of the business. Undertaking this work will see dividends in the quality and reliability of data used to inform and make strategic and operational decisions.

StewartBrown will be releasing a newsletter shortly following this December 2016 report outlining our analysis on the production of KPIs for Home Care.

If any provider would like assistance in setting up their systems or building these metrics into their costings and management reports, please contact [our office](#).

This report covers the half year period to December 2016 which means that providers and their clients should have seen a benefit from increased subsidy rates and in the latter part of the 2016 year will have seen an increase in the amounts that can be charged to clients. Of course this may not necessarily affect the bottom line unless clients actually spend those funds.

In this report we will continue to look at the unspent funds within the sector and will look at both the unspent funds for the quarter and also whether providers have been successful in providing increased opportunities for clients to draw down on unspent funds from the previous quarters. This continues to be one of the areas that providers need to address in their business models moving forward.

This report provides an update for providers and the industry. We will start to provide some trend data for the December 2016 survey comparing the results to this quarter but also to the previous year. We have re-sorted the June 2016 data to align with these new revenue bands and in the interim period we will also go back and readjust the previous three quarter's data so that some trend comparisons can be made.

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## RESULTS IN BRIEF

### Survey Average Results

The first 18 months of Home Care has been a challenge for all stakeholders to fully comprehend and then adjust to the requirements of Consumer Directed Care. One area that has improved is the consistency of provider data within the *Aged Care Financial Performance Survey* after the initial settling period for the reforms.

Results for the 6 months to December 2016 indicate that the uplift in subsidy rates during the second half of 2016 has flowed through to operations with conditions for Package Level 1 remaining difficult with *average* Band 1 EBIT per client per day improving to **\$(4.21)** a significant increase of \$4.49 from June 2016 (\$8.70). Bands 2-4 have all increased in the 6 months to December 2016 with *average* Band 2 EBIT per client per day climbing to **\$0.83** from June 2016 (\$0.99). Band 3 has improved markedly in the December quarter lead by stronger Revenue Utilisation, increasing to **\$6.63** from the June 2016 EBIT per client per day of \$3.51 while Band 4 performance has iterated higher in December 2016 by \$4.30 to **\$16.07** by from June 2016 EBIT per client per day of \$11.77.

If we turn back the clock and look at pre-Consumer Directed care it is plain to see that financial conditions for Home Care providers have deteriorated and will continue to be challenging as portability, competition, workforce changes and other factors materialise. Prior to June 2015 the *average* EBIT per client per day for each band was:

- Level 2 \$3.67
- Level 3 \$13.96
- Level 4 \$26.06

So, as with Residential Care and the initial ACFI fiscal cliff, it will be quite some time before results post CDC return to equitable levels, but of course with significant headwinds that did not exist in 2014/15.

Package Utilisation (occupancy) has essentially remained the same when viewed across all programs with Package Utilisation in December 2016 at **83%** which was the same as the June figure of 83%. The struggle continues for providers to fill Level 1 packages with occupancy declining markedly in the 6 months to December from 76% down to the December Quarter level of **60%**.

Revenue Utilisation pleasingly improved 5% to **92%** in December off the June level of 87% indicating that providers are managing their pricing and uptake of services more effectively. This will also have contributed to improved results.

Total surplus for all programs has improved with the *average* Total Surplus in December being **9%** against a June figure of 4%.

**Table 1: Survey Averages December 2016 versus June 2016 (all amounts represent \$ per client per day unless otherwise stated)**

	Band 1	Band 2	Band 3	Band 4	All Programs
<b>EBIT per client per day</b>	↑\$(4.21)	↑\$0.83	↑\$6.63	↑\$16.07	↑\$6.35
EBIT pcpd June 2016	\$(8.70)	\$(0.99)	\$3.51	\$11.77	\$2.91
<b>EBITDA per client per annum</b>	↑\$(885)	↑\$321	↑\$2,074	↑\$5,520	↑\$2,034
EBITDA pcpa June 2016	\$(2,362)	\$(211)	\$1,204	\$4,093	\$991
<b>KPI's</b>					
<b>Package utilisation Dec 2016</b>	↓60%	↑81%	↓82%	↓91%	<>83%
Package utilisation June 2016	76%	79%	84%	92%	83%
<b>Revenue utilisation Dec 2016</b>	↓80%	↑91%	↑91%	↑94%	↑92%
Revenue utilisation June 2016	81 %	85%	89%	85%	87%
<b>Total Profit Margin Dec 2016</b>	↑(16)%	↑2%	↑9%	↑12%	↑9%
Total Profit Margin June 2016	(41)%	(2)%	5%	9%	4%

↑: Increase compared to prior period ↓: Decrease compared to prior period <>: No change compared to prior period

### Top 25% Results

The results for the top quartile of the survey were an improvement on the June 2016 results but it would appear that operating conditions, most likely a result of business model and operational changes made to meet the changing environment for February 2017, have slowed the growth of this cohort.

Significantly for the Top Quartile of *Aged Care Financial Performance Survey* participants their results have improved through the 6 months to December 2016 with the notable exception of Package Utilisation. Bands 2, 3, and 4 all showed a decline during the second half of the year which was offset by stronger Revenue Utilisation. The most notable change was in Package Utilisation where paradoxically Band 1 improved while all other bands declined by as much as 10% in Band 3 for the 6 months to December 2016. This was compensated by a strong reduction in unspent funds that more than offset the occupancy decline.

