

## AGED CARE FINANCIAL PERFORMANCE SURVEY



## HOME CARE REPORT - SEPTEMBER 2017

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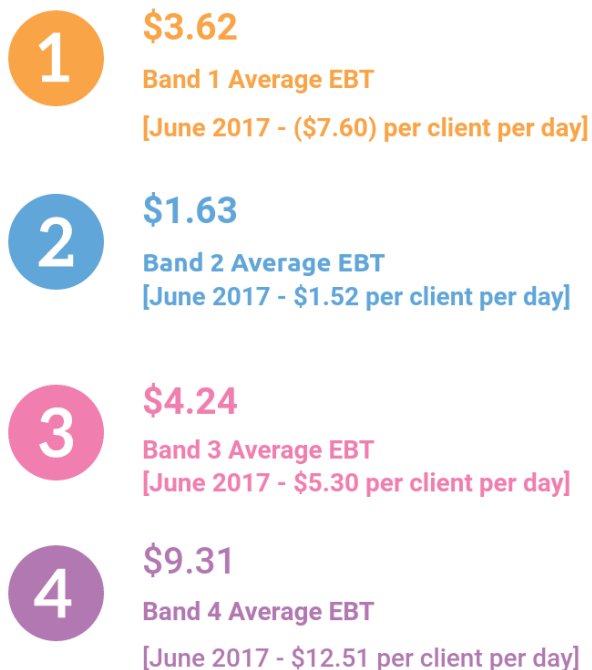
The September 2017 StewartBrown *Aged Care Financial Performance Survey* (ACFPS) incorporates detailed financial and supporting data from over 420 home care programs and over 830 residential aged care facilities across Australia. The quarterly survey is the largest benchmark within the aged care sector 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



## TOP QUARTILE



## REVENUE UTILISATION



**74.5%** Band 1 Average [June 2017: 75.8%]



**73.9%** Band 2 Average [June 2017: 91.5%]



**86.1%** Band 3 Average [June 2017: 92.7%]



**92.5%** Band 4 Average [June 2017: 93.9%]

## TOP QUARTILE



**85.9%** Band 1 Top Quartile [June 2017: 79.3%]



**80.4%** Band 2 Top Quartile [June 2017: 91.6%]



**88.2%** Band 3 Top Quartile [June 2017: 88.3%]



**94.0%** Band 4 Top Quartile [June 2017: 95.4%]

## NET MARGIN

- 1** **13.4%**  
 Band 1 Average EBT as % of revenue  
 [June 2017: (31.4%) ]
- 2** **3.9%**  
 Band 2 Average EBT as % of revenue  
 [June 2017: 3.6%]
- 3** **6.1%**  
 Band 3 Average EBT as % of revenue  
 [June 2017: 7.4%]
- 4** **7.5%**  
 Band 4 Average EBT as % of revenue  
 [June 2017: 9.5%]

## TOP QUARTILE

- 1** **27.2%**  
 Band 1 Top Quartile EBT as % of revenue  
 [June 2017: 13.3%) ]
- 2** **31.6%**  
 Band 2 Top Quartile EBT as % of revenue  
 [June 2017: 21.5%]
- 3** **25.8%**  
 Band 3 Top Quartile EBT as % of revenue  
 [June 2017: 26.7%]
- 4** **24.2%**  
 Band 4 Top Quartile EBT as % of revenue  
 [June 2017: 26.8%]

## 2. EXECUTIVE SUMMARY

This report focuses predominately on the comparison of the September 2017 quarter results compared to the June 2017 results. As the sector continues the consumer directed journey, the importance of understanding ongoing trends across the reform continuum remain critical.

Home Care Package (HCP) financial performance has declined over the three months to September 2017. This decline appears to be due to providers revising their pricing methodologies; the impact of which is seeing lower pricing whilst delivering a similar or slightly higher number of services. Both total income per hour worked and revenue utilisation has fallen. Staff hours have increased slightly.

The Department's "Home care packages program data report 1 July – 30 September 2017" states that as at 30 June 2017 there were 71,423 consumers in a home care package, an increase of 4.0% since 31 December 2016. Conversely, during the same period, the StewartBrown survey shows a reduction in the number of packages at a provider level of 3.9%. In the September quarter, there has been a turn around with providers in the survey experiencing on average a 3.8% increase in the number of packages.

### Key Performance Indicators

The ongoing use and measurement of agreed Key Performance or Financial indicators is paramount in any business, however of equal importance is the accountability of these indicators. StewartBrown recommends that the package case managers or co-ordinators play a key role in the below metrics.

