



## AGED CARE FINANCIAL PERFORMANCE SURVEY



## HOME CARE REPORT - MARCH 2017

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The StewartBrown *Aged Care Financial Performance Survey* (ACFPS) incorporates detailed financial and supporting data from over 479 Home Care programs and 869 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 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 440 home care programs.

"Advice using your language, supporting your goals"

### AGED CARE FINANCIAL PERFORMANCE SURVEY

855<sup>+</sup>

RESIDENTIAL  
CARE FACILITIES

480<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

# HIGHLIGHTS: OPERATING RESULTS (EBIT)

1

**\$(4.88)**

Band 1 Average EBIT - \$(4.88) per client per day

- December 2016 - \$(4.21) per client per day
- June 2016 - \$(8.70) per client per day

2

**\$1.69**

Band 2 Average EBIT - \$1.69 per client per day

- December 2016 - \$0.83 per client per day
- June 2016 - \$(0.99) per client per day

3

**\$7.45**

Band 3 Average EBIT \$7.45 per client per day

- December 2016 - \$6.63 per client per day
- June 2016 - \$3.51 per client per day

4

**\$12.54**

Band 4 Average EBIT \$12.54 per client per day

- December 2016 - \$16.07 per client per day
- June 2016 - \$11.77 per client per day



**\$3.79**

Top Quartile Band 1 Average EBIT \$3.79 per client per day

- December 2016 - \$2.93 per client per day
- June 2016 - \$4.90 per client per day



**\$9.62**

Top Quartile Band 2 Average EBIT \$9.62 per client per day

- December 2016 - \$8.87 per client per day
- June 2016 - \$6.87 per client per day



**\$20.87**

Top Quartile Band 3 Average EBIT \$20.87 per client per day

- December 2016 - \$21.97 per client per day
- June 2016 - \$16.97 per client per day



**\$34.26**

Top Quartile Band 4 Average EBIT \$34.26 per client per day

- December 2016 - \$41.59 per client per day
- June 2016 - \$36.26 per client per day



