Aged Care Financial Performance Survey

Sector Report

(Six months ended December 2018)

The StewartBrown December 2018 *Aged Care Financial Performance Survey* incorporates detailed financial and supporting data from over 965 residential care facilities and over 27,164 home care packages (503 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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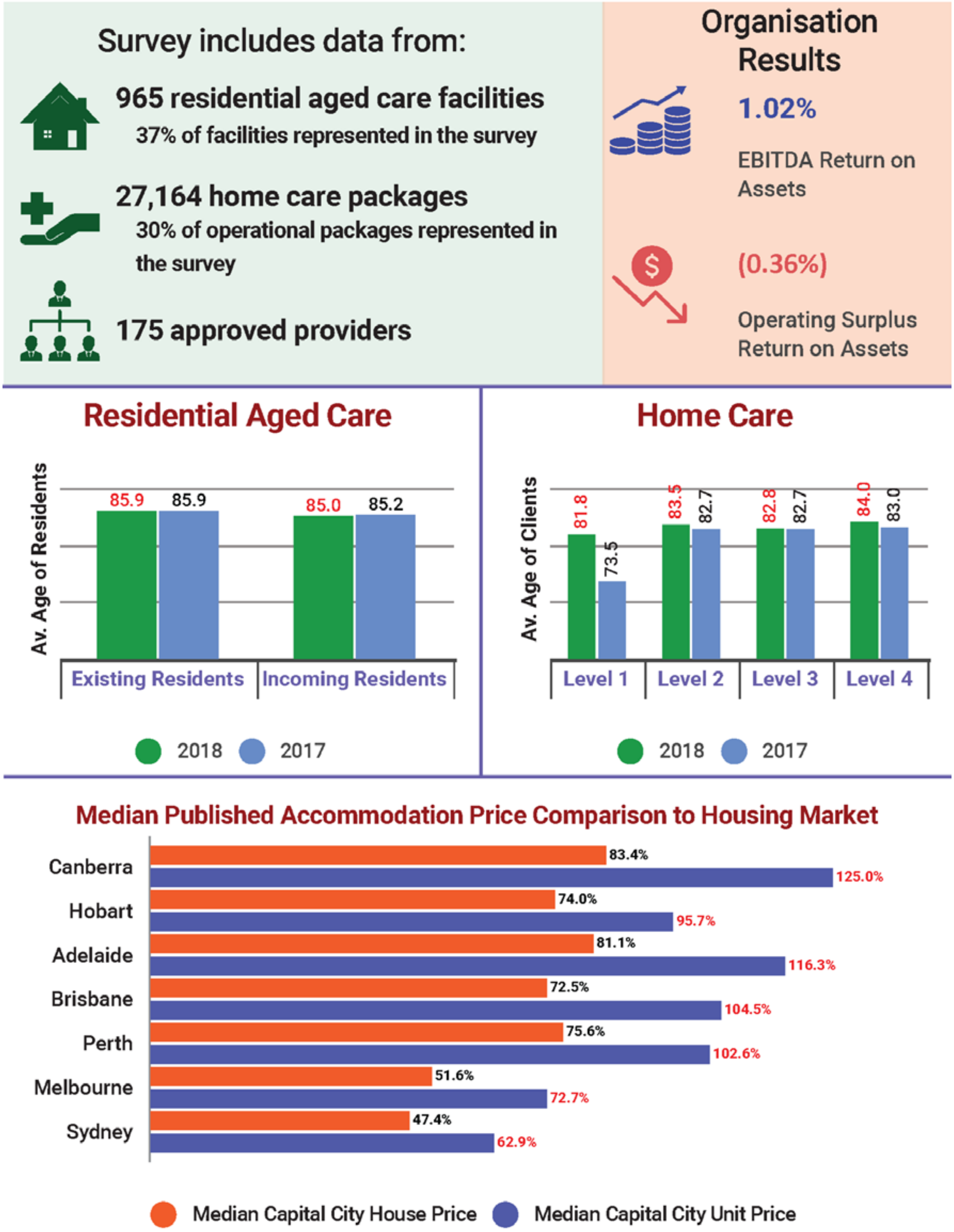
1. HIGHLIGHTS

Key Results From December 2018 Survey



Residential Aged Care

$3.20

EBT per bed day for Survey *Average*
(Dec-17: $4.70)

$32.40

EBT per bed day for *First 25%*
(Dec-17: $34.73)

$7,391

EBITDAR per bed per annum for Survey *Average*
(Dec-17: $7,466)

$17,279

EBITDAR per bed per annum for *First 25%*
(Dec-17: $17,860)

19.5%

Proportion of facilities with negative EBITDAR
(Dec-17: 19.8%)