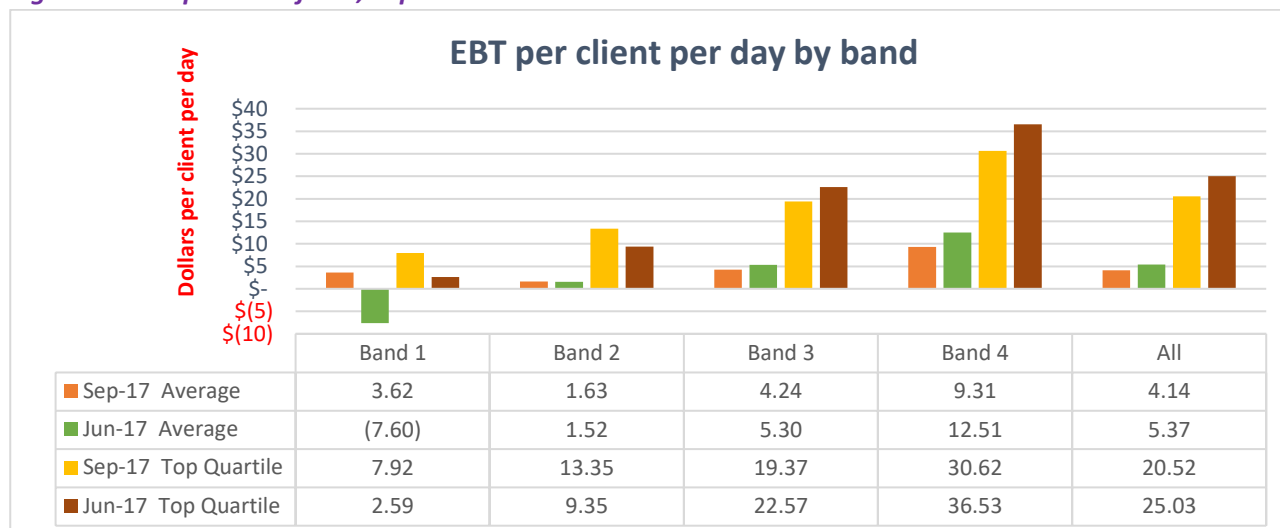
Engagement Time	<ul style="list-style-type: none"> <li>•The time from first enquiry to client engagement</li> <li>•Recommended: First target 24 hours, second target 3 days</li> </ul>
Package retention and growth	<ul style="list-style-type: none"> <li>•Sales techniques</li> <li>•Engagement with clients</li> </ul>
Revenue utilisation	<ul style="list-style-type: none"> <li>•Total income recognised as percentage of total funding</li> <li>•Recommended: 95%</li> </ul>
Direct Care Cost	<ul style="list-style-type: none"> <li>•Care costs of wages, on-costs and travel (excludes provider admin costs or margin)</li> <li>•Recommended: 52 - 53%</li> </ul>
Employee Productivity	<ul style="list-style-type: none"> <li>•Billable hours as a percentage of total hours worked (excluding training and leave)</li> <li>•Recommended: 85% -90%</li> </ul>

## 3. RESULTS ANALYSIS AND OVERVIEW

### Survey Results Overview

The September 2017 quarter shows a decline in the net result with the survey *Average* earnings before tax (EBT) at \$4.14 per client per day (pcpd) compared to \$5.37 pcpd as at June 2017.