**Table 2: Top 25% for the year ended December 2016 versus June 2016 (all amounts represent \$ per client per day unless otherwise stated)**

	Band 1	Band 2	Band 3	Band 4	All Programs
<b>EBIT per client per day</b>	↑\$2.93	↑\$8.87	↑\$21.97	↑\$41.59	↑\$27.91
EBIT pcpd June 2016	\$2.38	\$9.64	\$21.01	\$40.15	\$20.93
<b>EBITDA per client per annum</b>	↓\$926	↑\$2,539	↑\$6,027	↑\$13,290	↑\$8,754
EBITDA pcpa June 2016	\$1,781	\$2,133	\$4,563	\$12,203	\$6,785
<b>KPI's</b>					
<b>Package utilisation Dec 2016</b>	↑83%	↓77%	↓74%	↓86%	↓84%
Package utilisation June 2016	76%	79%	84%	92%	87%
<b>Revenue utilisation Dec 2016</b>	↑82%	↑92%	↑91%	↑97%	↑94%
Revenue utilisation June 2016	81%	85%	89%	85%	87%
<b>Total Profit Margin Dec 2016</b>	↓11%	↑20%	↑26%	↑29%	↑23%
Total Profit Margin June 2016	17.9%	16%	24%	27%	21%

↑: Increase compared to prior period ↓: Decrease compared to prior period <>: No change compared to prior period

## RESULTS IN DETAIL

### December 2016 Survey Average Results

Table 3: Survey Average December 2016 Results

	Band 1	Band 2	Band 3	Band 4	All Programs
<b>Revenue</b>	<b>26.54</b>	<b>42.50</b>	<b>70.47</b>	<b>132.73</b>	<b>72.89</b>
<b>Expenditure</b>					
Direct services	13.59	21.29	32.10	64.13	34.81
Brokered services	2.06	1.81	4.21	7.81	4.04
Case management and coordination	3.33	5.73	8.48	11.69	8.06
Administration & support	11.59	12.59	18.76	32.43	19.29
Depreciation	0.17	0.26	0.28	0.61	0.35
<b>Total Expenditure</b>	<b>30.74</b>	<b>41.67</b>	<b>63.84</b>	<b>116.67</b>	<b>66.54</b>
<b>EBIT per client per day</b>	<b>(\$4.21)</b>	<b>\$0.83</b>	<b>\$6.63</b>	<b>\$16.07</b>	<b>\$6.35</b>
<b>EBITDA per package per annum</b>	<b>(\$885)</b>	<b>\$321</b>	<b>\$2,074</b>	<b>\$5,520</b>	<b>\$2,034</b>
<b>KPI's</b>					
Package utilisation	60.0%	80.8%	82.2%	90.7%	83.2%
Revenue utilisation	79.7%	90.8%	90.5%	94.2%	91.8%
Profit Margin	(15.9%)	1.9%	9.4%	12.1%	8.7%

### December 2016 Survey Top 25% Results

Table 4: Survey Top 25% December 2016 Results

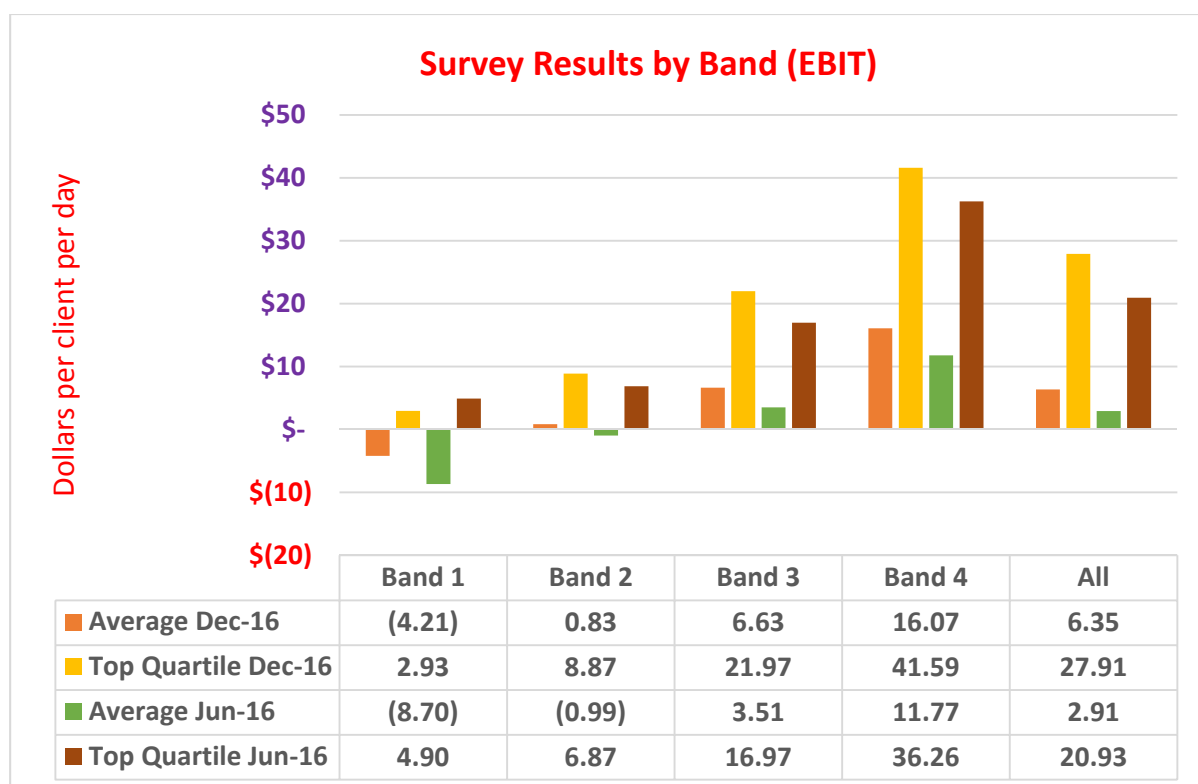
	Band 1	Band 2	Band 3	Band 4	All Programs
<b>Revenue</b>	<b>26.04</b>	<b>43.72</b>	<b>83.38</b>	<b>143.29</b>	<b>118.81</b>
<b>Expenditure</b>					
Direct services	11.33	19.92	29.85	49.52	47.83
Brokered services	0.76	1.50	7.92	5.30	6.96
Case management and coordination	1.88	3.03	8.21	8.98	9.48
Administration & support	9.02	10.21	15.17	36.93	26.08
Depreciation	0.13	0.19	0.26	0.97	0.55
<b>Total Expenditure</b>	<b>23.11</b>	<b>34.85</b>	<b>61.41</b>	<b>101.70</b>	<b>90.90</b>
<b>EBIT per client per day</b>	<b>\$2.93</b>	<b>\$8.87</b>	<b>\$21.97</b>	<b>\$41.59</b>	<b>\$27.91</b>
<b>EBITDA per package per annum</b>	<b>\$926</b>	<b>\$2,539</b>	<b>\$6,027</b>	<b>\$13,290</b>	<b>\$8,754</b>
<b>KPI's</b>					
Package utilisation	82.9%	76.8%	74.3%	85.6%	84.3%
Revenue utilisation	82.1%	91.9%	91.1%	96.8%	94.2%
Profit Margin	11.3%	20.3%	26.4%	29.0%	23.5%

## Profitability

Figure 3 below shows that the subsidy rate increase during the last half of 2016 has improved the surplus outcomes for providers. However, as the sector knows, providing packages to level 1 clients continues to be difficult, but pleasingly performance in this band has improved across the board from a low base.