# HIGHLIGHTS: REVENUE UTILISATION



**77.6%** Band 1 Average Revenue Utilisation  
77.6%

December 2016 - 79.7%

June 2016 - 80.8%



**91.1%** Band 2 Average Revenue utilisation  
91.1%

December 2016 - 90.8%

June 2016 - 85.0%



**93.5%** Band 3 Average Revenue utilisation  
93.5%

December 2016 - 90.5%

June 2016 - 89.3%



**95.3%** Band 4 Average Revenue utilisation  
95.3%

December 2016 - 94.2%

June 2016 - 85.4%



**53.2%** Top Quartile Band 1 Average Revenue Utilisation 53.2%

December 2016 - 82.1%

June 2016 - 86.4%



**91.5%** Top Quartile Band 2 Average Revenue Utilisation 91.5%

December 2016 - 91.9%

June 2016 - 86.9%



**89.0%** Top Quartile Band 3 Average Revenue Utilisation 89.0%

December 2016 - 91.1%

June 2016 - 84.0%

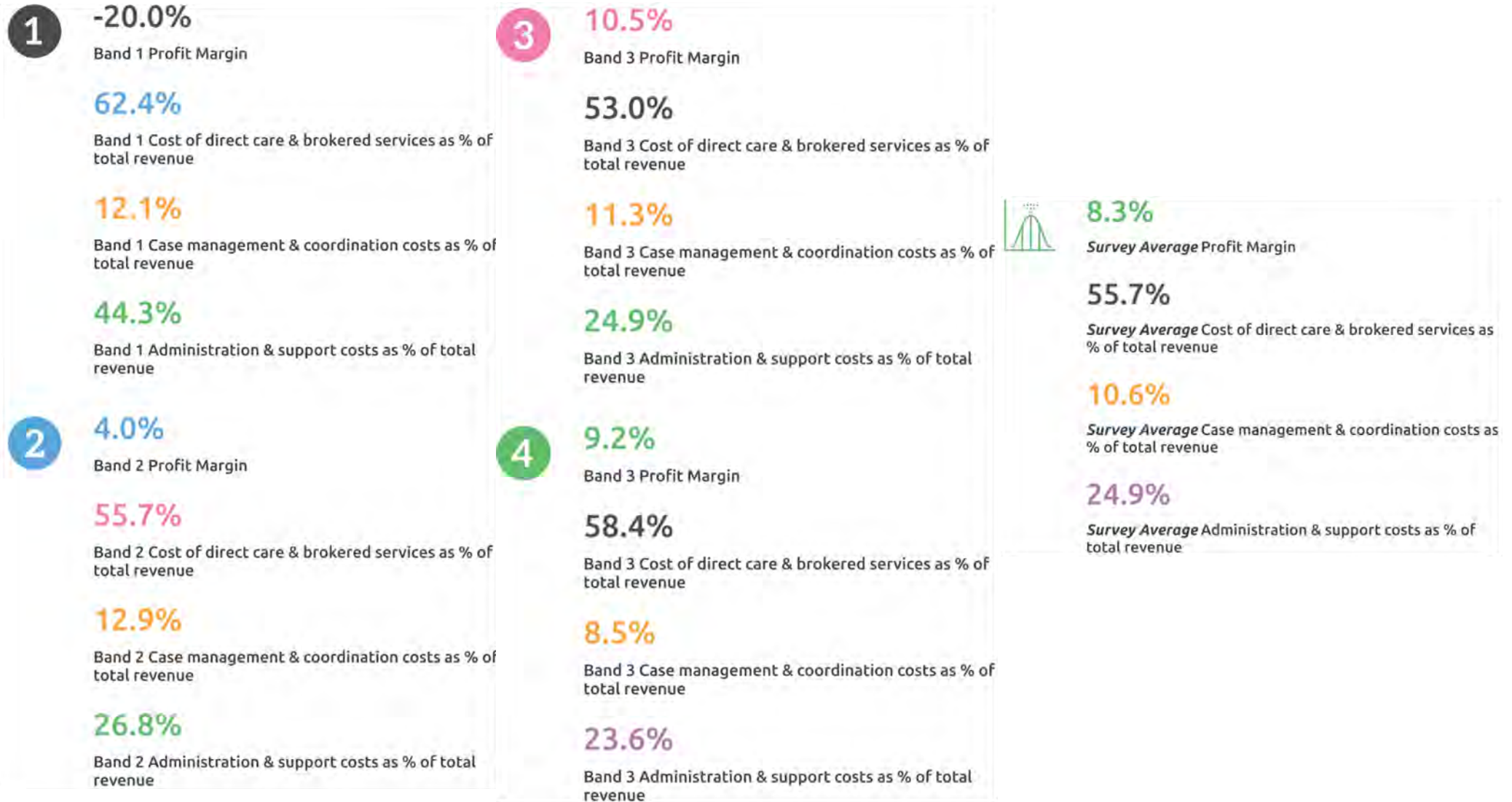


**96.2%** Top Quartile Band 4 Average Revenue Utilisation 96.2%

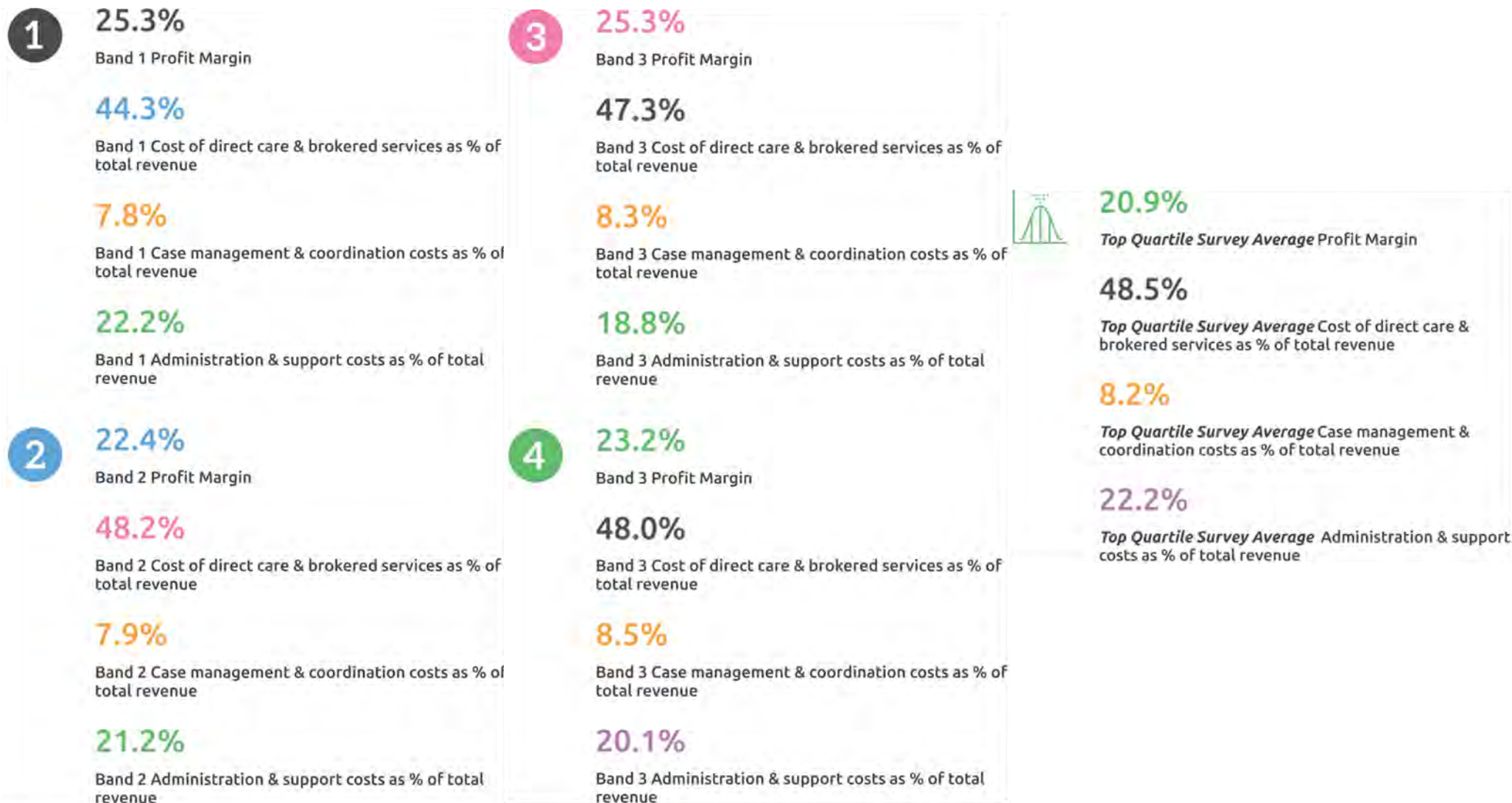
December 2016 - 96.8%

June 2016 - 86.8%

# SURVEY AVERAGE EXPENDITURE ANALYSIS



# TOP QUARTILE EXPENDITURE ANALYSIS





## HIGHLIGHTS: STAFF HOURS



**3.2** Band 1 Average total staff hours per client per week

December 2016 - 2.6

June 2016 - 4.3



**1.0** Top Quartile Band 1 Average total staff hours per client per week

December 2016 - 2.7

June 2016 - 0.5



**4.8** Band 2 Average total staff hours per client per week

December 2016 - 5.0

June 2016 - 5.2



**4.3** Top Quartile Band 2 Average total staff hours per client per week

December 2016 - 4.3

June 2016 - 4.5



**6.5** Band 3 Average total staff hours per client per week

December 2016 - 7.0

June 2016 - 6.0



**5.8** Top Quartile Band 3 Average total staff hours per client per week

December 2016 - 5.6

June 2016 - 6.9



**12.8** Band 4 Average total staff hours per client per week

December 2016 - 12.7

June 2016 - 12.0



**12.4** Top Quartile Band 4 Average total staff hours per client per week

December 2016 - 10.8

June 2016 - 14.7



## HIGHLIGHTS: UNSPENT FUNDS

1

**\$2,209** Band 1 Average of ALL unspent funds per client per package

**\$502**

Top Quartile Band 1 Average of ALL unspent funds per client per package

2

**\$2,497** Band 2 Average of ALL unspent funds per client per package

**\$2,129**

Top Quartile Band 2 Average of ALL unspent funds per client per package

3

**\$2,948** Band 3 Average of ALL unspent funds per client per package

**\$4,586**

Top Quartile Band 3 Average of ALL unspent funds per client per package

4

**\$7,426** Band 4 Average of ALL unspent funds per client per package

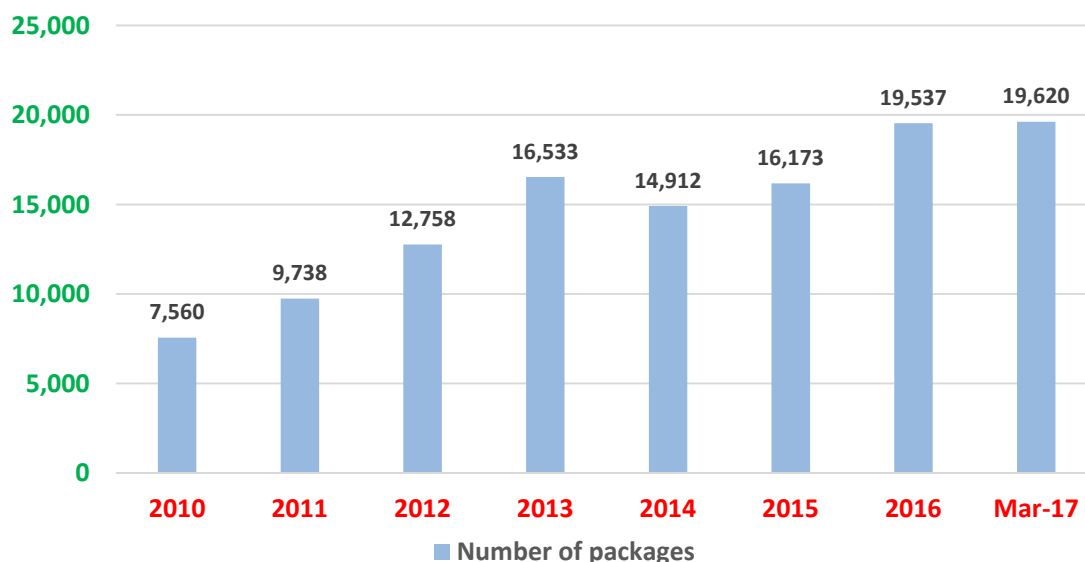
**\$5,757**

Top Quartile Band 4 Average of ALL unspent funds per client per package

## INTRODUCTION

The StewartBrown *Aged Care Financial Performance Survey* March 2017 report includes 479 Home Care Programs providing Home Care data for 19,620 individual Home Care Packages (HCP). The number of packages represented within the survey has grown by more than 170% since 2010 indicating that the data and trends outlined in the report provide the sector's most robust business 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 21 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 March 2017 survey report contains the summary analysis of more than **5.5 million** occupied client 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 has been introducing 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 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

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## EXECUTIVE SUMMARY

### Federal Budget

The 2017/18 Federal Budget did not hold much for aged care other than some cosmetic changes to programs or policy timings. As many have predicted it would appear that the complexity of combining CHSP and Home Care into a single program has seen the government delay integration until July 2020 in a measure stated as 'Extended funding for the Commonwealth Home Support Program'. As outlined in our ACFI options review StewartBrown would be hopeful that this points to the government considering a more holistic approach to sector funding of the care continuum. However, whatever the new funding instrument it will almost certainly not breach the \$99.3b total funding envelope outlined in the forward estimates for aged care:

- 2016-17: \$17.47b
- 2017-18: \$18.55b
- 2018-19: \$19.81b
- 2019-20: \$21.14b
- 2020-21: \$22.32b

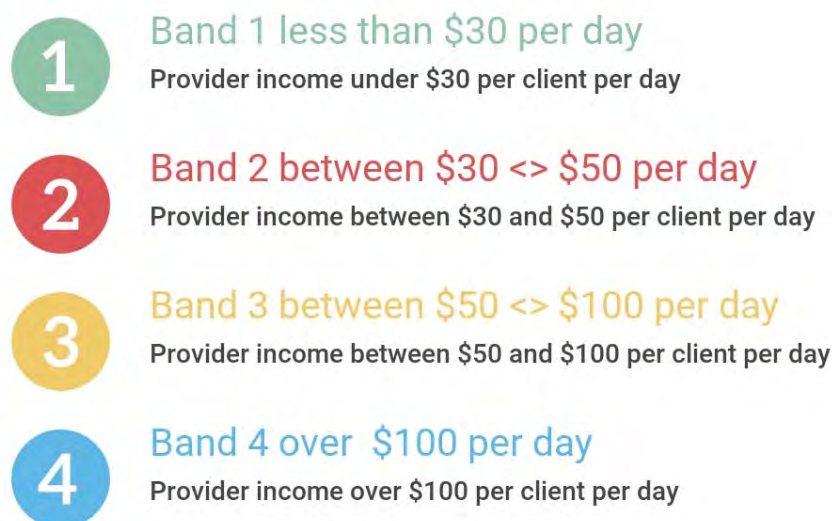
The government has committed to funding a sector driven taskforce to develop a workforce strategy with a "cost neutral" \$1.9 million. Given the reshaping of training funding and of course ACFI reductions we hope that this funding is sufficient to kick-start a suitable workforce plan.

In recent times it could be said that social housing is in fact seniors housing and is therefore a key component in stabilising the delivery of aged care services to at risk groups of seniors. Along with the superannuation incentive for "rightsizing" there are a range of measures to encourage the development and funding of social and affordable housing, namely:

- working with State and Territory governments to reform Commonwealth funding arrangements under a new National Housing and Homelessness Agreement, retaining current funding and indexation arrangements but requiring concrete outcomes
- providing additional funding of \$375 million over the next four years as part of the new National Housing and Homelessness Agreement to fund front line services to address homelessness
- encouraging social impact investing to support innovative approaches to reduce homelessness
- incentivising more private investment in affordable housing through tax incentives
- establishing the National Housing Finance and Investment Corporation to operate an affordable housing bond aggregator to provide cheaper and longer-term finance for the community housing sector
- working with State and Territory governments to set housing supply targets and facilitate planning and zoning reform under a new National Housing and Homelessness Agreement

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 few Level 1 packages being activated and this is unlikely to change. As a result we caution providers to be cognisant of this when assessing Level 1 financial performance. However the distribution of programs across the bands represent the distribution of packages in the sector.

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



### New Key Performance Indicators for Home Care

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.

The five Home Care KPIs StewartBrown are recommending providers' measure and monitor are:

#### 1. Client care plan engagement time

- This is a measure of time taken from first enquiry to the date of client engagement (date of client signing care plan). A pain point for providers will be the relationship between conversion time and conversion rate - essentially determining what an optimal window is for a referral to be turned into a service provision
- A number of aged care providers are setting their target for first engagement at 24 hours. If a client has not signed on within this 24-hour period, then they want to know why and how they can address this quickly
- If the time taken is extending out to 3-4 days, they will then assess whether it is still economic to spend any further time and effort on this client or whether they would be better off following up a new enquiry
- An additional measure related to this is the conversion rate - the percentage of enquiries that are converted into clients

#### 2. Package retention and growth in number of packages

- Previously this was package occupancy and measured the number of active or occupied funding packages divided by the number of available packages held by the provider
- With the deregulation of home care packages, this KPI should now measure the number of packages retained by the provider together with the growth in the number of packages. Noting that the pathway for package release, level and direction still requires clarity
- Analysing the StewartBrown March 2017 *Aged Care Financial Performance Survey* providers may need to skill staff up in sales techniques and approaches to ensure they are meeting or exceeding retention and growth targets



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### 3. Revenue or income utilisation

- Revenue utilisation is a measure of total income recognised as a percentage of total funding and resident fees received for the period
- StewartBrown are encouraging providers to try (as much as possible) to deliver the maximum spend of the package and measure that as a weekly percentage and are suggesting an appropriate target is 95%. Client wellbeing and attainment of this measure should be mutually inclusive
- Case Managers should be responsible for achieving this revenue utilisation target

### 4. Direct Care Cost % to Revenue

- The Direct Care Cost % to revenue KPI measures the cost of care which includes the direct care costs of wages, on-costs and travel. StewartBrown recommends an overall target level around 52-53%. This figure does not include provider administration costs or margin
- Note that these ratios may vary dependent on the ratio of packages held by a provider and many providers in Band 1 are obtaining a far better ratio than the survey *average*

### 5. Employee productivity

- As we will discuss later in the report 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
- Productivity within the healthcare realm has been notoriously fraught as there are a number of mitigating elements that can make this measure appear inequitable across similar work spaces

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 **employee 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.

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.

## RESULTS IN BRIEF

### Commentary

Results from the March 2017 *Aged Care Financial Performance Survey* provide little early indication of the effect of removing the ACAR process and increasing consumer choice through fund holding and portability. However, we would expect that the June 2017 results of the survey should return sufficient data to inform how the reform has affected providers.

Throughout the reform period there have been a number of lessons learnt by the sector in approaching the changes which can best be summed up as:

- Prepare early for changes
- Know the costs of providing individual items of service; in order to be,
- Be realistic in setting prices
- Be flexible and adapt
- Use technology wherever possible to gain efficiencies in service delivery

Even with these lessons being applied it is clear that the experience of many home care providers has been that consumer choice has come at a price to the provider - not so much to the consumer. More concerning was that margins declined even before further competition was introduced by the introduction of portability/fund holding. So, as with Residential Care and the initial ACFI fiscal cliff, it will be quite some time before results post CDC return to equivalent levels, if at all, but of course with significant headwinds that did not exist in 2014/15.

### Survey Average Results

**Table 1: Survey Averages March 2017 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>	↑\$(4.88)	↑\$1.69	↑\$7.45	↑\$12.54	↑\$6.05
EBIT \$ pcpd June 2016	\$(8.70)	\$(0.99)	\$3.51	\$11.77	\$2.91
<b>EBITDA \$ per client per annum</b>	↑\$(1,667)	↑\$702	↑\$2,809	↑\$4,726	↑\$2,310
EBITDA \$ pcpa June 2016	\$(3,112)	\$(266)	\$1,435	\$4,445	\$1,191
<b>KPI's</b>					
<b>Revenue utilisation March 2017</b>	↓78%	↑91%	↑94%	↑95%	↑93%
Revenue utilisation June 2016	81 %	85%	89%	85%	87%
<b>Total Profit Margin March 2017</b>	↑(20)%	↑4%	↑11%	↑9%	↑8%
Total Profit Margin June 2016	(41)%	(2)%	5%	9%	4%
<b>Average Total Staff hours per client per week March 2017</b>	↓3.24	↓4.85	↑6.48	↑12.78	↑7.09
Average Total Staff hours per client per week June 2016	4.29	5.17	6.01	11.98	6.59
<b>Average unspent funds per client</b>	\$2,209	\$2,497	\$2,948	\$7,426	\$3,612

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

- Results for the 9 months to March 2017 indicate that the uplift in subsidy rates, combined with improvements in cost management and revenue utilisation during the second half of 2016, has continued to show improvement in results.
- As noted earlier the reality is that there are not too many Level 1 packages being activated and this is unlikely to change, particularly with the CHSP reforms not occurring until 2020 so conditions for providers delivering Package Level 1 remain difficult with *average* Band 1 EBIT per client per day improving to **\$(4.88)** a minor setback to the December 2016 result of **\$(4.21)** but an increase of \$3.89 from June 2016 **\$(8.70)**.
- Bands 2-4 have all increased in the 9 months to March 2017 with *average* Band 2 EBIT per client per day climbing strongly by \$2.68 to **\$1.69** from June 2016 **\$(0.99)**.
- Band 3 has improved again in the March quarter increasing to **\$7.45** from the June 2016 EBIT per client per day of \$3.51; while,
- Band 4 performance has inched higher in March 2017 by \$0.77 to **\$12.54** by from June 2016 EBIT per client per day of **\$11.77**.