**Figure 1: Comparison of EBT, September 2017 versus June 2017**



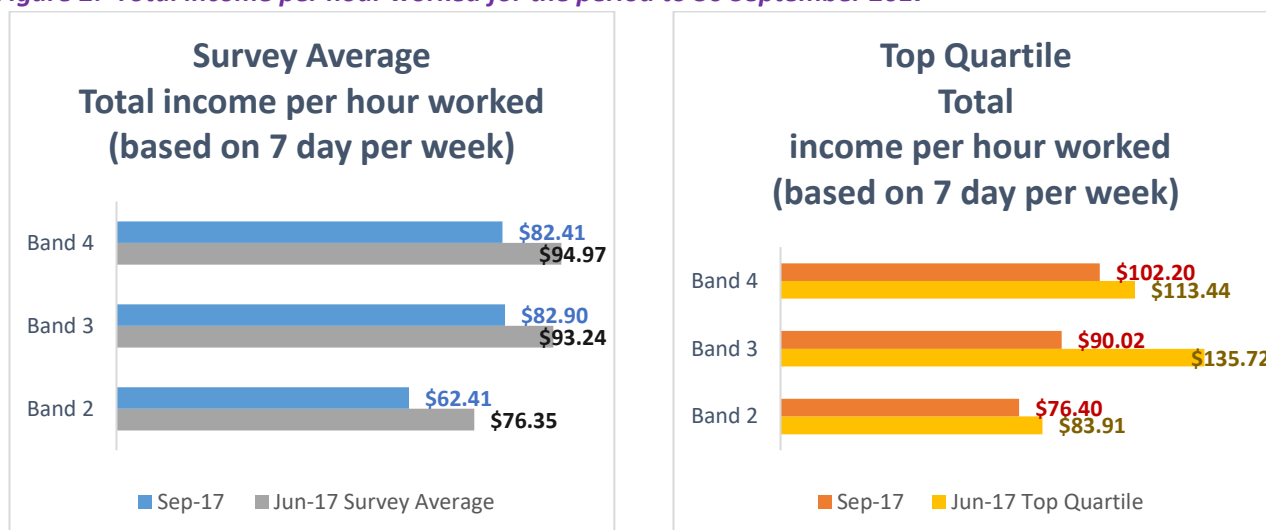
*\*Due to the small number of packages in Band 1, there is considerable volatility from quarter to quarter and results should be used with caution.*

#### Brief commentary

- ◆ The EBT per client per day for the Survey *Average* and *Top Quartile* has declined which is represented by a revenue reduction of 8%; this has been partially offset with a 7% reduction in service provision and administration costs
- ◆ The decline in revenue is likely due to providers reducing their pricing with service provision costs (direct service and brokered) not reducing at the same rate as revenue
- ◆ Whilst the survey *Average* shows a decrease in direct service costs, case management and co-ordination costs, the main reduction in expenses is from administration and support services. This could be a combination of end of financial year accounting impacting the results (bearing in mind these are the results for one quarter only) or providers starting to review their administration and support service costs
- ◆ Whilst total expenditures have decreased across all bands, for Bands 3 and 4 the revenue has declined more leading to the reduction in EBT
- ◆ The EBT of Band 2 (comprised mostly of Level 2 & 3 packages) has increased as the reduction in expenses is greater than the reduction in revenue

There are ongoing large variations in performance between the survey *Average* and the *Top Quartile* - especially in Band 2 and Band 4 (as shown in the figures below). The total income per hour worked (direct services and sub-contracted and brokered) measures the amount of income generated by employee hours worked. 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.

**Figure 2: Total income per hour worked for the period to 30 September 2017**

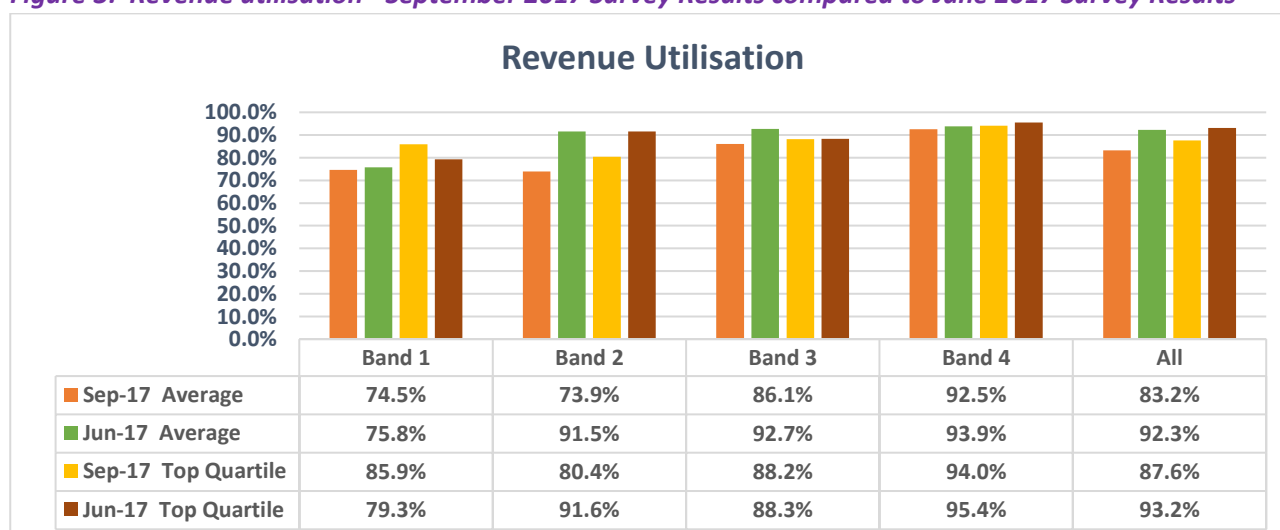


*\*Due to the small number of packages in Band 1, there is considerable volatility from quarter to quarter and results should have been excluded.*