Note that the data displayed in the Figure 3 below as well as in a number of the following graphs compares the December data to the June 2016 data adjusted for the new revenue bands used for this financial year. In September we have both non-adjusted and adjusted figures but from this report onwards we will only be comparing against the adjusted June figures to minimise confusion and improve comparisons.

*Figure 3: December 2016 EBIT per client per day compared to June 2016*



We can point to improved occupancy and a reduction of unspent funds as a key driver of these results indicating that providers were focusing on these key metrics as they moved into the February 27 changes. The *average* result to December 2016 across all packages in the survey has increased by 54% to **\$6.35** per client per day from the June 2016 *average* result of \$2.91 per client per day.

It would appear that concerns regarding a larger growth of unspent funds may have been occurring have not yet materialised and may have been an outflow of later reconciliation of unspent fund balances as providers worked through some of the changes for February 2017.

## Unspent Funds

The inverse of the unspent funds ratio is what we call the **revenue utilisation rate** - the ratio of total revenue charged to clients compared to total revenue available in a package from client fees and government subsidies.

Figure 4: Revenue utilisation rates compared to June 2016

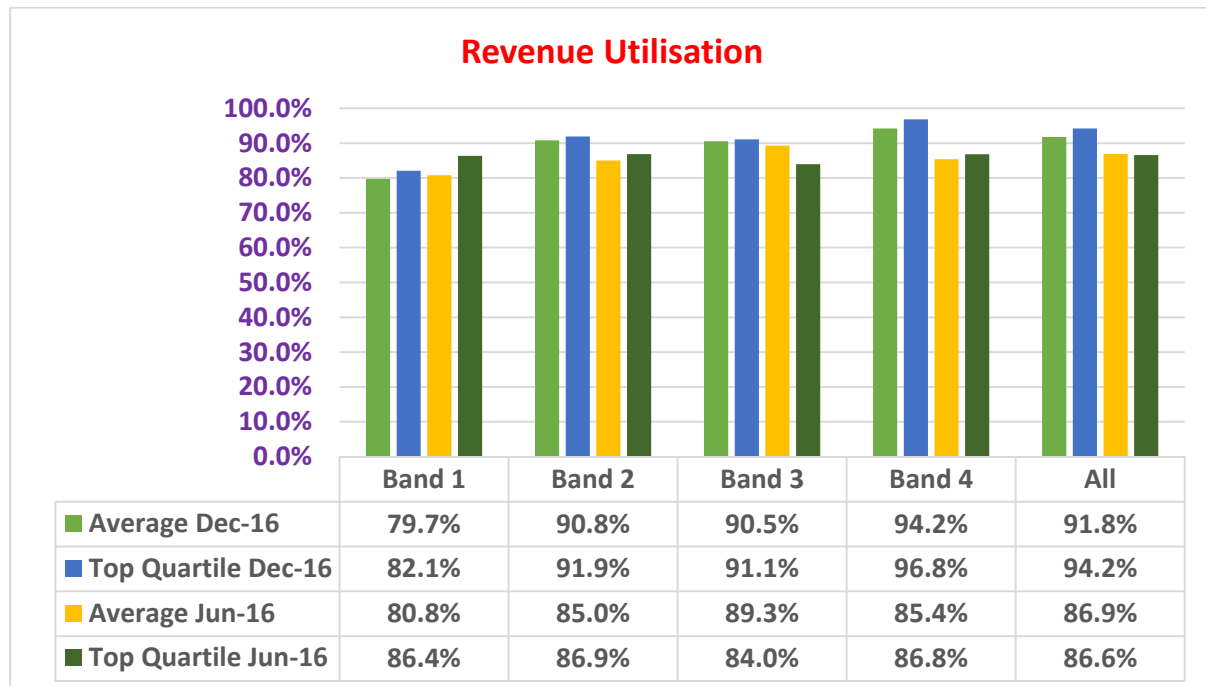


Figure 4 and the table within it shows that providers have been both working hard on ensuring that clients are utilising their packages more fully and they have priced their services more appropriately to the demand.

Given the changes that have been in operation for almost a month, StewartBrown had been strongly urging providers to reduce their levels of unspent funds to ensure that their fixed overheads are recovered appropriately through ensuring occupancy and unspent funds are managed. A larger threat to the unspent funds issue was the possibility that any Commonwealth Program with unspent allocation of funding would come into focus for the 2017 Federal Budget. This aspect of aged care funding was estimated to have a potential unspent allocation of ~\$150 million that would be attractive to those within the Expenditure Review Committee.

During June 2016 the *average* unspent funds across the survey was 14% and growing. To the December quarter the *average* unspent funds across the survey had dropped to **11%** indicating that providers are reconciling their unspent funds more closely while working hard to ensure that revenue utilisation is improving.

Providers must continue to find ways to improve or change their service offerings to clients to ensure that the majority of packaged funds are utilised for the provider's services rather than goods or other third party purchases. However, where the client prefers alternate choices not within the service menu it behoves providers to have arrangements with partners to provide those extended offers to clients and to ensure a margin is made on those services.



Those that look to utilise this path have begun charging a “handling fee” to ensure that the effort required to facilitate an outcome for patients is at worst, cost neutral. While there is a legitimate fear that exposing a client to alternative provider services may mean a risk of flight of that client, there is also a risk of clients with unmet needs will transfer if the provider is not flexible enough to source a service externally that is not core business.