42.3%

Proportion of facilities with negative EBT
(Dec-17: 41.3%)

Home Care

$3.33

EBT per client day for Survey *Average*
(Dec-17: $3.24)

$18.04

EBT per client day for *First 25%*
(Dec-17: $18.98)

$1,373

EBITDA per client per annum for Survey *Average*
(Dec-17: $1,328)

$6,763

EBITDA per client per annum for *First 25%*
(Dec-17: $7,141)

$6,827

Survey *Average* for unspent funds
(Dec-17: $5,412)

88.9%

Survey *Average* revenue utilisation
(Dec-17: 87.6%)

9.9%

Case management costs as % of income
(Dec-17: 10.6%)

24.2%

Administration costs as % of income
(Dec-17: $24.9%)

Survey Analytics

Subscribers to the *Aged Care Financial Performance Survey* (Survey) include some of the largest providers nationally, independent stand-alone providers, faith-based and community providers, culturally specific providers, as well as government bodies including the Department of Health (DOH) and Aged Care Financing Authority (ACFA), and aged services sector peak bodies and other service providers to the sector.

The December Survey encompasses residential care and home care packages including a detailed analysis of the operating income and expenses of participants and a review of the financial position of organisations providing aged care services. The Survey covered the following participation:-

- 175 approved provider organisations
- 965 residential facilities *(41 additional facilities were excluded due to their operational circumstances)*
- 27,164 home care packages
- Comparisons with 3 listed aged care entities (Estia/Japara/Regis)

In respect of residential care, participants to the Survey represent approximately 40% of facilities within Australia. The profile of the residential care participants, based on the geographical spread, is:-

Table 1: Residential Care Survey Metrics

Number of Residential Facilities / ABS Remoteness	Major City	Inner Regional	Outer Regional, Remote & Very Remote	Total
StewartBrown Residential Care Survey				
Facilities included	626	245	94	965
Facilities excluded	26	9	6	41
Total Survey facilities	**652**	**254**	**100**	**1,006**
GEN Aged Care Data Service Listing (30 June 2018)				
Total (A)	1,680	647	368	2,695
State/local government	34	114	92	240
Service Listing less state/local government (B)	**1,646**	**533**	**276**	**2,455**
Coverage - % of (A)	*38.8%*	*39.3%*	*27.2%*	*37.3%*
Coverage - % of (B)	*39.6%*	*47.7%*	*36.2%*	*41.0%*

StewartBrown Aged Care Reports

StewartBrown issues various detailed financial reports and analysis involving the aged care sector, including the following:-

- Residential and Home Care Sector Reports (quarterly)
- Aged Care Sector Report (quarterly)
- Provider Organisation Report (bi-annual)
- Listed Provider Analysis Report (bi-annual)
- Corporate Administration Report (every second year)
- Managing Prudential Risk in Residential Aged Care (submission to DOH)

Copies of these reports are located at http://www.stewartbrown.com.au/

2. EXECUTIVE SUMMARY

Abstract

This Sector Report provides an overview of the financial performance of the aged care sector in Australia based on the results of the StewartBrown *Aged Care Financial Performance Survey* for the six months to 31 December 2018. This Report is focused at the organisation level of providers in the aged care sector and the average performance achieved by participants to the Survey. Supplementary reports on the Residential and Home Care results are also issued to participant and they include greater granularity in analysis from a benchmarking viewpoint. Individual participants also receive specific comparative data relevant to their location, size and specific facilities within their organisation, including access to an inter-active website.

What the Survey highlights is that the financial performance of the aged care sector continues to experience significant challenges due to a continued decline in profitability in both the residential care and home care segments and this creates challenges for the long-term financial sustainability of the sector. Similar funding challenges exist in the provision of services involving the Commonwealth Home Support Program (CHSP) and Veterans Home Care program (VHC).

To some degree, this has been acknowledged by the Government by a $320 million one-off funding boost that will be received by residential care providers in the period 20 March 2019 to 30 June 2019. ACFI and other basic subsidies will be increased by approximately 9.5% for that period. Subsidy rates will revert back to the pre-20 March levels for COPE indexing purposes from 1 July 2019. While this will be welcomed by all residential care providers, it will not repair the underlying issues relating to the viability of residential care facilities in the future periods unless the funding model (government and consumer) is enhanced.

Dec-18 Survey Results Summary

The financial performance of the residential care and home care package segments has continued to see a deterioration in their results year on year. A continuation of this decline which began in the 2017 financial year will potentially place a number of residential care facilities in a financially vulnerable position which could impact on the provider organisation's sustainability.

Following is a summary of the key financial performance results and indicators by segment from participants in the Dec-18 *Aged Care Financial Performance Survey*. Comparisons are generally year-on-year (Dec-17) with some analysis against the FY18 results.