## 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 three-month period to September 2017.

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



*\*Due to the small number of packages in Band 1, there is considerable volatility from quarter to quarter and results should be used with caution.*

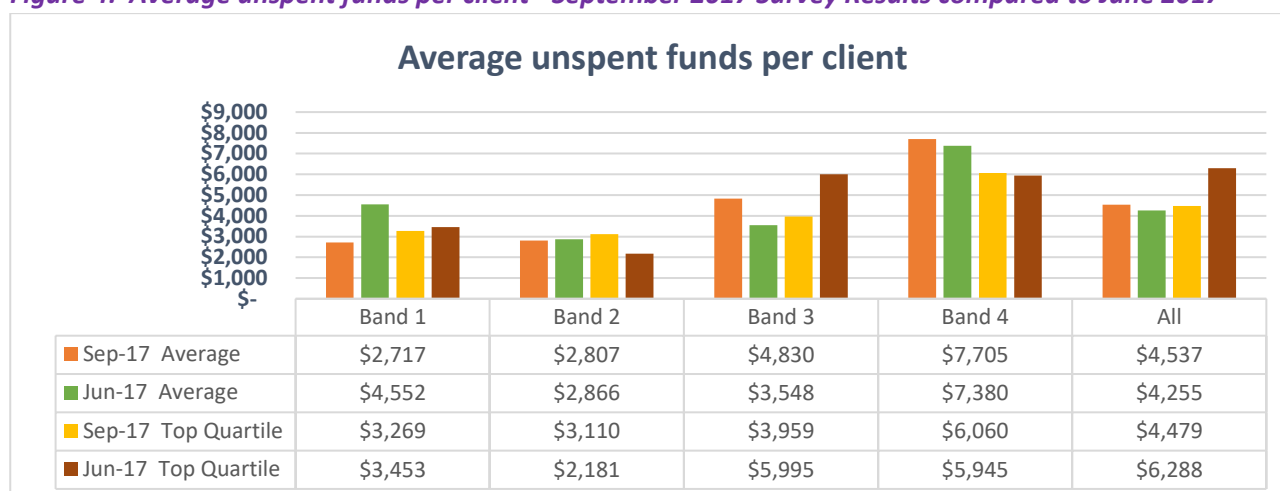


### Brief commentary

- ◆ The survey *Average* revenue utilisation for September 2017 was 83.2% down from 92.3% in June 2017. The recommended target is an average of 95%
- ◆ It is not surprising that the survey shows lower revenue utilisation given 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 knee jerk reaction to the number of providers entering the market.

The average unspent funds per client is a measure of the total unspent funds divided by the total number of clients (packages) as at 30 September 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 (three months to 30 September 2017).

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



*\*Due to the small number of packages in Band 1, there is considerable volatility from quarter to quarter and results should be used with caution.*

