StewartBrown

Integrity + Quality + Clarity

AGED CARE FINANCIAL PERFORMANCE SURVEY

HOME CARE REPORT - DECEMBER 2017

The StewartBrown December 2017 *Aged Care Financial Performance Survey* (ACFPS) incorporates detailed financial and supporting data from over 915 residential aged care facilities and over 21,400 home care packages (401 home care programs) across Australia. The quarterly survey is the largest benchmark within the aged care sector and provides 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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1. HIGHLIGHTS - OPERATING RESULTS

SURVEY *AVERAGE*

1 **$0.84**
Band 1 Average EBT
[June 2017 - ($7.60) per client per day]

2 **$1.85**
Band 2 Average EBT
[June 2017 - $1.52 per client per day]

3 **$2.89**
Band 3 Average EBT
[June 2017 - $5.30 per client per day]

4 **$7.39**
Band 4 Average EBT
[June 2017 - $12.51 per client per day]

SURVEY *FIRST 25%*

1 **$9.44**
Band 1 First 25% EBT
[June 2017 - $2.59 per client per day]

2 **$10.56**
Band 2 First 25% EBT
[June 2017 - $9.35 per client per day]

3 **$17.91**
Band 3 First 25% EBT
[June 2017 - $22.57 per client per day]

4 **$29.63**
Band 4 First 25% EBT
[June 2017 - $36.53 per client per day]

2. HIGHLIGHTS - REVENUE UTILISATION

SURVEY *AVERAGE*

74.6% Band 1 Average [June 2017: 75.8%]

86.8% Band 2 Average [June 2017: 91.5%]

87.9% Band 3 Average [June 2017: 92.7%]

90.3% Band 4 Average [June 2017: 93.9%]

SURVEY *FIRST 25%*

72.6% Band 1 First 25% [June 2017: 79.3%]

87.0% Band 2 First 25% [June 2017: 91.6%]

86.0% Band 3 First 25% [June 2017: 88.3%]

93.1% Band 4 First 25% [June 2017: 95.4%]

3. HIGHLIGHTS - NET MARGIN

SURVEY *AVERAGE*

1 **3.2%**
Band 1 Average EBT as % of revenue
[June 2017: (31.4%)]

2 **4.6%**
Band 2 Average EBT as % of revenue
[June 2017: 3.6%]

3 **4.2%**
Band 3 Average EBT as % of revenue
[June 2017: 7.4%]

4 **6.0%**
Band 4 Average EBT as % of revenue
[June 2017: 9.5%]

SURVEY *FIRST 25%*

1 **35.3%**
Band 1 First 25% EBT as % of revenue
[June 2017: 13.3%)]

2 **24.7%**
Band 2 First 25% EBT as % of revenue
[June 2017: 21.5%]

3 **22.7%**
Band 3 First 25% EBT as % of revenue
[June 2017: 26.7%]

4 **22.8%**
Band 4 First 25% EBT as % of revenue
[June 2017: 26.8%]

4. EXECUTIVE SUMMARY

Summary

The survey results for the six months ended December 2017 indicate a decline in financial performance and several other leading key indicators. The decline indicates the sector is still managing the flow on effects of deregulation under the Consumer Directed Care model, a large introduction of new providers, issues around the effectiveness of MyAgedCare as a portal and concerns over the allocation and funding of approved clients.

A summary of the key financial results are:-

- Revenue per client day (pcd) for survey *Average* reduced by 5.03% ($3.70 pcd)
- *First 25%* revenue pcd reduced by 1.6%
- Earnings Before Tax (surplus) per client day for survey *Average* reduced by $2.13 pcd to $3.24 pcd
- *First 25%* EBT per client day reduced by $6.05 pcd to $18.98 pcd
- Revenue utilisation (unspent funds) for survey *Average* has deteriorated by 4.7%
- *First 25%* revenue utilisation has deteriorated by 6.4%
- Unspent funds per client for survey *Average* has increased by $1,157 per client (to $5,412)
- *First 25%* unspent funds per client has reduced by $508 (to $5,780)
- The survey Average has seen a package (client) growth of 16.8% since FY17
- The survey *First 25%* has seen a client growth of 26.9% since FY17 (for participants in the survey)
- Staff hours per client per week has remained neutral (average 7.14 hours per week)

Brief Commentary

A number of important financial KPI's declined during the December half year, which indicates there are plenty of challenges facing this segment of the aged services sector. The reduction in the effective revenue (price) of service delivery is an indication of both the competitive environment brought about by the large increase in new providers, and equally to the increased scrutiny of price and service delivery of clients and potential clients.

The amount of unspent funds continues to be a concern as this represents lost revenue. It appears that clients are choosing to save their funding for some future event - be it for increased direct care in the future or for capital purchases to assist their care requirements. This needs to be managed very carefully by providers to ensure that funding provided is clearly designed to meet current care requirements and not potential future needs.

Issues around the design of pricing the service delivery - in particular administration fees, case manager fees, travel and margins - continue to be a focus area for providers.

Observations

Below is a brief summary of our observations, based not only on the survey results but also our considerable involvement with a significant number of HCP providers nationally - through pricing and cost reviews, systems and governance reviews, financial modelling, external and internal audits and strategic workshops.

- An inconsistency in pricing matrix has caused pricing to fall
- Greater consumer education is required, particularly in the deregulated environment
- Systems/process/technology is lagging behind
- More clarity is required around unspent funds - many clients are still unwilling to use full funding in order to build up unspent funds, which are often used for capital purposes or returned to Medicare once the client departs
- Levels 1 and 2 are very marginal and competition from CHSP is affecting gaining new clients
- Bundling of services is slowly being implemented
- Exit fees are not being charged in many cases and are not properly understood
- Many new providers have a low cost model which promises more than they can deliver, resulting in pricing pressure

To provide some further observations, we have included an article specifically written for this report by **Lorraine Poulos** who is a very well respected consultant with a national client base. Lorraine's article appears in ***Chapter 5***.

Department of Health - HCP Report (December quarter)

The Department of Health released their quarterly report in March 2018. A summary of the key statistics includes:-

- 31,207 approvals for HCP in December quarter
- 104,602 consumers in national prioritisation queue (45.8% in or assigned an interim package)
- Total number of packages released since February 2017 is 130,751 (50,300 in December quarter)
- As at September 2017, there were 74,205 HCP consumers (3.9% increase since June 2017)
- Level 4 packages account for 36.7% of December 2017 approvals
- As at 31 December 2017 there were 806 approved HCP providers
- The average exit amount was $266 and decrease of $13 (4.7%) in the December quarter
- 37.7% of providers indicated they will not deduct an exit fee (35.0% at September 2017)

Brief Commentary

The DoH statistics confirm that the funding direction is to increase HCP funding (proportionately) in comparison to residential care. The number of consumers in the national prioritisation queue has risen by 15,698 since June 2017 (an increase of 17.7%).

The number of actual home care packages has increased by 2,802 in the September 2017 quarter, however the overall increase since February 2017 is only 1,933 or 2.67% (72,272 packages as at 27 February 2017) despite the prioritisation queue numbers increasing by 15,698.