### Unspent funds (Revenue Utilisation)

- Bands 2-4 showed strong responses by the sector in reducing the amount of unspent funds that had been accumulating throughout the year prior to February 27 and posed a risk to providers should the client transfer to another provider.
- As we have discussed previously the Band 1 packages underperformed dropping in March 2017 to a Revenue Utilisation of **77.6%** falling 3.2% from June 2016 level of **80.8%**.
- Band 2 packages applied a 6.1% increase in the March quarter to **91.1%** from the June 2016 figure of **85.0%**. Band 3 packages developed by 4.2% to 93.5% from the June 2016 level of 89.3% while Band 4 performance increased strongly by 9.9% during the 9 months to March 2017 at **95.3%** from the June 2016 figure of **85.4%**.

### Average Margin on Direct Service Revenue

- Results for the Average margin on direct service revenue has been mixed in the March quarter with Band 1 showing the most volatility due to the small sample size.
- Band 2 packages retreated in March 2017 by (0.8%) to **55.7%** down on June 2016 **56.5%**.
- Band 3 inched up by 1.1% in March 2017 to **53.0%** from the June 2016 figure of **51.8%**.
- Band 4 grew moderately in March 2017 to **58.4%**, up 2.9% on the June 2016 number of **55.5%**.

## Top Quartile Results

**Table 2: Top Quartile for the year ended March 2017 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>	↑\$3.79	↓\$9.62	↓\$20.87	↓\$34.26	↑\$24.64
EBIT \$ pcpd June 2016	\$2.38	\$9.64	\$21.01	\$40.15	\$20.93
<b>EBITDA \$ per client per annum</b>	↓\$1,408	↑\$3,566	↑\$7,700	↑\$12,582	↑\$9,088
EBITDA \$ pcpa June 2016	\$1,802	\$2,594	\$6,344	\$13,300	\$7,781
<b>KPI's</b>					
<b>Revenue utilisation Dec 2016</b>	↓53%	↑92%	<>89%	↑96%	↑94%
Revenue utilisation June 2016	81%	85%	89%	85%	87%
<b>Total Profit Margin Dec 2016</b>	↑25%	↑22%	↑25%	↓23%	<>21%
Total Profit Margin June 2016	17.9%	16%	24%	27%	21%
<b>Average Total Staff hours per client per week Mar 2017</b>	↑1.0	↓4.3	↓5.8	↓12.4	↑10.6
Average Total Staff hours per client per week June 2016	0.5	4.5	6.9	14.7	8.5
<b>Average unspent funds per client</b>	\$502	\$2,129	\$4,586	\$5,757	\$5,827

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

\*Number of packages in Band 1 is too small to validate, so please use with caution

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.

Providers in the Top Quartile appear to have deliberately down regulated their exposure to programs in Band 1, as the reality is that there are only 14 programs with 141 x Level 1 packages across the whole sector activated and this is unlikely to change. Given Level 1 packages are notoriously difficult to sustain it is unsurprising that the Top Quartile of providers have limited their exposure to them, particularly with CHSP being extended until 2020.

Please note of course that the size of the *Aged Care Financial Performance Survey* means that the distribution of programs across the bands represent the distribution of packages in the sector.

Significantly for the Top Quartile of *Aged Care Financial Performance Survey* participants their results have improved through the 9 months to March 2017.



## RESULTS IN DETAIL

### March 2017 Survey Average Results

Table 3: Survey Average March 2017 Results

	Band 1	Band 2	Band 3	Band 4	All Programs
<b>Revenue</b>	<b>24.41</b>	<b>42.53</b>	<b>71.17</b>	<b>136.82</b>	<b>72.57</b>
<b>Expenditure</b>					
Direct services	13.89	21.54	33.74	69.86	36.00
Brokered services	1.32	2.16	3.95	10.01	4.44
Case management and coordination	2.95	5.50	8.06	11.68	7.72
Administration & support	10.80	11.42	17.72	32.32	18.08
Depreciation	0.31	0.23	0.25	0.41	0.28
<b>Total Expenditure</b>	<b>29.29</b>	<b>40.84</b>	<b>63.73</b>	<b>124.29</b>	<b>66.52</b>
<b>EBIT \$ per client per day</b>	<b>\$(4.88)</b>	<b>\$1.69</b>	<b>\$7.45</b>	<b>\$12.54</b>	<b>\$6.05</b>
<b>EBITDA \$ per client per annum</b>	<b>\$(1,667)</b>	<b>\$702</b>	<b>\$2,809</b>	<b>\$4,726</b>	<b>\$2,310</b>
<b>KPI's</b>					
<i>Profit Margin</i>	<b>(20.0)%</b>	4.0%	10.5%	9.2%	<b>8.3%</b>
<i>Average total staff hours per client per week</i>	3.24	4.85	6.48	12.78	<b>7.86</b>
<i>Net Growth rate</i>	<b>(1.2)%</b>	1.1%	<b>(2.8)%</b>	1.0%	0.0%
<i>Net Retention rate</i>	98.8%	100.0%	97.2%	100%	<b>97.7%</b>
<i>Revenue utilisation rate for the period</i>	77.6%	91.1%	93.5%	95.3%	<b>92.8%</b>
<i>Average unspent funds per client</i>	\$2,209	\$2,497	\$2,948	\$7,426	<b>\$3,612</b>
<i>Cost of direct care &amp; brokered services as % of total revenue</i>	62.4%	55.7%	53.0%	58.4%	<b>55.7%</b>
<i>Case management &amp; coordination costs as % of total revenue</i>	12.1%	12.9%	11.3%	8.5%	<b>10.6%</b>
<i>Administration &amp; support costs as % of total revenue</i>	44.3%	26.8%	24.9%	23.6%	<b>24.9%</b>