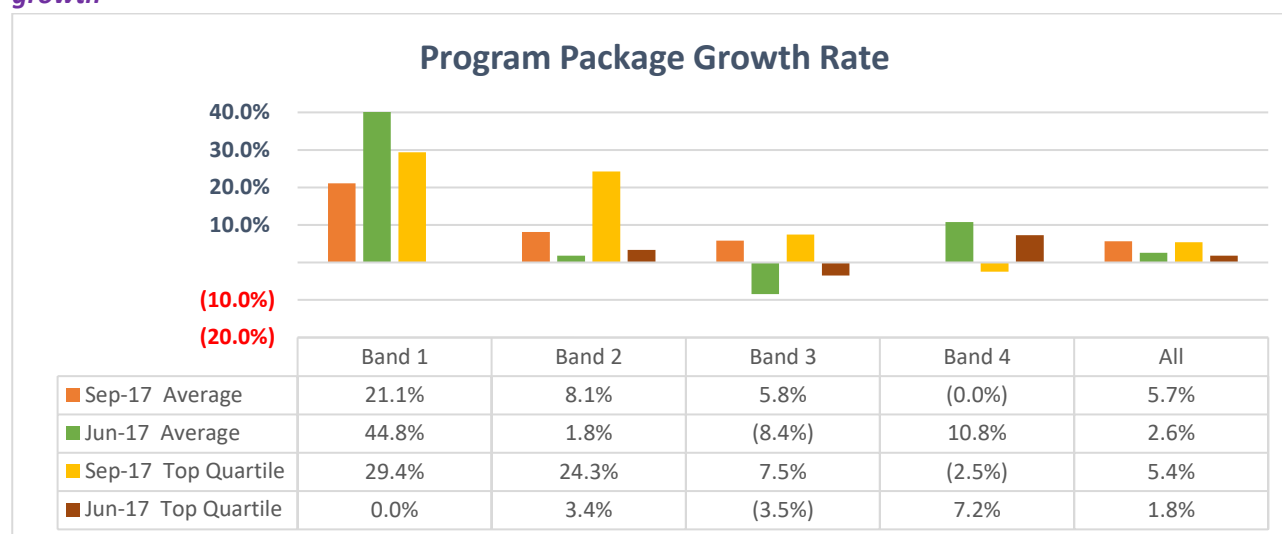
### Package Retention and Growth

The Department released a document in December 2017 entitled, “Home Care Packages Program Data Report 1 July - 30 September 2017” which contains recent data on home care packages and providers. This report cited a further 4.2% 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 - move to another provider, move to residential care or pass away.

Package growth as measured by StewartBrown is based on the number of packages as at 30 September 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*.

**Figure 5: Program package growth rate from 30 June 2017 to 30 September 2017 and June 2017 annual growth**



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#### **Brief commentary**

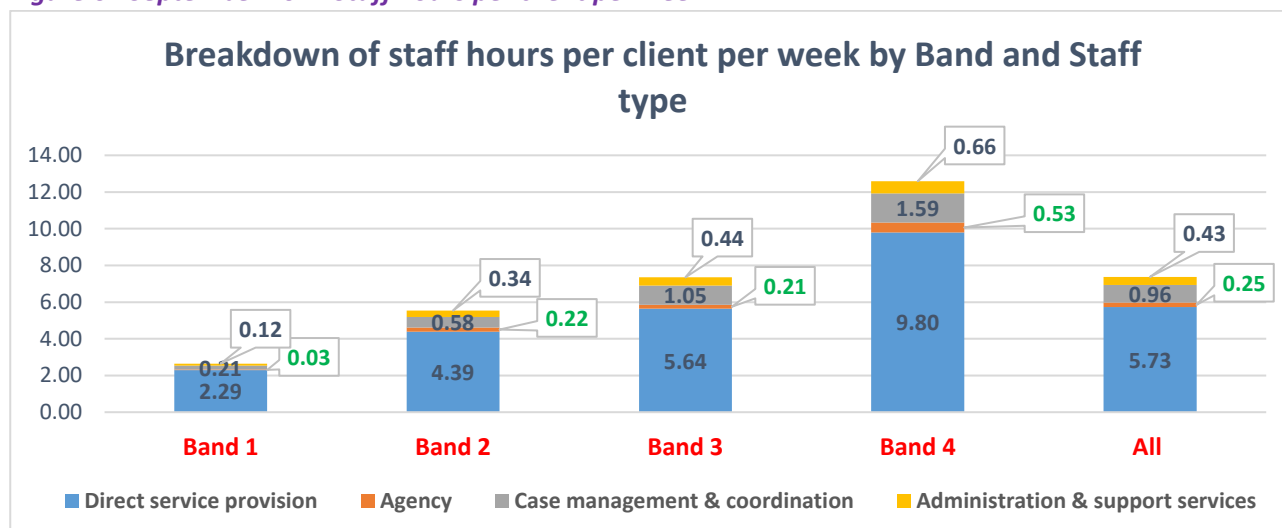
- ◆ The growth in packages is slowly starting to pick up - in the survey *Average* there has been 5.7% growth at a program level which is an increase from the June 2017 growth rate of 2.6%
- ◆ The *Top Quartile* has experienced a similar growth rate 5.4% to the survey *Average*
- ◆ However, the growth is not evenly spread across Bands: - ignoring Band 1 growth (as package numbers are small and any growth rate is therefore high), we can see that Band 2 and 3 are experiencing growth with Band 4 package numbers declining
- ◆ We have performed some analysis on growth rate at a provider level and found that the average growth in the September quarter was an average increase of 3.8%. This follows an average decrease of 3.9% over the period from 31 December 2016 to 30 June 2017.