Since 30 June 2016 the number of approved providers has increased by 307 (61.5% increase) and increased by 71 since June 2017 (9.7%). When comparing the increase in approved providers with the number of additional packages (2.67%), this proves the assumption that increased competition has played a part in overall average revenue reduction. Whether this has had the compensatory effect of improving service delivery and long term financial viability is an open discussion question.

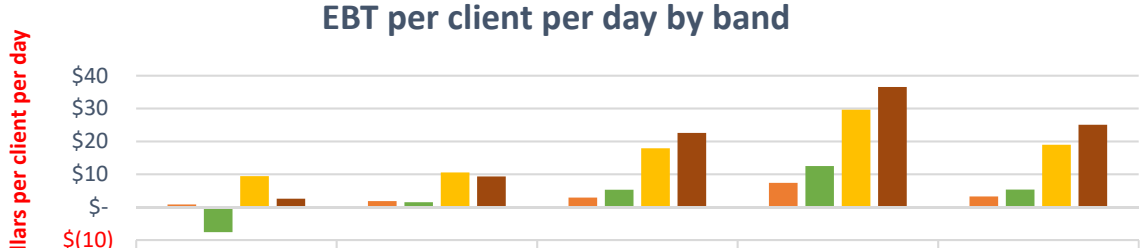
5. RESULTS ANALYSIS AND OVERVIEW

Survey Results Overview

The December 2017 quarter shows a decline in the net result with the survey's *Average* Earnings Before Tax (EBT) at $3.24 per client per day (pcd) compared to $5.37 pcd as at June 2017. The survey *First 25%* also had a reduction in surplus by $6.05 pcd to $18.98 pcd.

For both the survey *Average* and *First 25%* the profitability declines were in Bands 3 and 4, whilst Bands 1 and 2 had slight increases.

Figure 1: Comparison of EBT (operating surplus) December 2017 and June 2017



	Band 1	Band 2	Band 3	Band 4	All
Dec-17 Average	$0.84	$1.85	$2.89	$7.39	$3.24
Jun-17 Average	($7.60)	$1.52	$5.30	$12.51	$5.37
Dec-17 First 25%	$9.44	$10.56	$17.91	$29.63	$18.98
Jun-17 First 25%	$2.59	$9.35	$22.57	$36.53	$25.03

**Due to the small number of packages in Band 1, there is considerable volatility from quarter to quarter*

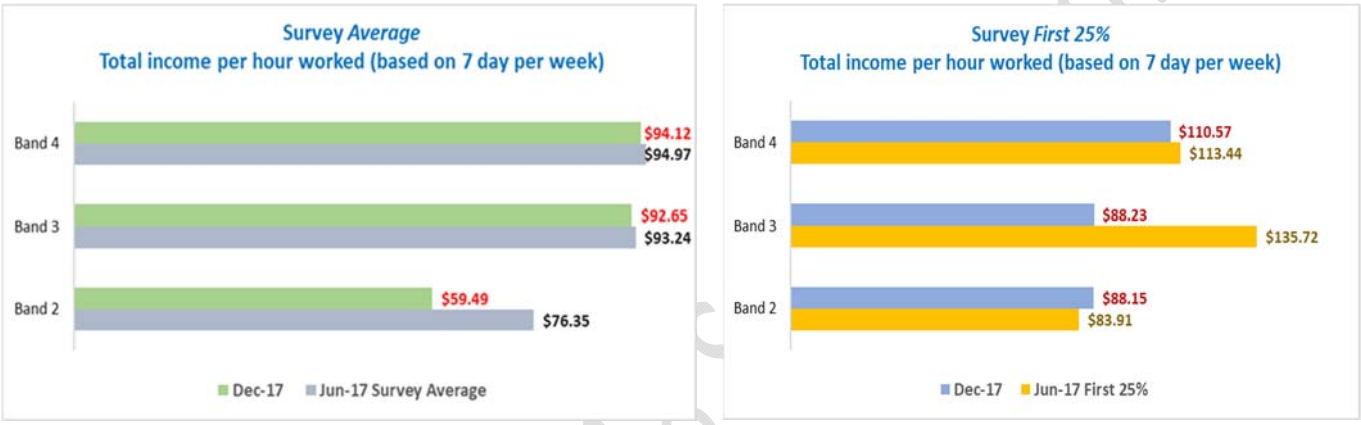
Brief commentary

- Survey *Average* EBT per client per day has declined due to
  - Revenue reduction of 5.03% since June 2017
  - Total expenditure decrease of 2.4% - however, as this is lower than the decline in revenue the net result is a reduction in EBT
  - Reduction in expenses coming from case management and advisory, and administration and support costs, rather than from direct service and sub-contracted or brokered costs (this increased by 1.9%)
  - Band 4 revenue declining at a greater amount
- The survey *First 25%* has also declined for similar reasons: -
  - Revenue reduction of 1.6%
  - Total expenditure has remained roughly the same (only a 0.09% increase compared to June 2017)
  - Dramatic increased service provision and administration cost (9%)
- The decline in revenue may be due to providers reducing their pricing (due to increased competition) with service provision revenue (direct service and brokered) not reducing at the same rate as costs
- The EBT of Band 2 (survey *Average* and *First 25%*), comprised mostly of Level 2 & 3 packages, has increased because the reduction in expenses is greater than the reduction in revenue

There are ongoing large variations in performance between the survey *Average* and the *First 25%* - especially in Band 2 and Band 3 (as shown in the figures below). The total income per hour worked (direct services as well as sub-contracted and brokered) measures the amount of income generated by employee hours worked. This metric is heavily influenced by pricing. This metric is heavily influenced by pricing.

With many providers entering the market, the data suggests that providers have reduced and/or discounted their prices from 1 July 2017 which has significantly impacted the viability of packages. Band 3 in particular demonstrates the variance if a client has Level 4 funding and the service delivery is for a Level 3 funding. In his instance, the income per hour worked in the June fiscal year was variable, and the *First 25%* have tended to service Level 3 funding better (ie clients who have Level 4 funding have a compensatory service delivery).

Figure 2: Total income per hour worked for the period to 31 December 2017

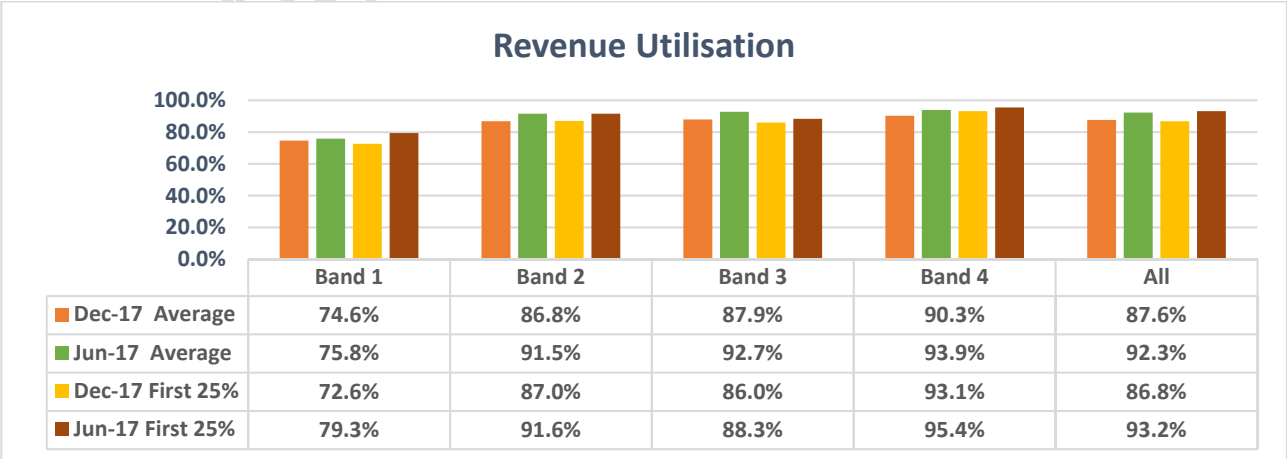


**Due to the small number of packages in Band 1, there is considerable volatility from quarter to quarter and results have been excluded.*

Revenue Utilisation and Unspent funds

The revenue utilisation rate refers to the ratio of total revenue charged to clients compared to total revenue available in a package from both client fees and government subsidies for the six-month period to December 2017.