## March 2017 Survey Top Quartile Results

Table 4: Survey Top Quartile March 2017 Results

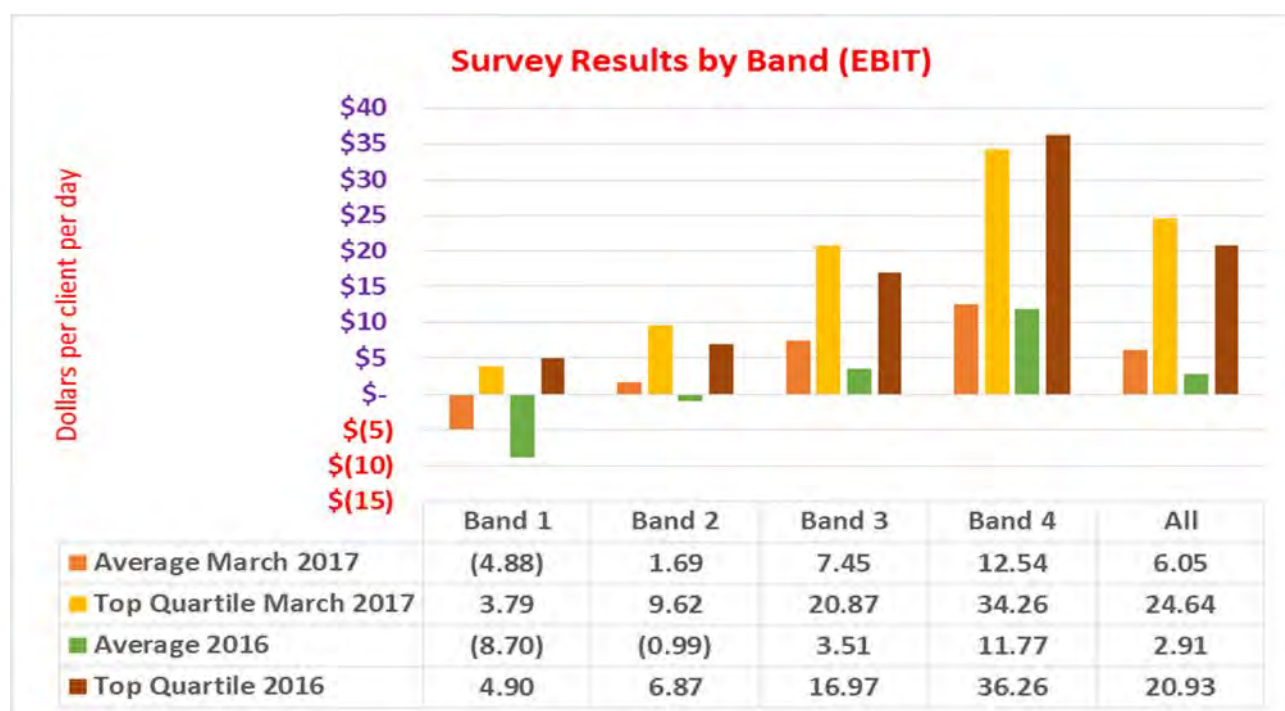
	Band 1*	Band 2	Band 3	Band 4	All Programs
<b>Revenue</b>	<b>15.00</b>	<b>43.01</b>	<b>82.62</b>	<b>147.45</b>	<b>117.89</b>
<b>Expenditure</b>					
Direct services	4.96	19.20	32.47	64.65	50.56
Brokered services	1.69	1.54	6.65	6.16	6.64
Case management and coordination	1.17	3.40	6.87	12.57	9.64
Administration & support	3.32	9.10	15.54	29.60	26.15
Depreciation	0.07	0.15	0.23	0.21	0.26
<b>Total Expenditure</b>	<b>11.20</b>	<b>33.39</b>	<b>61.76</b>	<b>113.19</b>	<b>93.25</b>
<b>EBIT \$ per client per day</b>	<b>\$3.79</b>	<b>\$9.62</b>	<b>\$20.87</b>	<b>\$34.26</b>	<b>\$24.64</b>
<b>EBITDA \$ per client per annum</b>	<b>\$1,408</b>	<b>\$3,566</b>	<b>\$7,700</b>	<b>\$12,582</b>	<b>\$9,088</b>
<b>KPI's</b>					
Profit Margin	25.3%	22.4%	25.3%	23.2%	<b>20.9%</b>
Average total staff hours per client per week	0.97	4.29	5.79	12.35	<b>10.64</b>
Revenue utilisation	53.2%	91.5%	89.0%	96.2%	<b>94.0%</b>
Average unspent funds per client	502	2,129	4,586	5,757	<b>5,827</b>
Cost of direct care & brokered services as % of total revenue	44.3%	48.2%	47.3%	48.0%	<b>48.5%</b>
Case management & coordination costs as % of total revenue	7.8%	7.9%	8.3%	8.5%	<b>8.2%</b>
Administration & support costs as % of total revenue	22.2%	21.2%	18.8%	20.1%	<b>22.2%</b>

\*Number of packages in Band 1 is too small to validate, so please use with caution

## Profitability

**Figure 3** below indicates that there has been improvement in the *Average* results for each Band when compared to the 2016 financial year. The *Top Quartile* has remained relatively consistent, with a decline in profitability for Bands 1 and 4. Note that the data displayed in the Figure 3 below as well as in a number of the following graphs compares the March 2017 data to the June 2016 data adjusted for the new revenue bands used for this financial year.

**Figure 3: March 2017 EBIT per client per day compared to June 2016**



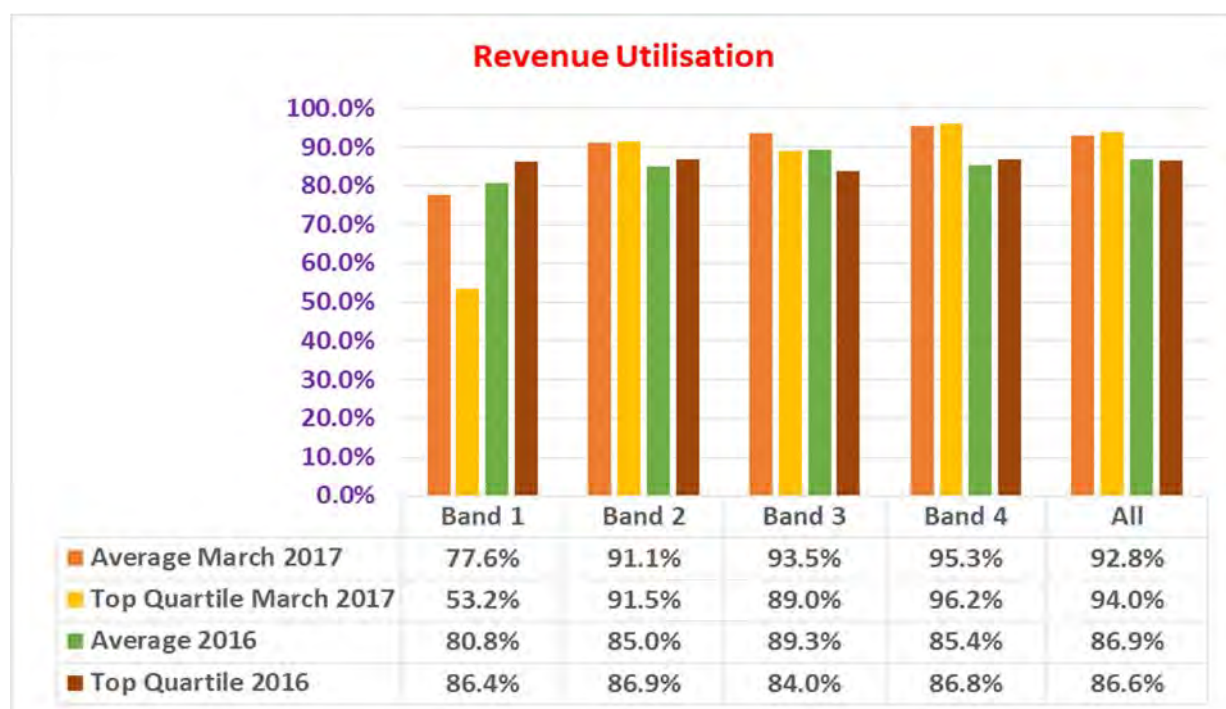
We can point to a focus on package retention and a reduction of unspent funds as a key driver of these results indicating that providers were fixing on these key metrics as they moved into the February 27 changes. The *average* result to March 2017 across all packages in the survey has increased by 48% to **\$6.05** per client per day from the June 2016 *average* result of **\$2.91** per client per day.

It would appear that concerns about the growth of unspent funds may have been premature and may have been an outcome of reconciliation timings for unspent fund balances as providers worked through some of the changes for February 2017. The survey *average* unspent funds per client for all programs was **\$3,612** while the top quartile had an *average* unspent funds per client of **\$5,827** which further underlines their prevalence in the higher level packages.