#### **Staffing and Staff Hours**

For the quarter ending September 2017, the survey average of total staff hours was 7.37 hours per client per week which is slightly higher than the June 2017 survey average of 7.16 hours per client per week.

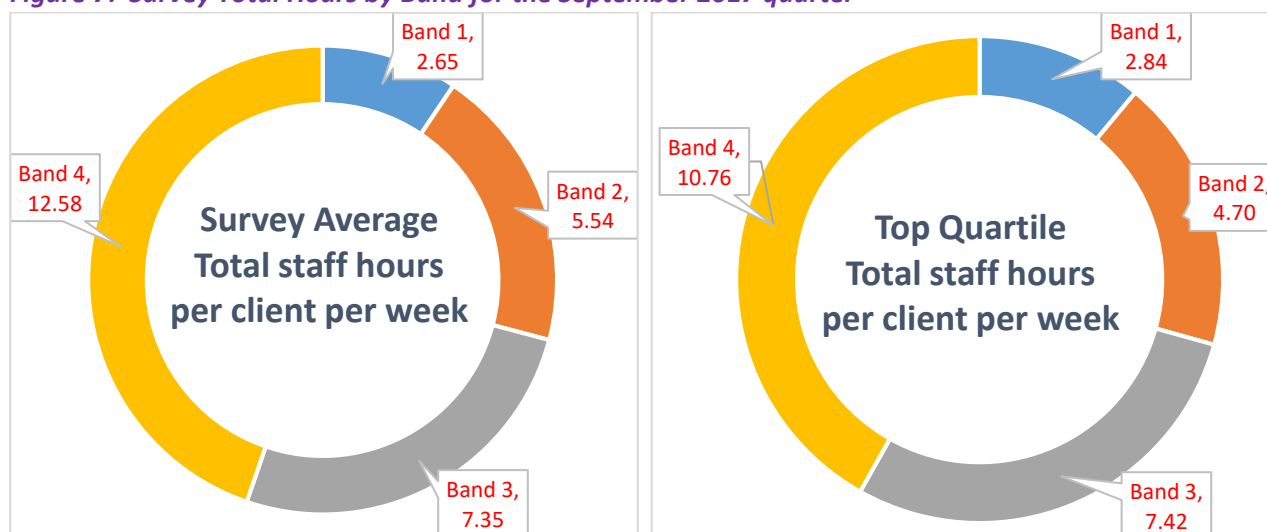
	Sept-17	Jun-17	
<b>Direct service provision</b>	5.73	5.31	↑
<b>Agency</b>	0.25	0.44	↓
<b>Case management &amp; coordination</b>	0.96	0.83	↑
<b>Administration &amp; support services</b>	0.43	0.58	↓
<b>Total Staff Hours</b>	7.37	7.16	↑