Figure 3: Revenue utilisation - December 2017 Survey Results compared to June 2017 Survey Results



	Band 1	Band 2	Band 3	Band 4	All
Dec-17 Average	74.6%	86.8%	87.9%	90.3%	87.6%
Jun-17 Average	75.8%	91.5%	92.7%	93.9%	92.3%
Dec-17 First 25%	72.6%	87.0%	86.0%	93.1%	86.8%
Jun-17 First 25%	79.3%	91.6%	88.3%	95.4%	93.2%

**Due to the small number of packages in Band 1, there is considerable volatility from quarter to quarter*

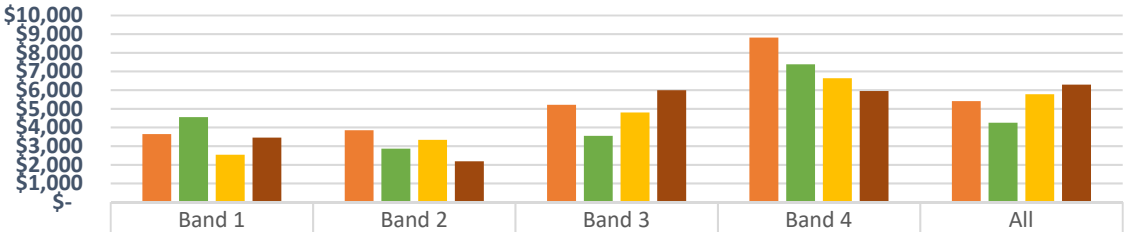
Brief commentary

- Revenue utilisation across all Bands has decreased since June 2017
- The survey *Average* revenue utilisation for December 2017 was 87.6% down from 92.3% in June 2017. The recommended target is an average of 95%
- Lower revenue utilisation is a result of the direct relationship to reduced pricing with the same number of services being delivered - it will be interesting to see if this is a longer-term trend or a reaction to the number of new providers entering the market
- Currently the reduction in unspent funds due to refunds are not being factored in - data on unspent fund refunds will be collected and reported going forward, as well as the effect on the unspent funds balance by client and revenue utilisation

Average unspent funds

The average unspent funds per client is a measure of the total unspent funds divided by the total number of clients (packages) as at 31 December 2017. This therefore reflects the historical build-up of unspent funds since commencement of Consumer Directed Care (CDC) whereas the revenue utilisation examines the year-to-date experience (six months to 31 December 2017).

Figure 4: Average unspent funds per client - December 2017 Survey Results compared to June 2017



	Band 1	Band 2	Band 3	Band 4	All
Dec-17 Average	$3,642	$3,849	$5,210	$8,812	$5,412
Jun-17 Average	$4,552	$2,866	$3,548	$7,380	$4,255
Dec-17 First 25%	$2,540	$3,330	$4,801	$6,638	$5,780
Jun-17 First 25%	$3,453	$2,181	$5,995	$5,945	$6,288

**Due to the small number of packages in Band 1, there is considerable volatility from quarter to quarter*

Brief commentary

- The survey *Average* unspent funds per client has increased across Bands 2, 3 and 4 and in total
- For the *First 25%* Band 3 has seen a decrease in unspent funds
- Please refer to the sector partner article that follows which has some useful insights in understanding some of these trends

Contribution from a Sector Partner

Lorraine Poulos is the Managing Director of Lorraine Poulos and Associates providing training and consultancy services to the care sector.

It is now over a year since the deregulation in Home Care Packages and the latest StewartBrown survey provides very useful data for providers to consider particularly around unspent funds. It may be helpful to share some of my insights as I work with and listen to providers across Australia. The latest data indicates the average unspent funds has increased by 27% since June 2017.

Many thousands of HCP consumers are 'approved' for a Level 4 HCP and are allocated a Level 2 until the Level 4 is approved. What I have seen across the entire demographics is that seemingly a large proportion of these consumers have had their Level 4 HCP funding approved in the last 6 months. This has occurred in many instances without any action from the provider or the consumer. They may have been managing on a Level 2 and in fact have improved due to the excellent services provided. Their funding has increased from approximately 14K to 45K per annum.

Depending on the model of the provider the following may occur:

1. Increase in administration and case management income for the provider who uses a percentage model to allocate costs to a HCP which is necessary for more complex consumers, and to offset the high costs of administering and managing a range of consumers
2. Increase in unspent funds for consumers who are no longer requiring the higher level of care that a Level 4 HCP would provide resulting in challenges for case managers/co-ordinators who may not have access to a range of service options

Where providers have identified that consumers require a higher level of care and have supported them to gain an upgrade it appears to more successful in terms of utilising funds. The upgrades are coming from the identification of needs and case managers are assisting consumers to access more care and services. This often relieves the burden on families and carers.

So, what can providers do to assist consumers to utilise their funds? HCP consumers are approved by ACAT due to identified needs across 5 domains - Social, Medical, Physical, Psychological and Complexity/Vulnerability.

The traditional model of hours of service for tasks such as domestic assistance, transport and personal care are not necessarily in keeping with the consumer directed care approach whereby consumers are supported to make meaningful choices and benefit from a wellness and reablement model.

Some ideas which may assist are:

1. Review the original ACAT assessment and reasons for referral
2. Review the domains outlined above and use as a guide to assess and review current consumer care plans and services
3. Discuss with consumers their health needs and how they are being managed to design a package of services with them that is meaningful
4. Ensure case managers/coordinators have the skills and the 'tool box' of options to offer consumers
5. Work with local allied health providers to assist in designing meaningful care plans
6. Design HCP with consumers from the beginning to ensure the funds are allocated to the fullest capacity
7. Review your service offerings in the areas of assistive devices and technology

I have seen some creative case managers and providers who work closely with consumers from the beginning to ensure that the identified needs by ACAT are being addressed and meaningful goals are being set. This may include chronic disease management, use of allied health services, attendance at provider's wellness centres and the use of assistive devices and technology.

I think it is of concern when a consumer declines to utilise their funds on care despite the case managers identifying a health risk. Providers tell me of examples where poor choices are being made by consumers and/or their circle of support and this can be at the expense of quality care.