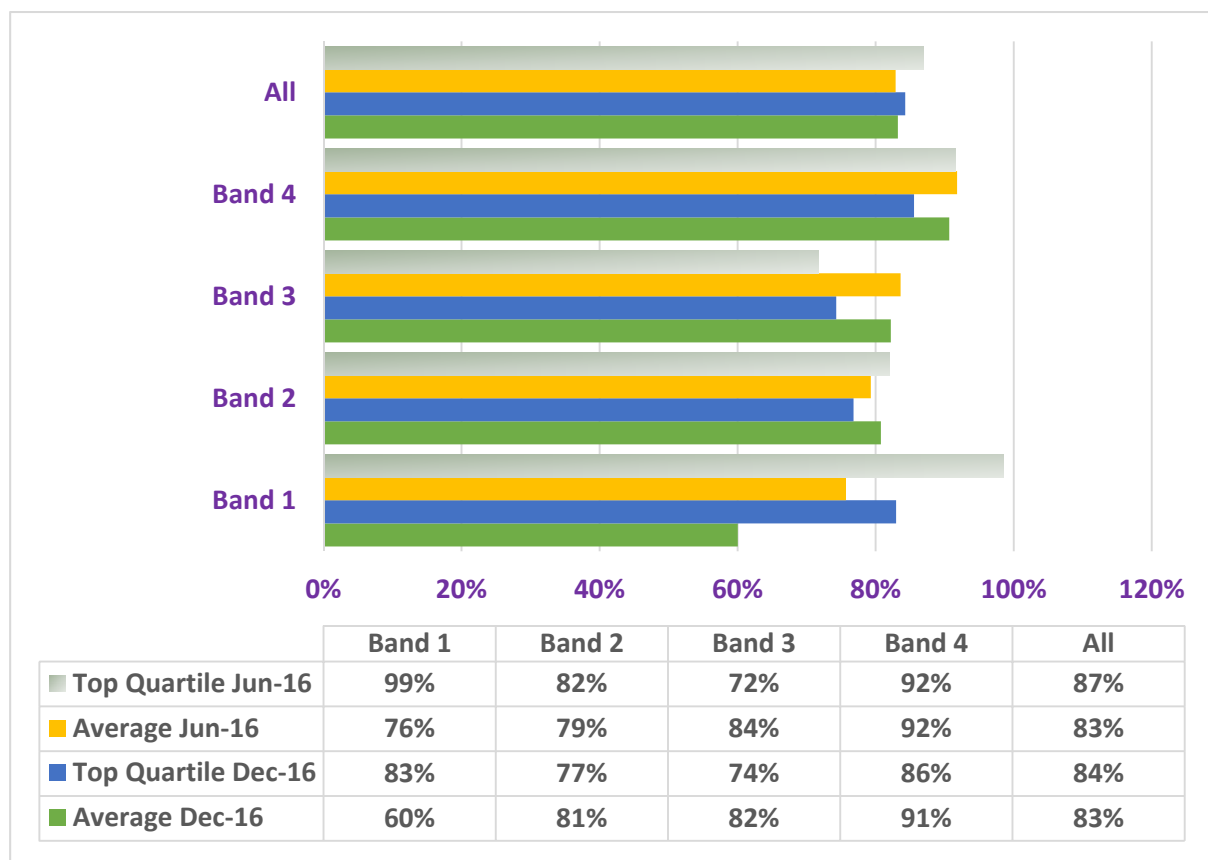
## Package Utilisation

This is the last report that will measure package utilisation or occupancy as the February 27 changes has eliminated the allocation of packages. This measure is relevant for December 2016 but will be irrelevant from March 2017 onwards as the system moves to allocating a package to a client rather than a provider.

From the March 2017 quarter we will be adding two new metrics being **package retention and growth rates** and **staff productivity**. For providers, these KPIs will be increasingly important. These two metrics will replace the current package utilisation rate. This will no longer be a relevant measure as providers will no longer have a package allocation against which we can measure “occupancy”.

Package Utilisation (occupancy) has been a mixed bag for the December quarter report. Across all programs the average Package Utilisation has improved marginally by 1% in the 6 months from June 2016 to 83%.

*Figure 5: Package Utilisation rates (occupancy levels)*



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Level 1 packages continue to be a disappointment and are becoming increasingly difficult for providers to fill as clients it would appear would rather receive these services using other programs such as the Commonwealth Home Support Program. This has one consequence in that there are not many programs in Band 1, as the reality is that there are not too many Level 1 packages in the marketplace and this is unlikely to change. As a result we caution providers to check with us before using the Level 1 package data as gospel to ensure that it correlates with your organisations requirements. However the distribution of programs across the bands represent the distribution of packages in the sector.

Post February 2017 it will be increasingly important for providers to consolidate their current clients to ensure that, at the very least, current package numbers are maintained. This is an important safeguard as maintaining package numbers (retention rate) underpins the recovery rate of fixed costs. In other sectors such as retail it is an enduring maxim that it is cheaper and more profitable to retain a current client and sell more services or products to them, than to acquire a new client. In the context of aged care retention rates and the ability to improve Revenue Utilisation in those existing clients should be a focus for all providers – in concert with exploring ways to more efficiently deliver services. In essence this is the low hanging fruit for providers within the next few months.

A second focus for provider will then be to encourage the growth of packages ‘sold’ by the organisation to an eligible consumer. The ability to grow the number of packages will assist in maintaining or increasing overall profitability, particularly as margins are likely to continue to decline as competition increases. Increasing volume will be the key in gaining economies of scale in areas such as administration as well as justifying investment in technologies that will also provide long term efficiencies.

So it is through growth in package numbers that providers will help to ensure the ongoing viability of the service.

Retention and growth rate will spur providers to iterate their business model to more fully support a market and consumer driven approach, something that many providers are still processing. The fact that a client moving from an existing allocated package, without the ‘guarantee’ of a replacement for that client through further allocations, greatly impairs the ability to recover fixed costs unless managed well.

Many providers have acted upon, or are in process of implementing, retention and growth strategies to ensure that they are responding adequately to the new paradigms imposed by portability of packages. StewartBrown has done a great deal of work in this strategic and operational planning, forecasting and budgeting area, so if your organisation requires assistance in these areas please [contact us](#).