**Figure 6: September 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 and results should be used with caution.*

**Figure 7: Survey Total Hours by Band for the September 2017 quarter**

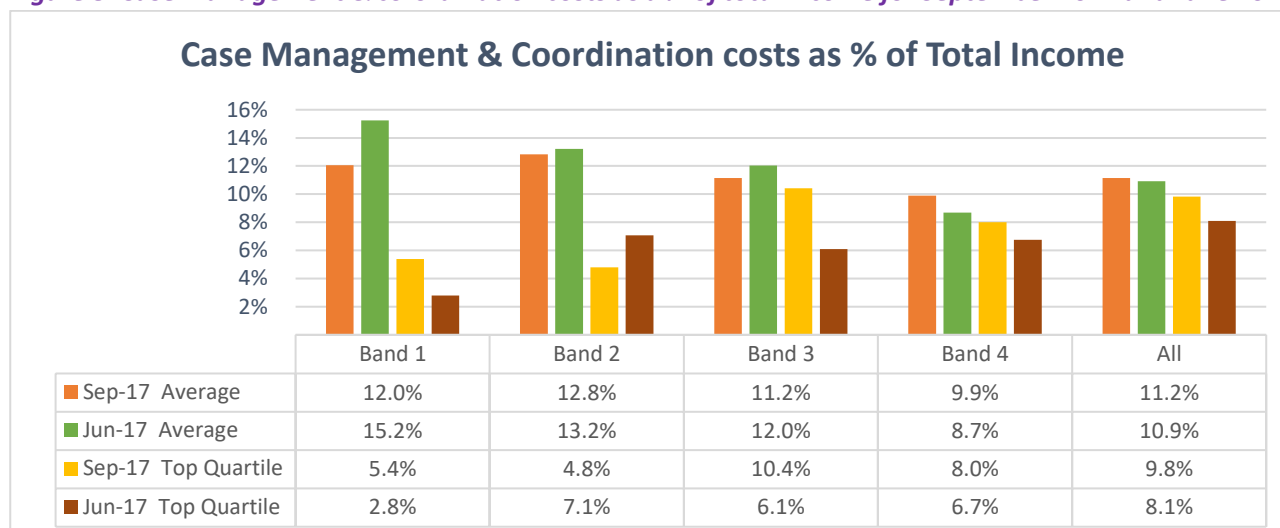


*\*Due to the small number of packages in Band 1, there is considerable volatility from quarter to quarter and results should be used with caution.*

## Case Management & Co-ordination Costs

As mentioned in our previous reports, one of the key roles in home care is the case manager or advisor. It is important to define the Key Performance Indicators that this role is responsible for as well as clearly outline the ratio of clients to case managers. The data tells us that top quartile providers are recognising the importance of case managers and the role they play with clinical and operational KPIs (of note in Band 3 and 4) with increased case management and co-ordination costs as a percentage of total income for the three months to September 2017. The survey *Average* has increased case management and co-ordination costs in Band 4.

**Figure 8: Case management & co-ordination costs as a % of total income for September 2017 and June 2017**

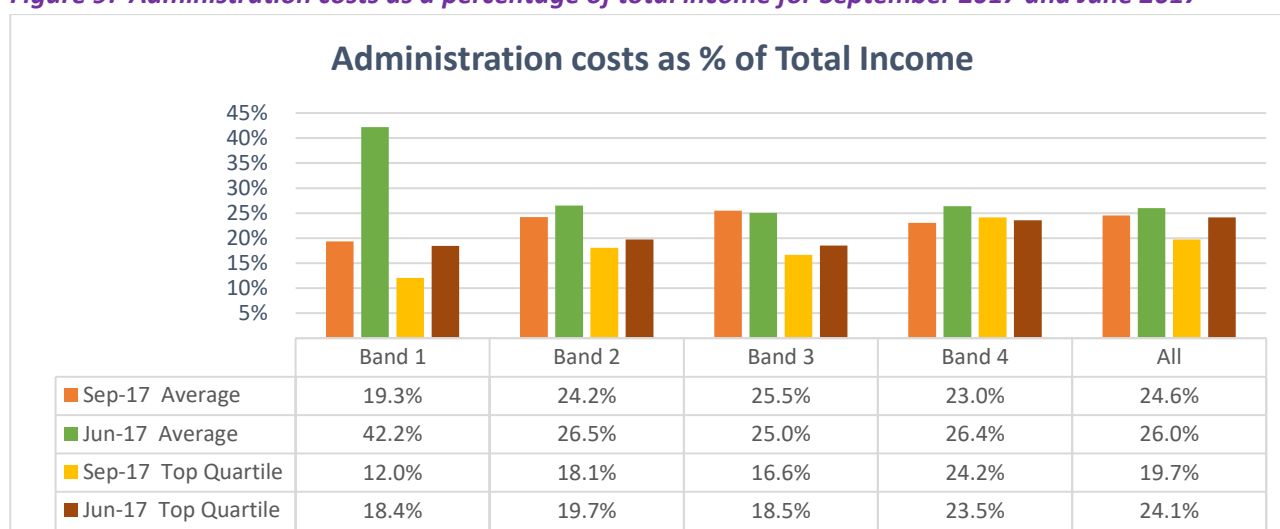


*\*Due to the small number of packages in Band 1, there is considerable volatility from quarter to quarter and results should be used with caution.*

## Administration Fees

Administration fees, whilst necessary, will require ongoing continuous improvement by providers. As discussed above, these costs have decreased by 1.4% in the survey average and 4.4% in the top quartile when comparing to June 2017. 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.