Ultimately it is the consumer's choice, however the allocation a HCP is now a valuable commodity and the rising level of unspent funds may indicate that providers need to be clear with consumers and others about their choices and be creative in how the HCP funds can be utilised to the benefit of the consumer. It remains to be seen if there will be any direction given by the Department about the level of unspent funds in a consumer's HCP however I do think there is room for improvement in how we work more closely with consumers in designing their care plans.

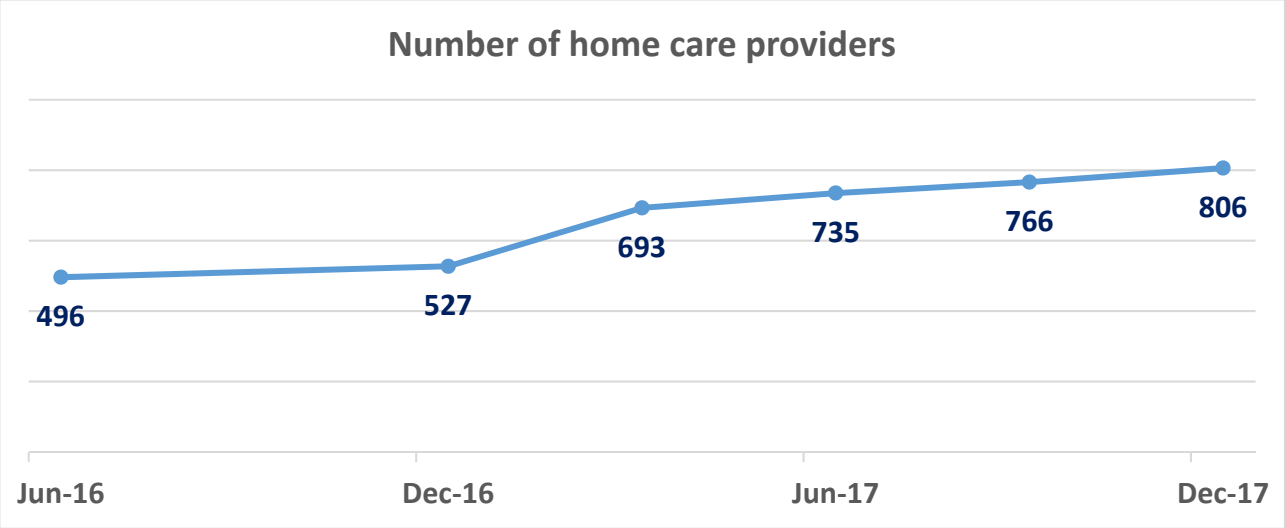
It is a challenging time in Home Care for providers and I trust these insights are of some benefit.

Lorraine Poulos & Associates

Number of Home Care Providers and Number of Consumers

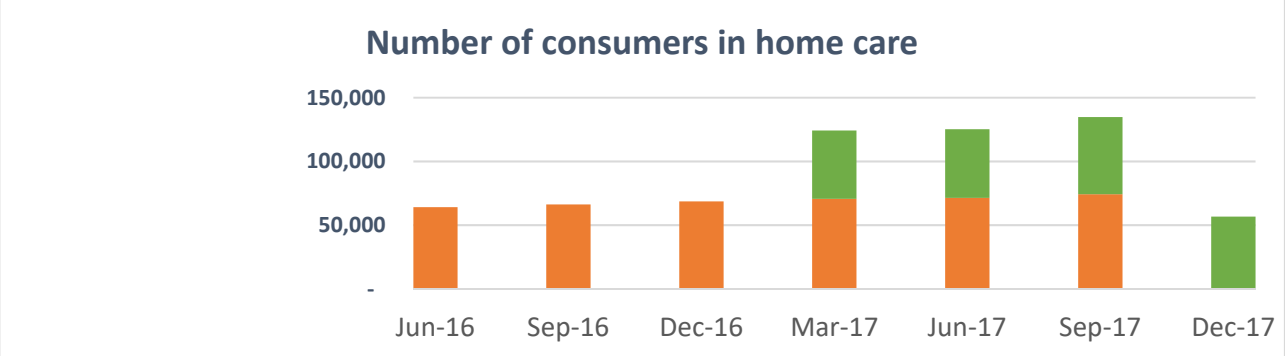
The number of approved home care providers with a home care service continues to increase, with a 5.2% increase in the December 2017 quarter (on top of 47.3% growth between June 2016 and June 2017).

Figure 5: Number of home care providers with a home care service since June 2016



Source: Australian Government Department of Health, "Home care packages program data report 1 Oct – 31 December 2017"

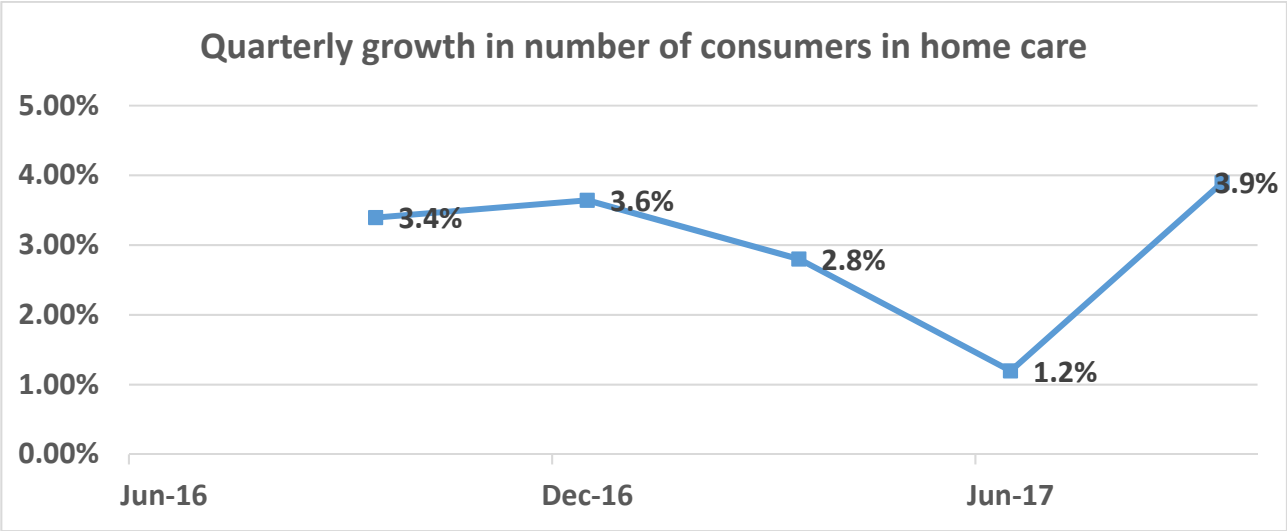
Figure 6: Number of consumers in home care with a home care package and consumers on waiting list (not assigned a home care package)



	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
Consumers on waiting list (not assigned a package)	-	-	-	53,632	53,750	60,615	56,679
Number of consumers in home care	64,069	66,244	68,657	70,579	71,423	74,205	-

Source: Australian Government Department of Health, "Home care packages program data report 1 October - 31 December 2017"