## Gross Margin

As with the bottom line results we have seen some improvement in margins obtained on services provided to clients. Normally Level 1 Packages would be the outlier in the results, but even here we are seeing more consistency across package levels in relation to margins with an *average* of **8.7%** across all packages which is almost double the June 2016 *average* of **4.4%**.

We can hazard that some of this improvement has been due to changes in pricing (ably assisted by package Revenue Utilisation) to ensure that margins are adequate to recover costs, which is incredibly important to ensure that providers are well placed to cover their fixed costs.

Managing margin helps a provider avoid problems with prices that are too low and direct costs that are too high. As we have reported previously in the *Aged Care Financial Performance Survey* we continue to see providers generating seemingly adequate revenue but their margins are low, signalling an issue in either unit pricing or cost containment, or more concerning, both.

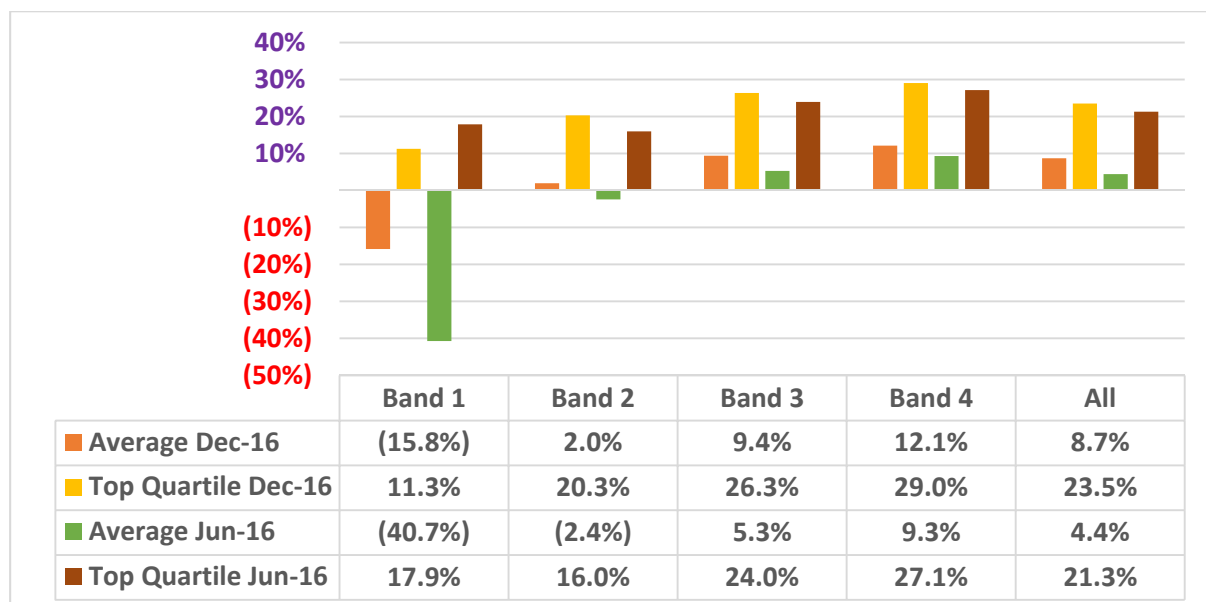
The margins on all services, including those that are brokered, will need to be maintained. Providers will need to keep margins at these levels as a minimum, preferably increasing the margin over time, for a number of important reasons including:

- Margins need to be sufficient to make a significant contribution to recover fixed costs including a large proportion of administration and support costs. Margin is important because it shows whether your unit service sales are sufficient to cover your costs.

As a result;

- Service unit or total prices need to be set at a level that assists in utilising more of the available package funds and recovering all of the costs involved in servicing the package.

**Figure 6: Margins on total Revenue (EBIT as a % of total Revenue)**



The importance of margin often does not get the attention it deserves. Providers need to be aware of the factors that will impact service margins and pay close attention to them. In a volatile market it is important to be aware that the factors impacting margins may change over time such as costs of staff to meet demand schedules or large volume care consumable price changes. You may also find that your costs increase due to inflationary factors and that you need to compensate for this with annual price increases.

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Another concern is that providers under competitive conditions may start lowering prices to generate interest but this of course will reduce gross profit margin. While the discount may get a sale, large price cuts minimise the surplus you get on it and increasingly concerning is that providers run the risk that customers get familiar with the price declines and won't pay rates commensurate with the real cost of services. Finally, providers should track their margin over time to be sure that it does not slowly deteriorate and lead to cash flow problems.

Pricing, margins and competition will be a balancing act for providers and will need to be part of an overall business model and pricing/marketing strategy rather than taking the view of “we will just do what the provider down the road does”. A pricing strategy, including how administration fees and fixed costs are recovered, needs to be part of how providers sell themselves to clients.

### Administration Fees

In our June survey we reported that a number of providers were examining the way they were charging their administration fees and in speaking to providers, that continues to be the case as they re-examine their overall pricing and sales strategy.

In the past we have expressed administration as a percentage of direct service revenue, but as providers begin to look at revenue and administration more holistically within their pricing strategies this measure will become less meaningful. So from this report onwards we will be looking at administration as a percentage against total revenue.

As might be expected with the direct services margins contributing significantly to recovering administration and support costs, the overall margins are somewhat less than the margins being achieved on those direct services.