**Figure 9: Administration costs as a percentage of total income for September 2017 and June 2017**



*\*Number of packages in Band 1 is too small and thus experiences volatility from quarter to quarter therefore should be used with caution.*

## Brief commentary

- ♦ Reduction in administration costs for survey average as percentage of income to 24.6% from 26%
- ♦ We would not necessarily expect administration costs to reduce in line with revenue, thus expect providers have been focusing on achieving economies of scale
- ♦ September quarter results show a reduction in administration and support services of \$2.51 pcpd for the survey Average. The main reductions were in corporate recharge, staff costs and IT expenses

## 4. DATA TABLES

**Table 1: September 2017 Survey Average Results**

September 2017 Survey Average Results					
	Band 1	Band 2	Band 3	Band 4	All
<b>Revenue</b>	<b>\$26.95</b>	<b>\$41.52</b>	<b>\$69.26</b>	<b>\$123.51</b>	<b>\$67.64</b>
<b>Expenditure</b>					
Direct Services	\$12.05	\$21.07	\$34.57	\$63.27	\$34.08
Brokered Services	\$2.74	\$3.19	\$4.75	\$9.41	\$4.90
Case Management & Coordination	\$3.25	\$5.32	\$7.73	\$12.22	\$7.54
Administration & Support	\$5.21	\$10.06	\$17.65	\$28.45	\$16.61
Depreciation	\$0.08	\$0.25	\$0.33	\$0.86	\$0.38
<b>Total Expenditure</b>	<b>\$23.33</b>	<b>\$39.89</b>	<b>\$65.02</b>	<b>\$114.20</b>	<b>\$63.50</b>
<b>EBT per client per day</b>	<b>\$3.62</b>	<b>\$1.63</b>	<b>\$4.24</b>	<b>\$9.31</b>	<b>\$4.14</b>
<b>EBITDA per client per annum</b>	<b>\$1,352</b>	<b>\$688</b>	<b>\$1,668</b>	<b>\$3,710</b>	<b>\$1,646</b>
<b>KPI's</b>					
Profit Margin	13.4%	3.9%	6.1%	7.5%	6.1%
Net Growth Rate	21.1%	8.1%	5.8%	0.0%	5.7%
Net Retention Rate	100.0%	100.0%	100.0%	100.0%	95.6%
Revenue utilisation for the period	74.5%	73.9%	86.1%	92.5%	83.2%
Average Unspent Funds per client	\$2,717	\$2,807	\$4,830	\$7,705	\$4,537
Cost of direct care (% of total revenue)	54.9%	58.4%	56.8%	58.8%	57.6%
Case management (% of total revenue)	12.0%	12.8%	11.2%	9.9%	11.2%
Administration (of total revenue)	19.3%	24.2%	25.5%	23.0%	24.6%

**Table 2: September 2017 Survey Top Quartile Results**

September 2017 Top Quartile Results					
	Band 1	Band 2	Band 3	Band 4	All
<b>Revenue</b>	<b>\$29.17</b>	<b>\$42.22</b>	<b>\$75.13</b>	<b>\$126.51</b>	<b>\$90.19</b>
<b>Expenditure</b>					
Direct Services	\$13.18	\$16.27	\$29.41	\$47.01	\$37.26
Brokered Services	\$2.92	\$2.69	\$5.79	\$6.81	\$5.25
Case Management & Coordination	\$1.57	\$2.03	\$7.83	\$10.13	\$8.86
Administration & Support	\$3.51	\$7.63	\$12.50	\$30.56	\$17.80
Depreciation	\$0.07	\$0.26	\$0.22	\$1.39	\$0.49
<b>Total Expenditure</b>	<b>\$21.25</b>	<b>\$28.87</b>	<b>\$55.75</b>	<b>\$95.89</b>	<b>\$69.66</b>
<b>EBT per client per day</b>	<b>\$7.92</b>	<b>\$13.35</b>	<b>\$19.37</b>	<b>\$30.62</b>	<b>\$20.52</b>
<b>EBITDA per client per annum</b>	<b>\$2,917</b>	<b>\$4,967</b>	<b>\$7,150</b>	<b>\$11,683</b>	<b>\$7,671</b>
<b>KPI's</b>					
Profit Margin	27.2%	31.6%	25.8%	24.2%	24.2%
Net Growth Rate	29.4%	24.3%	7.5%	-2.5%	29.4%
Net Retention Rate	100.0%	100.0%	100.0%	97.5%	100.0%
Revenue utilisation for the period	85.9%	80.4%	88.2%	94.0%	94.0%
Average Unspent Funds per client	\$3,269	\$3,110	\$3,959	\$6,060	\$6,060
Cost of direct care (% of total revenue)	55.2%	44.9%	46.9%	42.5%	47.1%
Case management (% of total revenue)	5.4%	4.8%	10.4%	8.0%	9.8%
Administration (of total revenue)	12.0%	18.1%	16.6%	24.2%	19.7%

## 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 Aged Care Financial Performance Survey 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.

#### CONTACT US

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