Figure 7: Quarterly growth in number of consumers in home care



Source: Australian Government Department of Health, "Home care packages program data report 1 Oct - 31 December 2017"

Brief commentary

- The Department of Health statistics confirm the funding direction being to increase HCP funding (proportionately) in comparison to residential care
  - The number of consumers in the national prioritisation queue has risen by 15,698 since June 2017 (an increase of 17.7%)
  - The growth in the number of consumers in home care is available up to September 2017 which shows an increase in the growth rate from 1.2% for the June 2017 quarter to 3.9% for the September quarter
- The number of actual home care packages assigned to a consumer has increased by 2,802 in the September 2017 quarter, however the overall increase in the number of packages since February 2017 is only 1,933 or 2.67% (72,272 packages as at 27 February 2017) despite the prioritisation queue numbers increasing by 15,698
- Since 30 June 2016 the number of approved providers has increased by 310 (62.5% increase) and increased by 71 since June 2017 (9.7%). When comparing the increase in approved providers with the number of additional packages (2.67%), this tends to prove the assumption that increased competition has played a part in overall revenue reduction. Whether this has had the compensatory effect of improving service delivery and long term financial viability is an open discussion question
- As at September 2017 there are 74,205 consumers with a home care package
  - Additionally, there are 104,602 consumers on the national prioritisation queue as at 31 December 2017
  - Of these 47,908 consumers have been assigned an interim package
- An analysis on growth rate at a provider level for participants of the survey found that the average growth in the December quarter was an average increase of 3.4%.
- However, this follows an average decrease of 6.5% over the period from 31 December 2016 to 30 June 2017

Package Retention and Growth

The Department's third Home Care Packages data report *"Home care packages program data report 1 Oct – 31 December 2017"* report cited a further 5.2% increase in the number of approved home care providers with a home care service (on top of 47.3% growth between June 2016 and June 2017). Given the increase in number of home care providers and the increasing competition, it is important for providers to measure both their package retention and package growth.

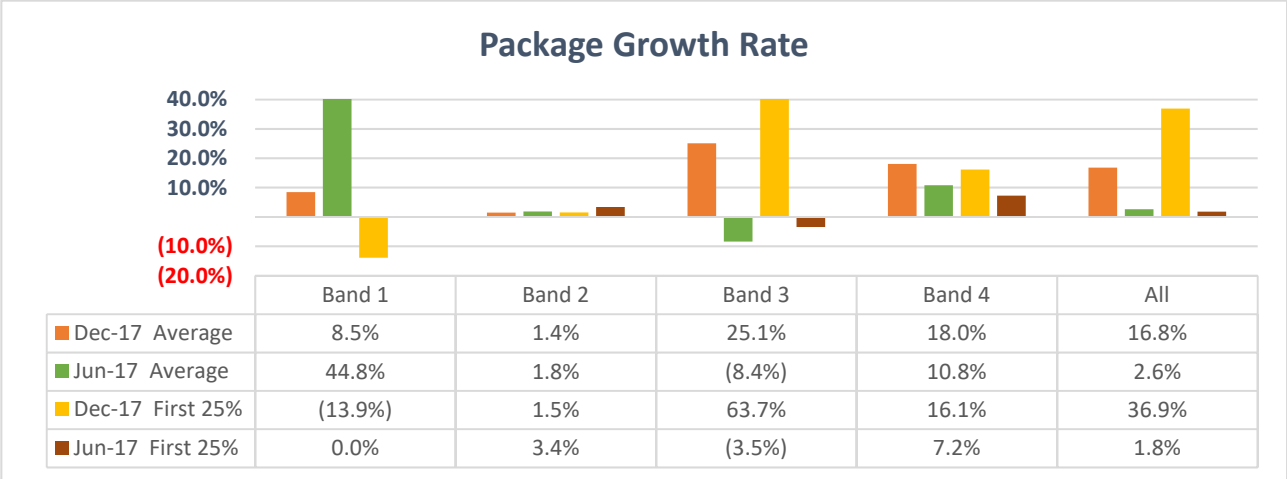
Package retention measures should include monitoring the length of time consumers stay with the provider as well as the reasons for exit, for example moving to another provider, moving to residential care, or passing away.

In addition, it is becoming more important to record and monitor the average entry age and the average length of stay for both operational and strategic planning purposes.

Package growth as measured by StewartBrown is based on the number of packages as at 31 December 2017 (closing number of packages) divided by the number of packages as at 30 June 2017 (opening number of packages) and is measured at an *individual program level.*

Replacing customers that have left (either due to passing away or transferring to residential) is key to ensuring the current numbers of packages are maintained.

Figure 8: Program package growth rate from 30 June 2017 to 31 December 2017 and June 2017 annual growth



	Band 1	Band 2	Band 3	Band 4	All
Dec-17 Average	8.5%	1.4%	25.1%	18.0%	16.8%
Jun-17 Average	44.8%	1.8%	(8.4%)	10.8%	2.6%
Dec-17 First 25%	(13.9%)	1.5%	63.7%	16.1%	36.9%
Jun-17 First 25%	0.0%	3.4%	(3.5%)	7.2%	1.8%

**Due to the small number of packages in Band 1, there is considerable volatility from quarter to quarter*

Brief commentary

- Band 2 continues to have low growth and is impacted by CHSP as with Band 1 which has very few funding packages
- For Bands 3 and 4, the growth in packages started to pick up in the September 2017 quarter and has increased even further - there has been 16.8% growth at a program level for the survey *Average* (June package growth was 2.6%)
- The *First 25%* has experienced a growth rate of 36.9% - double that of the survey *Average* and significantly higher than that for the year to June 2017
- At a *provider* level the average growth in the December quarter was an average increase of 3.4% following an average decrease of 6.5% from 31 December 2016 to 30 June 2017

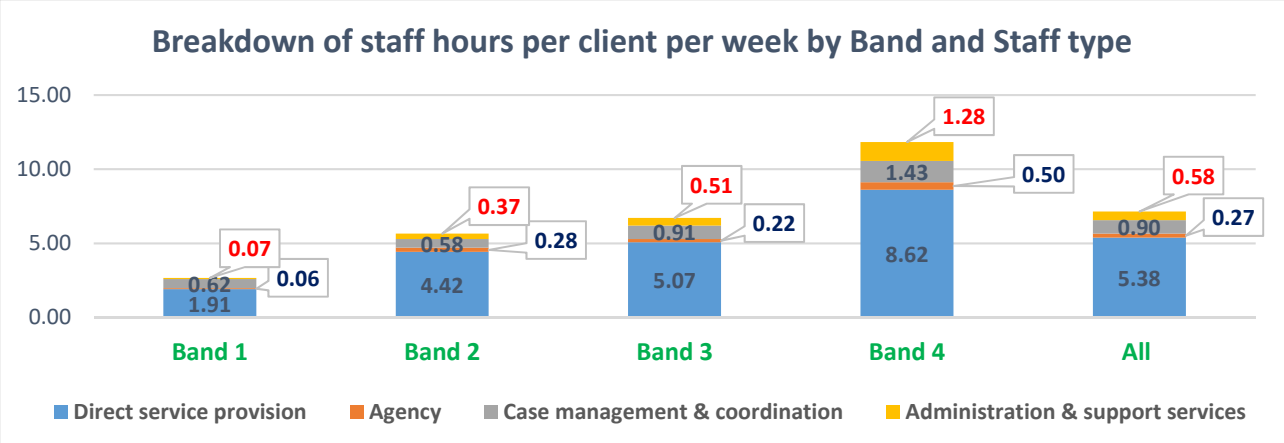
Staffing and Staff Hours

Staff Hours

For the quarter ending December 2017, the survey average of total staff hours was 7.14 hours per client per week which is slightly lower than the June 2017 survey average of 7.16 hours per client per week.