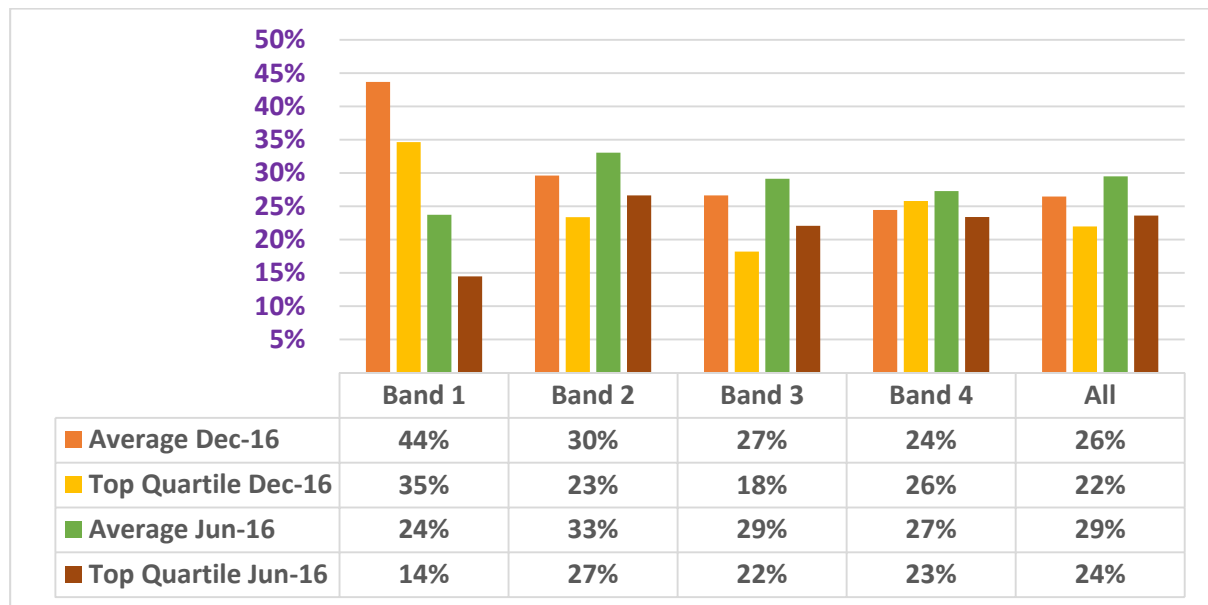
Even with the spike in overall margin now being achieved for care packages, with only Band 1 remaining in the negative, the margins for higher care packages are routinely positive but they have not returned to what they were prior to the introduction of CDC.

Across all packages in the survey the *average* margin is **8.7%**, which is slightly better than June 2016 at 4.4% but these gains may be illusory unless package retention and then growth are the goals of providers. It can be expected that as the calendar year progresses we will start to see unspent funds start to be returned to clients and government and market pressures put further pressure on pricing.

What the figures do show us is that across packages 2-4 the administration costs during the December half year reduced against June 2016 levels. Band 1, perhaps acknowledging the decline in the overall number and occupancy of packages has seen administration increase, reflecting that providers have yet to find sufficient administrative streamlining for this area. For all packages the administration costs reduced **3%** in December 2016 to **26%** from the June figure of **29%**.

The top quartile average for the six months to December 2016 improved 2% to an *average* of 22% compared to an overall average of 24% for June 2016.

Figure 7: Administration costs as a % of total revenue



What we do know from looking at provider results is that the amount being charged for administration of packages is not growing sufficiently to recover the actual administration costs.

So the issues arises per the discussion on margin above that providers need to consider how they might either improve their pricing strategy or reduce their costs (or both) to ensure that administration is adequately covered within the overall pricing of their services.

It is critical for providers to better understand the costs of providing their clients a range of services and then pricing those services accordingly. If the selling price is not competitive then the provider must look at why they can't provide the service profitably at a similar price to their competitors or they will need to be aware of any "loss leader" marketing activity that may be underway.

A *loss leader* is a pricing strategy where a service is sold at a price below its market cost to stimulate growth in sales. Given the expected rise in acuity of clients remaining in their home, some providers may view loss leader services as a "gateway" experience to expose a client to their services with a view to on-boarding that client in the continuum of care earlier than they may have seen them previously recouping foregone revenue through a longer relationship obtained through a mature understanding of a customer's lifetime value to the business.

Services such as CHSP or lower care packages lend themselves to be exploited as loss leader opportunities to demonstrate capability to the client or a community. It can also be used to stifle competition and is seen in other sectors through predatory pricing practices.

Providers with strong balance sheets who fully understand the costs of provision may be positioned to utilise these tactics in the market. For those without a functional grip on their pricing and costs this approach may be catastrophic.

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In the period leading up to this survey and the start of package portability we assisted, and continue to assist many providers to undertake a more detailed cost analysis so that they can better understand where efficiency gains and cost savings need to be made in order to become more competitive or to improve their margins on their existing price/service structures.

Although it is early days in the effective deregulation of Home Care packages there is already a pricing battle being waged on what some call “old system” providers (incumbent operators) and those now entering the Home Care market targeting the portability of packages or ‘new system’ providers. One of the features of the service finder within *My Aged Care* will be what percentage of a package is given over to direct service.

It is yet to be seen how the comparisons might be made by a consumer on the validity of a direct service percentage claim but some providers are quoting high percentage yield for a consumer in comparison to their competitors. So a battle ground may emerge where the percentage of a package offered for direct service, net of administration or case management, may emerge as the proxy by which consumers will judge value.

#### Example

*If a package is worth \$100 per day and Provider A charges \$65 for an hour of service and an administration fee of \$25 and a case management fee of \$10 then only 65% of the package is available for services.*

*Provider B charges \$75 for a “quality service” and only \$25 for administration and case management. It means that 75% of the package is used for direct services.*

*Provider C assesses that case management is not required by a client in levels 1 or 2, they may charge \$90 for a “premium service” and only \$10 for administration giving an effective rate of 90% for direct services.*

Pricing, as with other aspects of business, is not a static “set and forget” process and it will be an ongoing process of adjustment in the ongoing viability and sustainability of the Home Care business of providers.