## Unspent Funds (Revenue Utilisation)

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. There has been a large improvement in revenue utilisation in the last two (2) quarters and this has had the resultant effect of improving profitability. It should be noted however that unspent funds are across the **lifetime of the package**, not simply this reporting period, so as unspent funds from previous periods is utilised the quantum of unspent funds will normalise to a more consistent result.

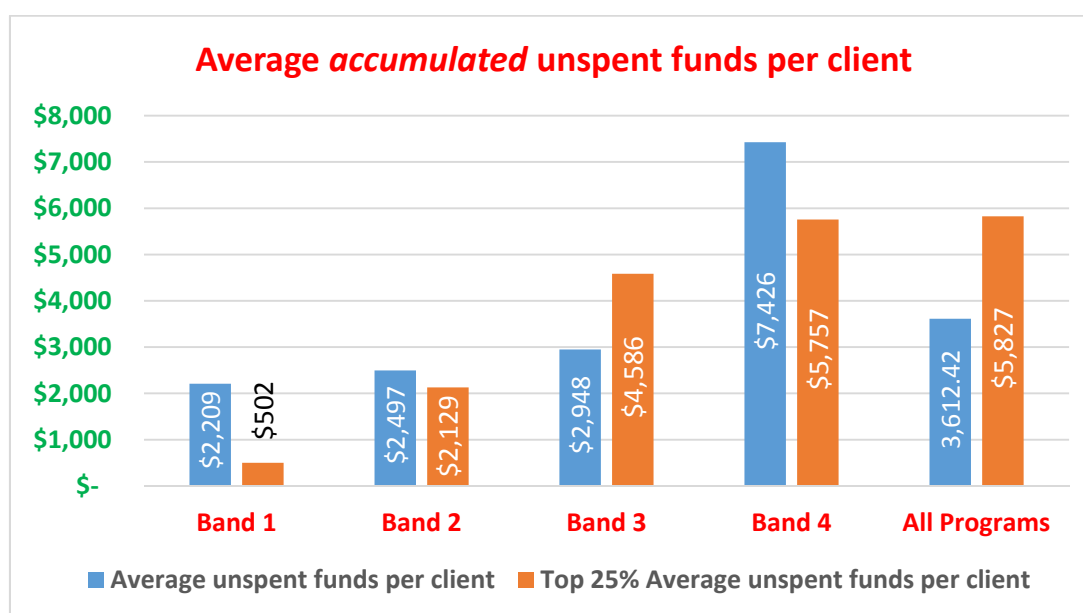
**Figure 4: Revenue utilisation rates compared to June 2016**



**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.

**Figure 5** below shows the accumulated dollar amounts as at 31 March 2017 that each package level has for the survey *Average* and *Top Quartile*.

**Figure 5: Average accumulated unspent funds per client as at 31 March 2017**





## Package Retention and Growth

Our December 2016 report was the last to measure and report package utilisation or occupancy as the February 27 changes has eliminated the allocation of packages. This measure will be irrelevant from March 2017 onwards as the system moves to allocating a package to a client rather than a provider, as providers will no longer have a set package allocation against which we can measure “occupancy”.

From the June 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. As would be expected with barely a month of operation of the new system the initial data collected around opening and closing of packages has been limited. **Table 5** outlines the movements seen in the first month but it is premature to analyse any specific trends.

**Table 5: Imputed retention and growth rate**

	Band 1	Band 2	Band 3	Band 4	All	All
	Average	Average	Average	Average	Average	Top Quartile
Number of funded packages - opening	136	8,306	7,421	3,808	19,671	3,585
Number of funded packages - closing	141	8,396	7,303	3,780	19,620	3,563
Net Growth rate - average	(1.2)%	1.1%	(2.8)%	1.0%	0.0%	(1.0)%
Net Retention rate - average	98.8%	100.0%	97.2%	100%	97.7%	98.1%

What we do know is the Department released over 14,000 home care packages in March 2017. The release also assigned packages to consumers who were currently in care but were awaiting a package at their approved level. The Department of Health approved 76 new providers to enter the market in addition to the 504 providers already in the market.

However, many providers have reported to us that they have seen some upgrades of clients who had been approved, but new packages have not necessarily materialised as expected through the last few months since their “release”.

In the lead up to the February 27 reform, the sector saw quite a lot of activity across the board in relation to the pending change. There was a vast increase in the activity of ACATs before the changes as providers and clients wanted to fill vacant packages, leading to a subsequent increase in waiting times for ACAT assessments in the aftermath - exacerbated by the new packages being released as people also sought priority changes.

We also knew from discussions with providers and consumers that quite a number of consumers had been scoping the process for changing providers after the reform, with an intent to change quite soon after the reform implementation date.

As we know 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.

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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.

In the consumer/market driven environment we are now placed it will be increasingly important for providers to consolidate their established 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.

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.

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. Obviously the increase in Revenue Utilisation during the 9 months to March 2017 has meant that providers have indeed increased their utility to consumers. This is seen by Direct Service Provision increasing in this period from **4.14 hours** in June 2016 to **4.97 hours** by March 2017.

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.

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.

In the 4 months since the Increasing Choice reforms there has been ongoing concern from established HCP providers that new package growth has not met their expectations, or that in many cases, their referrals had almost dried up. The sector chatter had increased so much that the Department was compelled to host a webinar to provide information to the sector on the implementation of the Increasing Choice in home care reforms that commenced on 27 February 2017.

The webinar focused on dispelling early myths and key areas of confusion that in fact the packages were “stuck in the system” somewhere. Despite these assurances we still hear from providers that there is concern around the My Aged Care system and/or processes relating to allocation and distribution of packages.

What we do know is that many existing providers have extended their share of the market and of course that at least 72 new home care providers have been approved in the sector. Some of these new providers were previously sub-contracting to Approved Providers and have simply transitioned their existing base across. It also appears that consumers are not activating their packages for a number of reasons and the Department is looking to improve the activation rates.

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Some of this consumer confusion extends to processes around how to move a package, how to contact and progress with a provider directly or through the My Aged Care website or for those consumers that have been provided a list of providers they are overwhelmed with choice.

Retirement Village operators have also vastly increased their activity, whether as the Approved Provider or through an alliance, to ensure that they have picked up existing or activating packages within their resident base.

So to sum up the current environment we can see a number of key issues playing out:

- A drop in referrals to existing providers
- Natural attrition of packages not being replaced by incoming referrals or transfers
- Movement of packages away from or to providers as consumers exercise portability
- Furious advertising, marketing and education programs by a number of providers with some small to medium providers using local area promotions and networking to attract new consumers
- Existing clients being upgraded or providers acting as a 'concierge' through the process
- CHSP being used as a pipeline where the provider has identified a client whom they are able to convert to a package holder
- Challenges with consumers not understanding the processes

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 which we can assist you with if required.