	Average			First 25%		
	Dec-17	Jun-17		Dec-17	Jun-17	
Direct service provision	5.38	5.31	↑	6.36	7.48	↓
Agency	0.27	0.44	↓	0.29	0.77	↓
Case management & advisory	0.90	0.83	↓	1.36	0.94	↑
Administration & support services (including co-ordination)	0.58	0.58	-	0.80	0.46	↑
Total Staff Hours	**7.14**	**7.16**	↓	**8.81**	**9.66**	↓

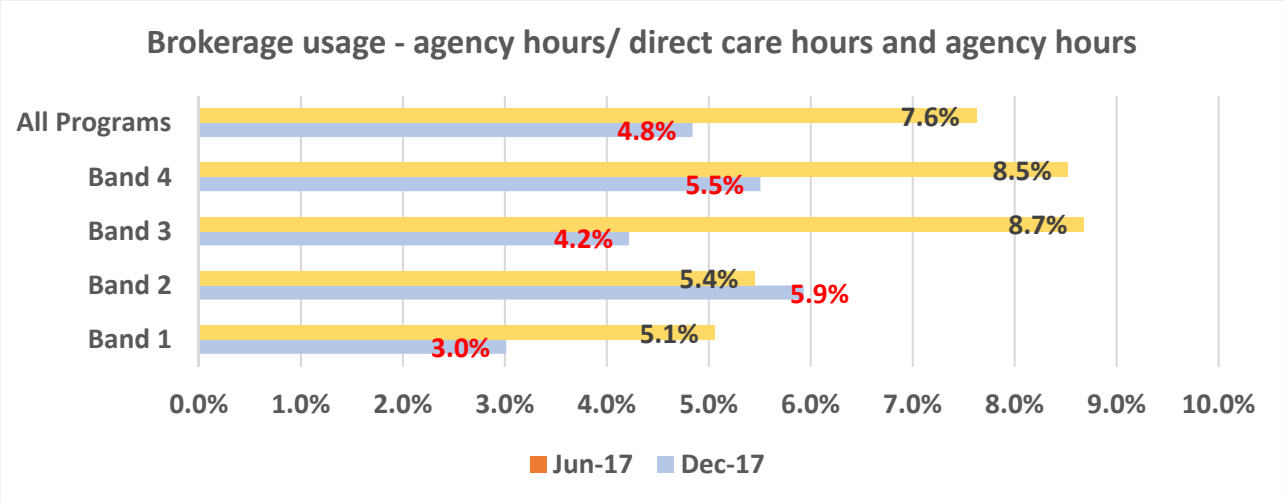
Figure 9: December 2017 Staff hours per client per week



**Due to the small number of packages in Band 1, there is considerable volatility from quarter to quarter*

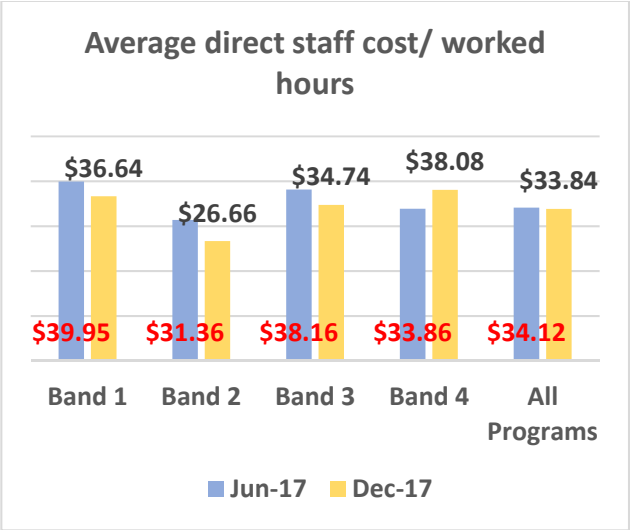
Agency/ Brokerage Usage

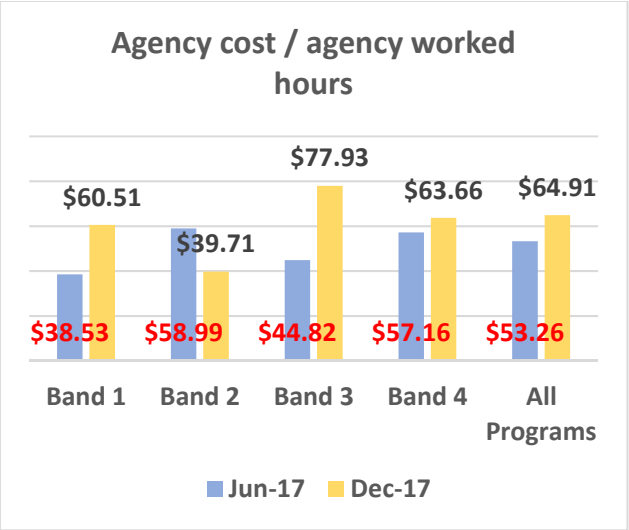
Figure 10: December 2017 Staff hours per client per week



Average Staff Costs

Figure 11: December 2017 Staff hours per client per week





Brief commentary

- There has been a small decrease in staff hours for the survey *Average* and a larger decrease for the *First 25%.*
- There have been significant reductions in agency/brokerage hours since June 2017 - especially for Bands 3 and 4
- Agency/Brokerage usage is the highest for Band 2, followed by Band 4
- The average direct service provision staff costs per worked hours is $33.84 and the average agency cost is $64.91

Case Management & Advisory Costs

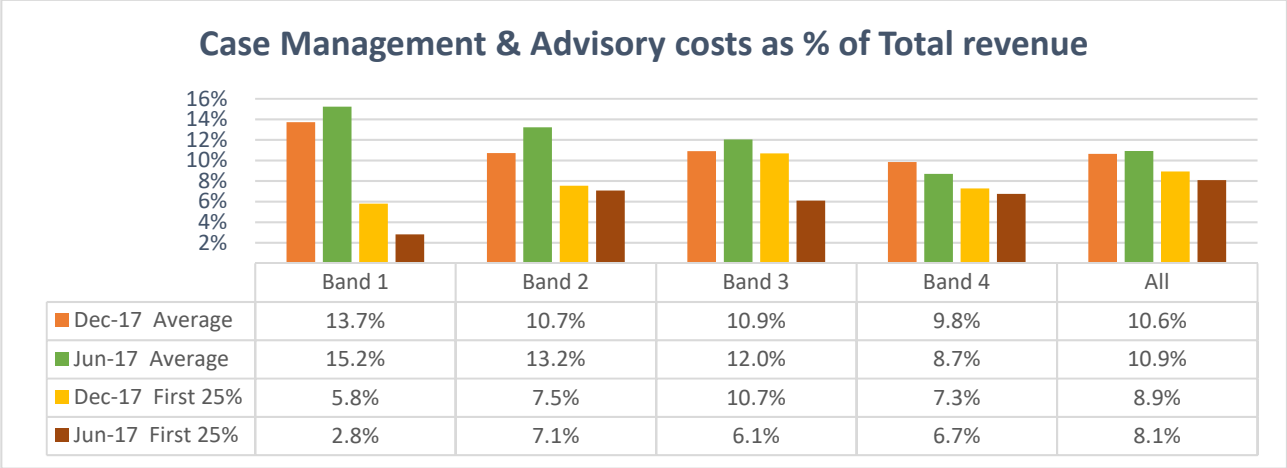
We have further defined the roles of Case Manager (or Advisor) and Co-ordinator in our expense definitions. For clarity, the Case Manager is in effect the operations and care manager for the clients they manage.