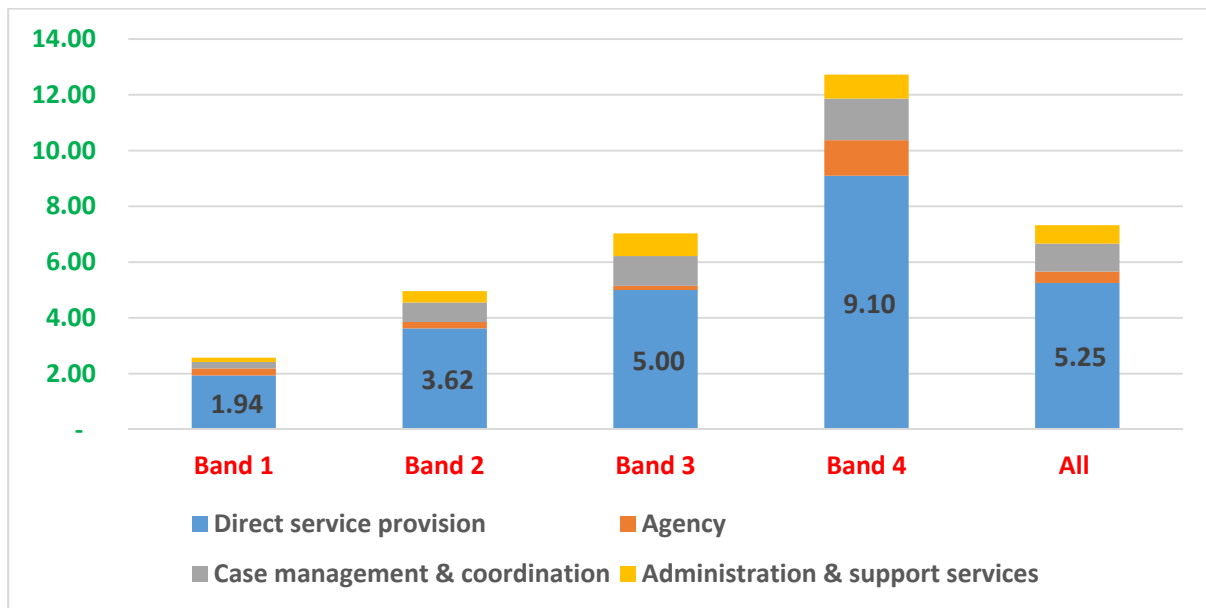
## Staff Hours

As we will discuss below in case management it can be expected that client acuity and complexity will be a proxy for staffing requirements. This is broadly played out within the bands with direct care provision rising in line with the care level of a package. The same pattern is exhibited for case management and coordination.

During the 6 months to December 2016 the survey *average* of staff hours for all programs rose strongly to **7.32 hours per package per week** against a weekly total staff hours in June 2016 being 5.62 hours. The December 2016 total being comprised of:

- Direct care: **5.25 hours**
- Agency staff: **0.41 hours**
- Case management and coordination: **1 hour**
- Administration and support: **0.66 hours**
- Total staff hours: **7.32 hours**

Figure 8: Breakdown of staff hours per client per week by Band and Staff type

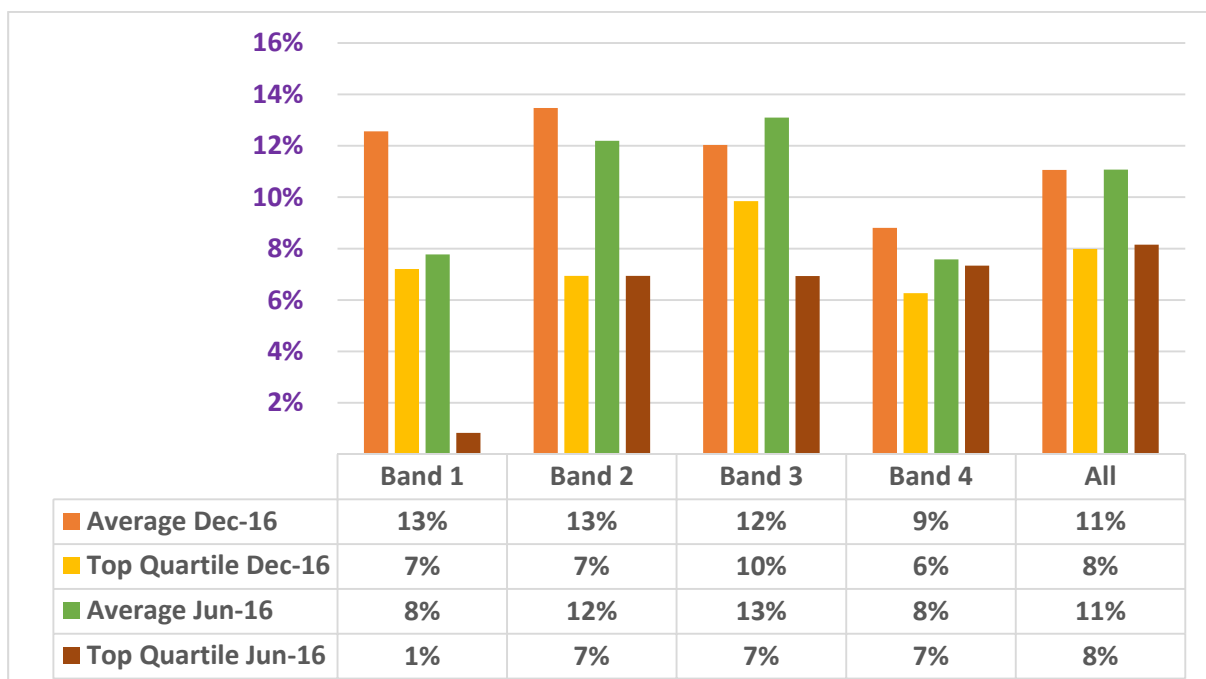


### Case Management and Coordination

The December 2016 Aged Care Financial Performance Survey collected information on the number of staff hours and we will be releasing a newsletter at the same time as this December 2016 report outlining our analysis on the production of KPIs for Home Care.

Figure 9 below outlines that the costs of case management and co-ordination has increased marginally in the 6 months to December 2016. Some of this will be related to higher acuity clients presenting in lower care packages while they wait for a more appropriate allocation of a package.

Figure 9: Cost of case management and co-ordination costs as a % of total revenue for the period to December 2016 compared to June 2016



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As consumers begin to better understand what comprises a Home Care Package it will be important for providers to consider their case management costs as a part of their service “sell”. A number of niche competitors are emerging in the case management or client concierge area who will create some confusion and tension around what good case management adds to a client’s journey.

So for those providers who understand the benefits of good case management it will be important to articulate this to the client so that its inherent value is understood. For those clients who may wish to self-manage or engage a third party to case manage their needs, it will be important again for the provider to fully understand;

- how this may impact their service
- what appropriate elements might be stripped out of the pricing
- who is responsible for which aspects of management and servicing, and;
- ultimately what an efficient service looks like in this model

One of the inflammatory discussions that is commonly broached is about the ratios of staff in aged care. So within Home care it is usually framed as care workers or case managers to clients.