## Net Margin

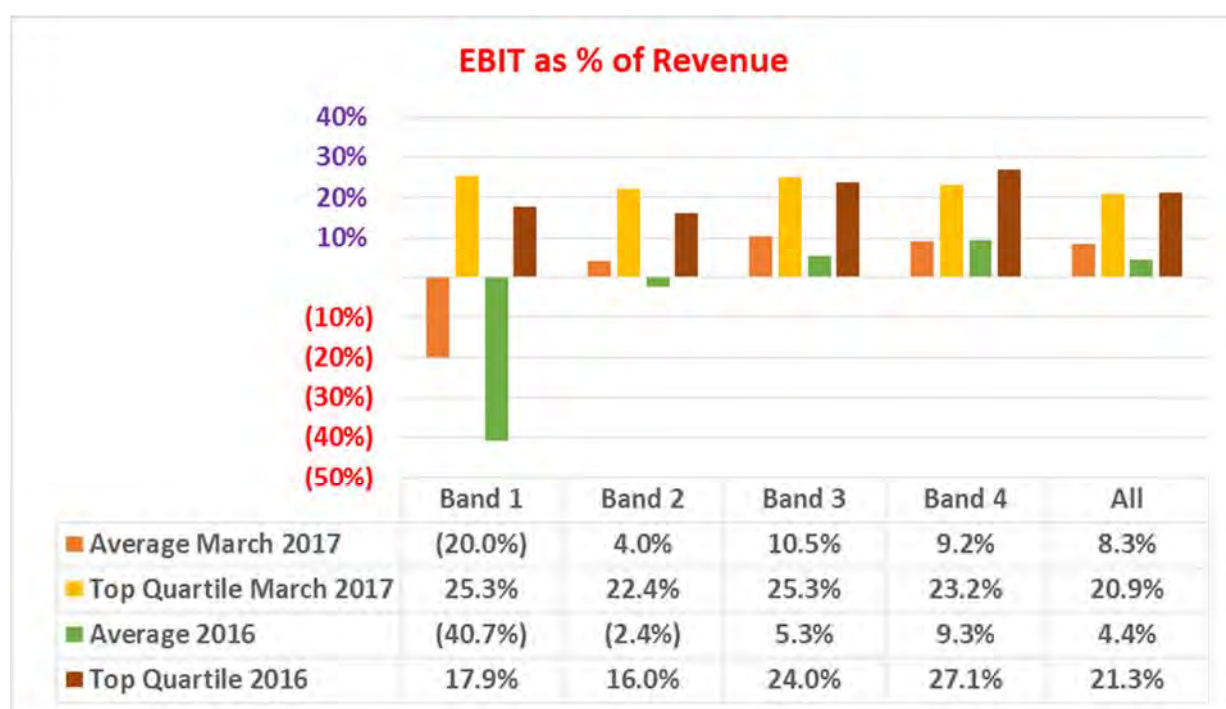
During the 9 months to March 2017 providers have applied many of the lessons learned from the start of CDC to ensure that they are managing costs while optimising client use of their package to leverage the increase in subsidies in the second half of 2016. This is evidenced in the improvement of Net Margin in Bands 1-3 with a minor decrease by 0.1% in Band 4 to **9.2%** from the June 2016 result of **9.3%**. The Top Quartile had mixed results across the bands with a slight decrease overall with March 2017 declining (0.4%) to **20.9%** from the June 2016 figure of **21.3%**.

We can hazard that some of this improvement may also be attributed 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. During the year the cost of brokerage increased from **\$2.71** in June 2016 to **\$4.32** in March 2017 perhaps signalling that providers are delegating clients to partners that are better placed to manage the process, thereby reducing direct resourcing required. The key here of course is to ensure that a margin is charged on those services to cover administrative burden and other on costs.

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



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 service item cost, pricing and sales strategy. Providers should be cognisant of opportunities to review their administration to ascertain areas in which cost savings can be made. Given the fluidity in package movement providers need to be particularly vigilant when the volume and package level of their clients changes to ensure that the composition of administration and support services staff is optimal.

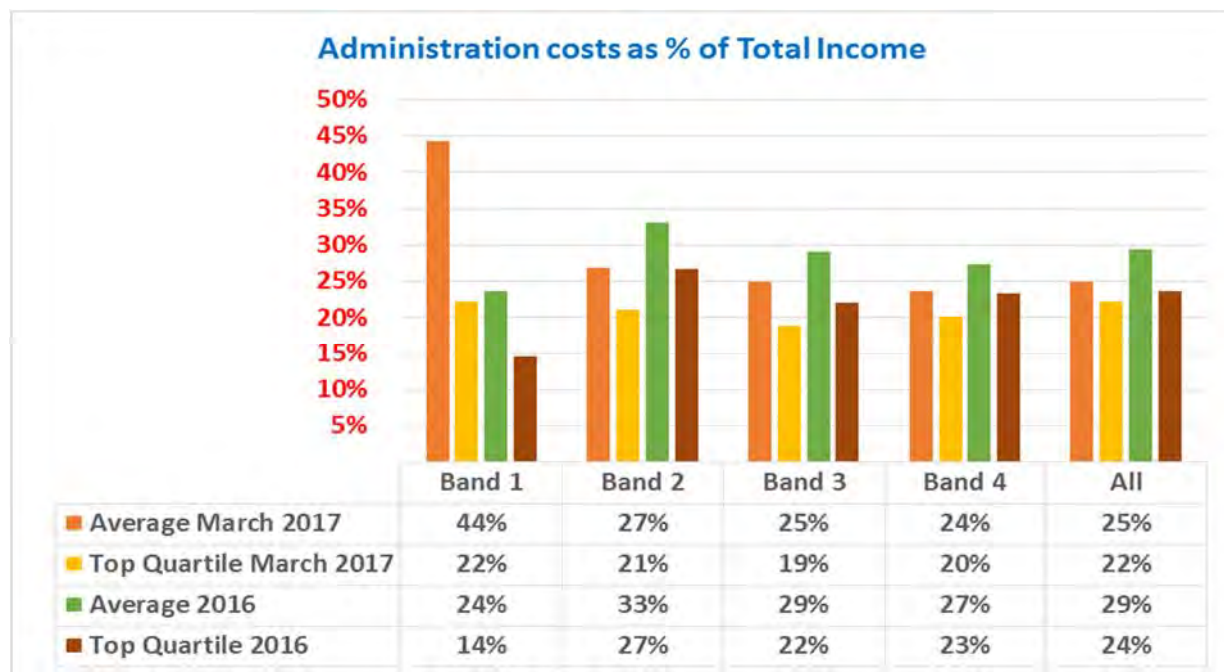
What the analysis indicates is that across packages 2-4 the administration costs during the 9 months to March 2017 decreased against June 2016 levels. Band 1, perhaps acknowledging the volatility of the dataset and also the decline in the overall number of packages has seen administration increase, reflecting that providers have yet to find sufficient administrative streamlining for this area given the small number of packages nationally. For all packages the administration costs reduced by **4%** in March 2017 (even allowing the 44% result in band 1) to **25%** from the June figure of **29%**. This may be a reflection of increased package numbers entering the system and provider capability and capacity absorbing the new packages with minimal administrative overhead.

The top quartile average for the six months to March 2017 decreased by 2% to an *average* of **22%** compared to an overall average of 24% for June 2016. The modest decrease indicates that those providers who tend to carry a top heavy proportion of higher level packages have continued to optimise their administration.



As such it will be important for those providers to ensure that any upward increase of package numbers does not impact their administration overhead as they build further capacity in resourcing to administer the increased volume at the expense of efficiency.