A contemporary benchmark standard is that a Case Manager should be responsible for between 40-50 clients (the lower number is the proportion of Level 2 clients and the highest number is the proportion of Level 4 clients). The costs of case management (including staff costs) is included as Case Management and Advisory.

In relation to the Co-ordinator, much of their role is administration/clerical. Accordingly, their staff costs are better reflected as being part of Administration and Support.

It is important to define the Key Performance Indicators (KPIs) that Case Manager (or Advisor) is responsible for. This should include both financial and non-financial KPIs. Included in this chapter is a Table showing the KPIs that a number of providers have moved to.

Figure 12: Case Management & Advisory costs as a % of total income for December 2017 and June 2017



	Band 1	Band 2	Band 3	Band 4	All
Dec-17 Average	13.7%	10.7%	10.9%	9.8%	10.6%
Jun-17 Average	15.2%	13.2%	12.0%	8.7%	10.9%
Dec-17 First 25%	5.8%	7.5%	10.7%	7.3%	8.9%
Jun-17 First 25%	2.8%	7.1%	6.1%	6.7%	8.1%

**Due to the small number of packages in Band 1, there is considerable volatility from quarter to quarter*

Brief commentary

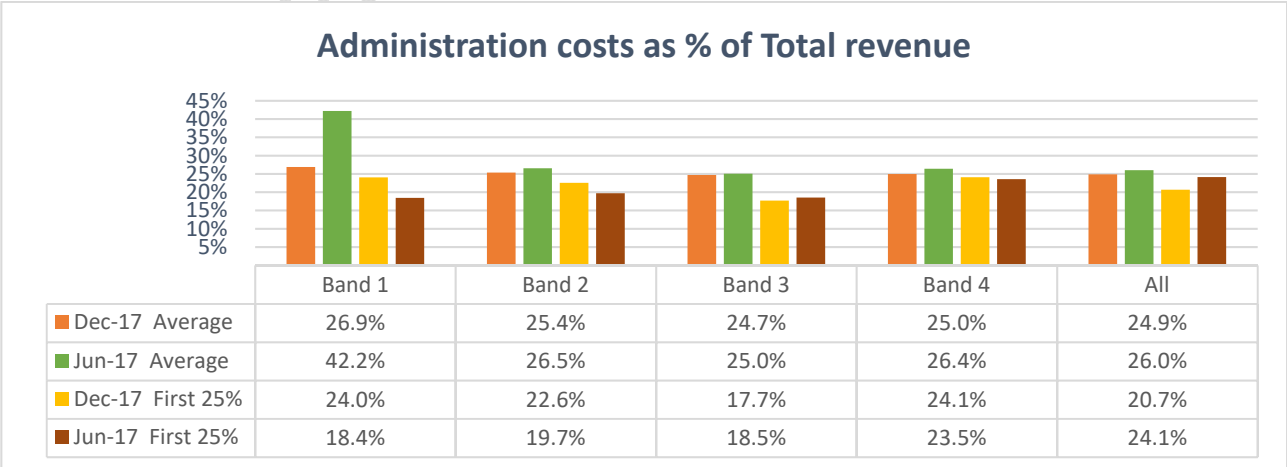
- The June 2017 comparison figures relate to case management and co-ordination as compared to case management and advisory
- Centralised shared service co-ordination is now included in administration and support services which may explain some of the reductions
- There has been no significant movement for the survey *Average* and survey *First 25%*

Administration Costs

Administration is particularly influenced by an organisation's system capability as well as internal systems and processes. It is also an area where economies of scale can be achieved.

Administration costs as a percentage of total income have decreased by 1.1% in the survey *Average* and 3.5% in the survey *First 25%* when comparing to June 2017. At a cost per client day measure, the total administration and support services costs for the survey *Average* decreased by $1.76 and for the survey *First 25%* increased by $0.54.

Figure 13: Administration costs as a percentage of total income for December 2017 and June 2017



	Band 1	Band 2	Band 3	Band 4	All
Dec-17 Average	26.9%	25.4%	24.7%	25.0%	24.9%
Jun-17 Average	42.2%	26.5%	25.0%	26.4%	26.0%
Dec-17 First 25%	24.0%	22.6%	17.7%	24.1%	20.7%
Jun-17 First 25%	18.4%	19.7%	18.5%	23.5%	24.1%

**Number of packages in Band 1 is too small and thus experiences volatility from quarter to quarter*

Brief commentary

- There was a reduction in administration costs for survey *Average* as percentage of income, to 24.9% from 26%
- As we would not necessarily expect administration costs to reduce in line with revenue, our expectation is that providers have been focusing on improving their systems design and achieving economies of scale
- The December quarter results show a reduction in administration and support services of $1.76 pcd for the survey *Average*. The main reductions were in corporate recharge, staff costs and IT expenses

Key Performance Indicators

The ongoing use and measurement of agreed Key Performance or Financial Indicators is paramount in any business, however the accountability of these indicators is of equal importance. StewartBrown recommends that the community care Case Managers (or Advisors) play a key role in the below metrics.

Engagement Time	•The time from first enquiry to client engagement •*Recommended*: First target 24 hours, second target 3 days
Package retention and growth	•Sales techniques •Engagement with clients
Revenue utilisation	•Total income recognised as percentage of total funding •*Recommended*: 95%
Direct Care Cost	•Care costs of wages, on-costs and travel (excludes provider admin costs or margin) •*Recommended*: 52 - 53%
Employee Productivty	•Billable hours as a percentage of total hours worked (excluding training and leave) •*Recommended*: 85% -90%

6. DEFINITIONS & GLOSSARY

Band Definitions

The Bands are based on total revenue earnt per client per day. The Band parameter history is set out in the table below.