In discussing this issue with the sector, a common number that is quoted is a staffing ratio of one case managers to 50 clients. However, this it will ultimately depend on

- the mix of packages that the case manager is responsible for
- the technology being used and the workflow being employed with care workers
- the role and responsibilities of the case manager and
- the back-office support e.g. rosters, accounts, intake, etc.

As would be expected the productivity of the staff is key in this quantification but as a general rule we expect that the ratio is a proxy for the acuity and complexity of the client’s assessed needs. Our newsletter outlines the case for staff productivity as opposed to a set ration as the arbiter of workload

StewartBrown has recommended for some time that case managers should have KPIs derived from the *Aged Care Financial Performance Survey* and be responsible for new client initial assessments, annual reviews and assessed need change reviews as well as achieving the target number of packages and revenue utilisation.

## Entry and Exit Fees

While a lot of attention has been given to exit fees, the new paradigm of attracting clients and setting them up to receive services will add administrative costs that will need to be recovered. Under the new process providers need to lodge an aged care entry record, develop a care plan, enter into home care agreement and take the time to explain a persons’ rights and responsibilities to them. In addition to this, providers will need to develop an individual budget and provide extended financial reporting.

So going on from February 27, and the introduction of portability, one issue not commonly broached is that of an entry fee to cover the fixed and variable costs of on-boarding the package in exchange for some period of certainty so a provider will be able to recover those expenses through service provision.

Other approaches to client retention and service provision security to are to include an agreed notice period for contract termination in new home care agreements.



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With regards to exit fees we can see from the *My Aged Care* website that providers are charging up to \$4,000 while others are charging nothing as a competitive strategy. However, information we hear is that consumers are not focusing on exit fees as a deal breaker because providers cannot charge more than the balance of unspent funds. So the onus remains on the provider to engage with a client to fully utilise their package and obtain the best care outcomes possible within that budget.

A more pressing concern for government, providers and consumers is the current paucity of granular service and price data on the *My Aged Care* website currently. There appears to be a growing disconnect between what providers have indicated they have uploaded to the site, what is shown consistently from state to state, or even postcode to postcode, and what the Government has indicated they have received. It will be critical that government, providers and consumers have faith and trust in the integrity of the data contained on the system in order for it to be utilised effectively and to prevent an outgrowth of third party systems to augment a flawed implementation.

There remains uncertainty as to the cost of a client exiting the package, whatever the reason, but at this point the average exit fees are around \$500-\$1,000.

## ELEMENTS INFLUENCING CONSUMER DIRECTED CARE

### What do we know?

- Returns are lower now than prior to CDC
- Unspent fund balances remain a challenge (averaging over 11%)
- Administration costs are not fully recovered through an administration fee to clients
- Low care packages are becoming increasingly difficult to fill and are becoming less profitable
- Unspent funds will be returned to clients and government from this point forward
- Packages will no longer be allocated to providers and will be competitive
- Unused packages will go into the national pool
- Once a client leaves the system their package goes into the national pool

Providers need to iterate or redesign their business model including strategies for marketing, pricing, systems and KPIs which will drive a change in overall culture and market behaviour.

### Marketing Strategy

- Brand strength increasingly important
- Aged Care is taking on retail aspects (brand, product, placement, price & positioning)
- Exploit the continuum of care to 'capture' clients
- Commodity, service or price differentiation approach
- Client purchasing behaviour poorly understood
- Acquisitions & partnerships key
- Setting sales targets

### Pricing Strategy

- Defined activities of service
- Identified cost elements
- Established unit costs and selling price of each activity of service
- Determined method of recovering coordination and case management
- Determined method of recovery of administration costs
- Add margin and determine retail price

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## Systems

- Providers must invest in systems to survive
- Must drive efficiency, reduce admin burden and duplication of data
- There are a number of specialist software packages (However there needs to be integration with existing systems)
- For many smaller providers a band aid approach using spreadsheets is common practice
- Which system is to be used for certain tasks?
  - ∞ Payments to creditors
  - ∞ Time and attendance
  - ∞ Client billing

These elements will drive a change in the overall culture and behaviour of providers.

Providers will need to be more commercially aware and be sales driven to the point that this might include changing the way some staff are remunerated so that there is performance element to their remuneration based on achieving certain sales targets or meeting other KPIs.

## Moving Forward

Providers will need to re-examine the drivers of profitability within their business and look at monitoring and measuring new metrics.

As the sector changes in response to the reforms, competition and the mores of clients there will need to be a number of headline Key Performance Indicators (KPIs) that providers utilise to understand their business at a higher level. In working with a large cross section of providers in Home Care we see that there are 5 very important KPIs post February 2017, namely:

- Client care plan engagement time
- Package retention and growth rates
- Revenue utilisation
- Direct care % to revenue
- Employee productivity

As we have discussed in the report, these KPIs will require providers to consider how their systems and processes are managed to collect this information at more than one level of the business. Undertaking this work will see dividends in the quality and reliability of data used to inform and make strategic and operational decisions.

By this time it is imperative that aged care providers operating in the Home Care market have deliberately acted to change their business approach and model from a funded organisation with a statutory monopoly and therefore relative certainty about revenue streams and levels of activity – to a consumer responsive, retail oriented organisation who has developed processes, systems and people to not only consolidate existing business, but to go out and win business with reduced levels of certainty.

## 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-profit 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 industry 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**  
Consulting Manager

Tracy is a Chartered Accountant with 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<sup>+</sup>** AUDITS IN TOTAL

**40<sup>+</sup>** YEARS IN AGED CARE

**50<sup>+</sup>** AGED CARE AUDITS PER YEAR

**70<sup>+</sup>** NFP AUDITS PER YEAR

**50<sup>+</sup>** ACCOUNTING STAFF



AUSTRALIA WIDE

**2** PARTNERS

**30<sup>+</sup>** SPECIALIST AGED CARE STAFF



LARGEST AGED CARE AUDIT TEAM IN AUSTRALIA

**7** MANAGERS

**4** AUDIT DIRECTORS



AUDIT TEAM HAS TRIPLED IN 5 YEARS