**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.

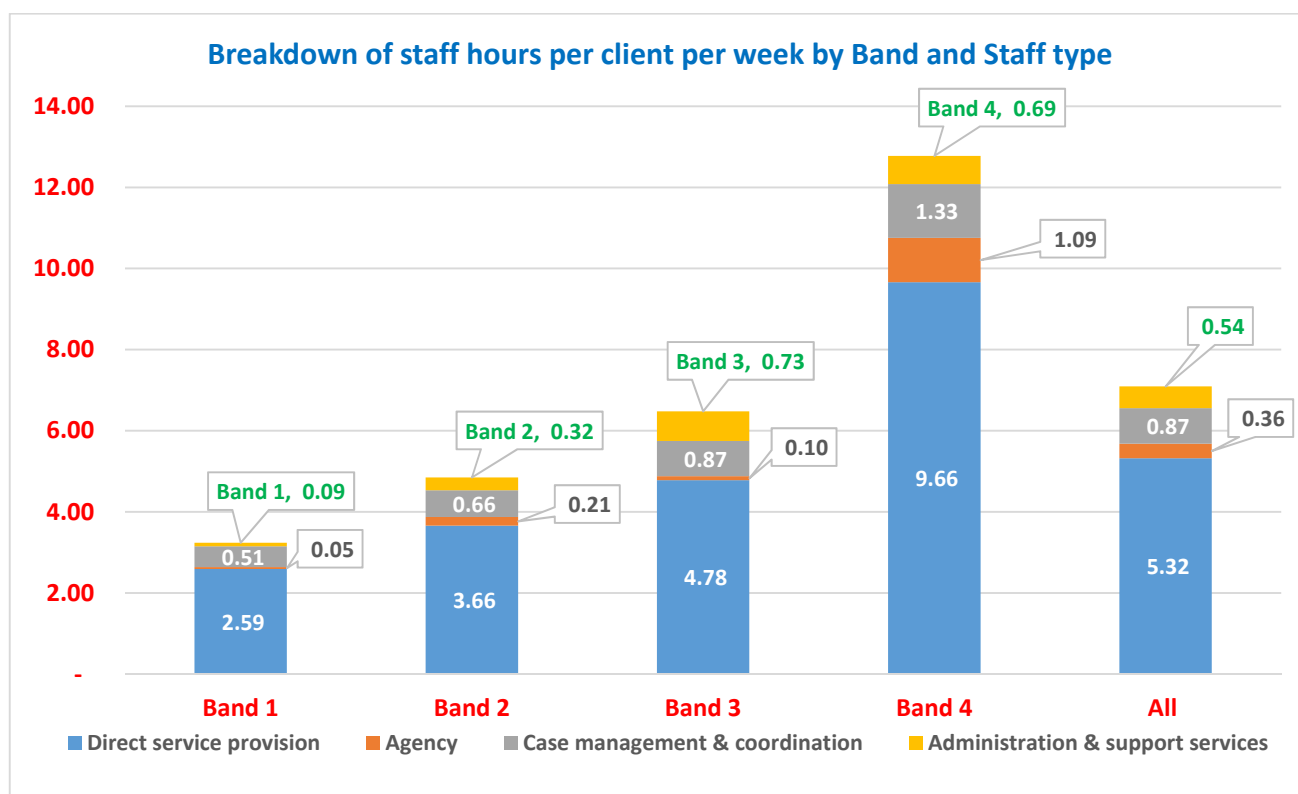
## Staffing and Staff Hours

We know that client acuity and complexity is often aligned with the package level that the consumer has received and will therefore be a proxy for the staff required. 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. As might be expected the Administration Costs as a percentage of revenue remains relatively unaffected by the complexity of the client, as the protocols for managing the packages at each level will essentially be similar, but change in a linear way in response to the size of the package.

During the 9 months to March 2017 the survey *average* of total staff hours for all programs rose to **7.09 hours per client per week** against a weekly total staff hours in June 2016 being 6.59 hours. The March 2017 total being comprised of:

- Direct care: **5.32 hours**
- Agency staff: **0.36 hours**
- Case management and coordination: **0.87 hours**
- Administration and support: **0.54 hours**
- Total staff hours: **7.09 hours**

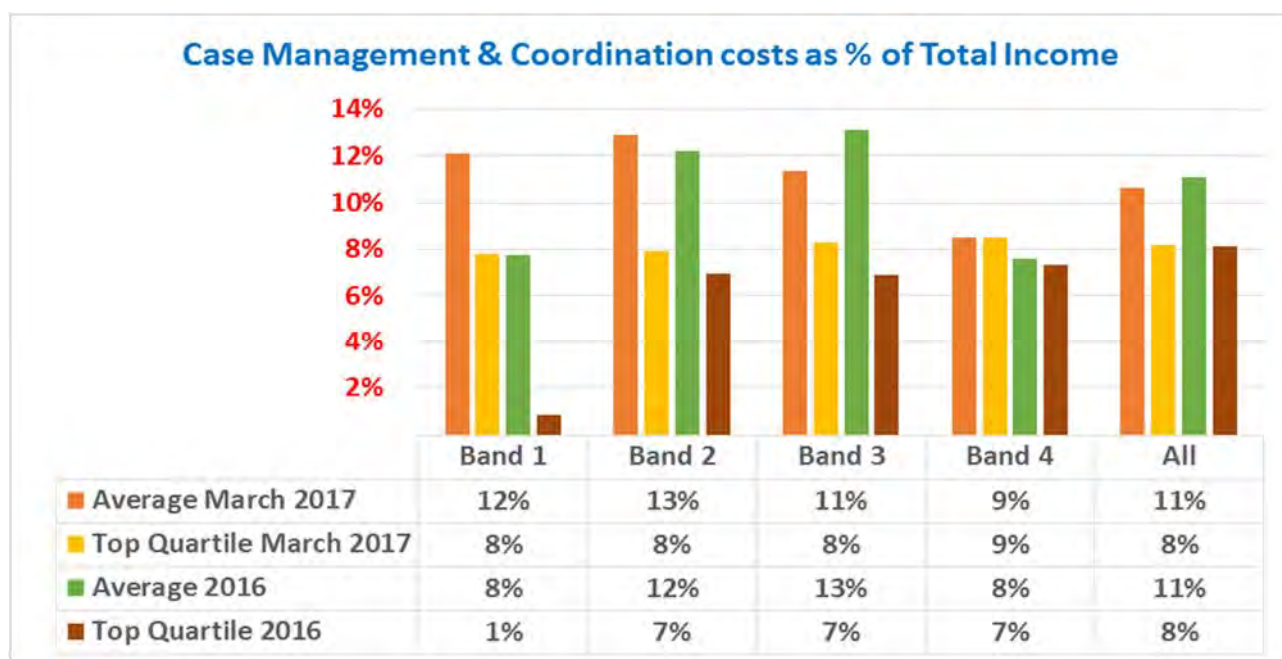
Figure 8: Breakdown of staff hours per client per week by Band and Staff type



### Case Management and Coordination

The December 2016 *Aged Care Financial Performance Survey* collected information on the number of staff hours and we released a newsletter outlining our analysis on the production of KPIs for Home Care. A synopsis of this newsletter and the resultant calculations are outlined below in the staffing analysis section.

Figure 6: Cost of case management and co-ordination costs as a % of total revenue for the period to March 2017 compared to June 2016



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**Figure 9** above outlines that the costs of case management and co-ordination has remained the same in the 9 months to March 2017 with some variability at package level. Some of this could be related to higher acuity clients who previously presented in lower care packages, adding some case management burden, having indeed been allocated a more appropriate package during this time compared to the higher case management and co-ordination percentages in December 2016.

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. There will also be a down regulation of the effort required to case manage clients in lower level packages with the advancement of information technology tools to both the client and the provider to allow self-management, with a resulting diminution of the perceived value of a provider case managing a client. The availability of a support plan assessment and development within the *MyAgedCare* system<sup>1</sup> may replace case management or coordination for low level packages hence encouraging providers to further consider the role of third party assessed support plans will play when considering their service provision.

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<sup>1</sup> <https://goo.gl/1Q56Qa>

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



**David Sinclair**  
Director

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



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

Tracy is a Chartered Accountant with 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.

#### CONTACT US

##### New South Wales

Tower 1 / Level 2  
495 Victoria Avenue  
Chatswood NSW 2067

**T:** +61 2 9412 3033

**F:** +61 2 9411 3242

##### South Australia

Level 1 / 104 Frome Street  
Adelaide SA 5000

**T:** +61 8 8229 2280

**F:** +61 8 8229 2288

[benchmark@stewartbrown.com.au](mailto:benchmark@stewartbrown.com.au)  
[www.stewartbrown.com.au](http://www.stewartbrown.com.au)





“

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

78 YEARS IN BUSINESS

140+ AUDITS IN TOTAL

40+ YEARS IN AGED CARE

50+ AGED CARE AUDITS PER YEAR

70+ NFP AUDITS PER YEAR

50+ ACCOUNTING STAFF



AUSTRALIA WIDE

2 PARTNERS

30+ SPECIALIST AGED CARE STAFF



LARGEST AGED CARE AUDIT TEAM IN AUSTRALIA

7 MANAGERS

4 AUDIT DIRECTORS



AUDIT TEAM HAS TRIPLED IN 5 YEARS