	2017 & 2018 Surveys	Dec 2015 to June 2016 Surveys	Sep 2015 Survey
Band 1	Under $30	Under $40	Under $45
Band 2	$30 to $50	$40 to $75	$45 to $85
Band 3	$50 to $100	$75 to $120	$85 to $130
Band 4	Over $100	Over $120	Over $130

Prior to September 2015 data was collected at a package level. With the introduction of CDC, the Band definition was introduced and we moved away from analysing data by package level to analysing it in Bands as providers no longer needed to report by package level but by consumer. Further, with unspent funds and revenue utilisation now involved, package level is less relevant in allowing comparisons as a level 3 package with low revenue utilization is likely to have a similar cost base as a level 2 package with high revenue utilization. Under the Band approach both these packages would be in Band 2

First 25%

We order the home care programs using the result for the period (EBIT) by highest to lowest in terms of $ per client per day ($pcd). We then divide this into four quarters - the first 25%, second 25%, third 25%, fourth 25% and the average of each quarter is reported. The first 25% represents the quarter of programs with the highest EBIT $pcd, the second 25% represents the quarter with the second highest EBIT $pcd, the third 25% represents the quarter with the third highest EBIT $pcd, whilst the fourth 25% represents the quarter of programs with the lowest (fourth highest) EBIT $pcd.

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 client days for the programs in the group. For example, the average for sub-contracted and brokerage costs across all programs would be the total amount submitted for that line item divided by the total client days for all programs in the survey.

Benchmark

We consider the benchmark to be the average of the *First 25%* in the group of programs being examined. For example, if we are examining the results for programs in Band 4, then the benchmark would be the average of the *First 25%* of the programs in Band 4.

Dollars per client day

This is the common measure used to compare items across programs. The denominator used in this measure is the number of client days for any programs or group of programs.

EBT

Earnings before tax. This may also be referred to as the result for the period.

7. DATA TABLES

December 2017 Survey *Average* Results					
	Band 1	**Band 2**	**Band 3**	**Band 4**	**All**
Revenue	**$26.71**	**$40.35**	**$69.57**	**$123.92**	**$69.83**
Expenditure					
Direct Services	$12.50	$21.06	$36.07	$64.59	$36.27
Brokered Services	$2.44	$2.63	$5.51	$7.79	$5.13
Case Management & Coordination	$3.66	$4.32	$7.59	$12.19	$7.43
Administration & Support	$7.18	$10.24	$17.18	$30.93	$17.35
Depreciation	$0.09	$0.25	$0.33	$1.03	$0.40
Total Expenditure	**$25.87**	**$38.50**	**$66.68**	**$116.53**	**$66.59**
EBT per client per day	**$0.84**	**$1.85**	**$2.89**	**$7.39**	**$3.24**
EBITDA per client per annum	**$340**	**$767**	**$1,176**	**$3,074**	**$1,328**
KPI's					
Profit Margin	3.16%	4.60%	4.15%	5.97%	4.63%
Average total staff hours per client per week	2.67	5.65	6.71	11.83	7.14
Net Growth Rate	8.45%	1.45%	25.10%	18.03%	16.76%
Net Retention Rate	100.00%	100.00%	100.00%	100.00%	100.00%
Revenue utilisation for the period	74.64%	86.84%	87.88%	90.27%	87.59%
Average Unspent Funds per client	$3,642	$3,849	$5,210	$8,812	$5,412
Cost of direct care (% of total revenue)	55.92%	58.72%	59.77%	58.41%	59.29%
Case management (% of total revenue)	13.72%	10.71%	10.91%	9.84%	10.64%
Administration (of total revenue)	26.87%	25.37%	24.70%	24.96%	24.85%

December 2017 First 25% Results					
	Band 1	**Band 2**	**Band 3**	**Band 4**	**All**
Revenue	**$26.75**	**$42.77**	**$79.06**	**$129.91**	**$88.71**
Expenditure					
Direct Services	$8.91	$15.14	$31.78	$49.51	$36.50
Brokered Services	$0.31	$3.82	$6.66	$8.48	$6.38
Case Management & Coordination	$1.55	$3.22	$8.45	$9.46	$7.92
Administration & Support	$6.43	$9.64	$13.97	$31.27	$18.34
Depreciation	$0.10	$0.38	$0.29	$1.56	$0.58
Total Expenditure	**$17.31**	**$32.20**	**$61.15**	**$100.28**	**$69.73**
EBT per client per day	**$9.44**	**$10.56**	**$17.91**	**$29.63**	**$18.98**
EBITDA per client per annum	**$3,485**	**$3,993**	**$6,643**	**$11,384**	**$7,141**
KPI's					
Profit Margin	35.30%	24.70%	22.66%	22.81%	21.40%
Average total staff hours per client per week	2.05	4.36	8.05	12.43	8.81
Net Growth Rate	(13.93%)	1.49%	63.66%	16.12%	36.93%
Net Retention Rate	86.07%	100.00%	100.00%	100.00%	100.00%
Revenue utilisation for the period	72.63%	87.04%	85.97%	93.14%	86.79%
Average Unspent Funds per client	$2,540	$3,330	$4,801	$6,638	$5,780
Cost of direct care (% of total revenue)	34.49%	44.33%	48.62%	44.64%	48.34%
Case management (% of total revenue)	5.80%	7.54%	10.69%	7.28%	8.93%
Administration (of total revenue)	24.02%	22.55%	17.67%	24.07%	20.67%

StewartBrown Aged Care Executive Team

Stuart Hutcheon

Managing Partner

Stuart Hutcheon is the head of our Audit and Assurance Division, but 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.

Prior to joining StewartBrown Stuart held positions in commerce and undertook various medium-term secondments in various financial accounting roles. He has been a partner since 2004.

Stuart holds a Bachelor of Commerce and is a Chartered Accountant, Registered Company Auditor and Registered SMSF Auditor.

Grant Corderoy

Senior Partner

Grant is the head of our expanding Consulting division. He specialises in a range of services for his clients including undertaking complex accounting assignments, system reviews, management consulting, specialised audits and general business advice. He also has considerable experience in advising clients on the sale and purchases of businesses, business valuations and due diligence.

Grant has over 40 years' experience in the profession and was previously responsible for the Audit and Aged Care Division which he established in 1990. A partner in the firm since 1995, he has significant professional expertise within the not-for-profit sector and has a lengthy client list including many national aged care providers and community service providers.

Grant has tertiary business qualifications and is an Affiliate of Chartered Accountants Australia and New Zealand.

David Sinclair |Partner

David is Partner with StewartBrown specialising in providing services and advice to the aged care and community services businesses with a focus on the not-for-profit sector. Until recently, David managed the StewartBrown Aged Care Financial Performance Survey. David now leads the internal audit team and jointly leads the consulting team in conjunction with Senior Partner Grant Corderoy. David holds a Bachelor of Economics, is a Chartered Accountant, an Associate Member of the Institute of Internal Auditors and Member of the Australian Institute of Company Directors.

Tracy Thomas

Senior Manager | Benchmark Services & Business Analysis

Tracy is a Chartered Accountant and Associate Actuary. Since joining StewartBrown in 2016, she has been involved with the ACFPS and now heads the team undertaking the survey. She has worked with several providers of residential aged care and home care on consulting assignments and produced the Corporate Administration Reports and Listed Providers Analysis updates. She specialises in data analysis and financial modelling.

Annette Gough

Senior Manager | Consulting

Annette is a CPA who has recently joined StewartBrown in the position of Senior Manager within our Consulting division. She has extensive experience in the NFP industry with her most recent role being responsible for budgets, forecasting and reporting for a large not for profit provider. She specialises in business partnering to align the financials and reporting with service delivery. Prior to this, she has held various senior positions within the Commercial sector with a key focus on driving performance.

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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