Organisation (Approved Provider) - Dec-18 compared to FY18

- Operating EBT Result (*) (average by organisation) reduced by $55k to a deficit of $356k
- Operating EBITDA reduced by $1,449k to an average of $1,000 surplus
- Operating Result expressed as a return on assets employed (ROA) has further reduced from negative 0.14% to negative 0.36%. ACFA total residential care sector FY17 return on assets was 0.8% and is also expected to decline for FY18
- Operating EBITDA (cash surplus) return on assets has further reduced by 0.18% to 1.02% (FY18 1.2%)
- Liquid cash and financial assets as a percentage of debt (RADs and external) has increased by 0.6% to 36.3% (FY18 35.7%). The listed entity ratio increased by 1.6% to 3.2% (FY18 1.7%) (prior to dividends)
  **Operating result excludes non-recurrent revenues and expenses (revaluations/donations/impairment etc)*

Residential Care

- Average ACFI per bed day (pbd) for survey participants has increased by 3.1% to $177.68 pbd (Dec-17 $172.36 pbd
- Occupancy levels for Survey participants remained neutral (94.9% average occupancy)

- Total care hours per resident per day increased by 0.10 hours to 3.16 hours (Dec-17 3.06 hours)
- Direct care costs increased by 4.5% ($144.69 pbd)
- Costs for providing everyday living services exceeded contribution revenue by $7.38 pbd
- *Average* Earnings Before Tax (EBT) for residential facilities reduced by $508 per bed per annum (pbpa) to $1,109 pbpa (Dec-17 $1,617 pbpa)
- *Average* EBITDAR for residential facilities reduced by $75 pbpa to $7,391 pbpa (Dec-17 $7,466 pbpa)
- 42.3% of residential facilities recorded a negative Operating Result (EBT) (41.3% for Dec-17)
- 19.5% of residential facilities recorded a negative EBITDA (19.8% for Dec-17*) (representing a cash loss)*
- 61% of outer regional, rural and remote facilities recorded an EBT loss *(37% recorded a cash loss)*

Home Care Packages

- Revenue per client day (pcd) average for Survey participants increased by 9.6% (being $6.70 pcd)
- Operating Result (EBT) surplus *Average* per client day for Survey participants increased by $0.09 pcd to $3.33 pcd (Dec-17 $3.24 pcd)
- Direct service costs increased by $2.78 pcd (51.0% of total revenue)
- Revenue utilisation (average unspent funds) has improved marginally to 88.9%
- Unspent funds average per client has increased by $1,414 per client (to average $6,827 per client)
- Staff hours per client per week reduced by 0.45 hours (average 6.69 hours per week)
- 46% of clients transitioned to residential care (45% in FY18)
- 12% of clients transferred to another provider (9% in FY18) - the majority being due to change of place of residence

Commentary

The Dec-18 financial results for the sector indicate clearly that the current funding model remains under significant strain. While there have been seasonal improvements in results since FY18, the underlying year-on-year results of both residential care and home care indicates declining financial performance

The residential care financial performance decline continues to be largely revenue related, largely due to the combination of a partial COPE indexation freeze on the CHC domain, the average COPE (inflation) increase of 1.17% not matching CPI, ongoing effects of the amendments to the ACFI scoring matrix, ACFI downgrades and increased costs. Costs have risen as would expected due to Enterprise Agreement staff rate increases, CPI increases for other expenses except for electricity which was well above the underlying inflation rate.

Average ACFI subsidy revenue has increased by $5.32 pbd to $177.68 pbd since Dec-17 mainly as a result of the average COPE increase of 1.17% since June 2018. The last few years have seen ACFI funding plateauing, and this is consistent with the acuity (assessed care) of residents remaining at the same level for the last 2-3 years.

The resultant financial effect is that it is likely that when a resident exits a residential facility they are replaced by an incoming resident with lower assessed needs and, therefore, a lower daily ACFI subsidy (often between $20 - $30 per day lower). The cost structure of residential facilities, which are largely fixed in nature, means that it is difficult to defray the subsidy reduction by a compensating cost reduction, so the profitability is immediately affected.

The impact of the regulatory changes and funding pressures has resulted in the disturbing statistic that 42.3% of residential facilities reported an EBT operating deficit for the six months to Dec-18, and even more disconcerting is that 19.5% of facilities had negative EBITDA (indicating a cash loss from operations). All geographic locations reported a decline, however, the outer regional, rural and remote locations have significant financial concerns.

Direct care staffing hours per resident per day increased from 3.06 hours (Dec-17) to 3.16 hours. Staff costs have risen by $5.57 per bed day since Dec-17. This increase alone is in excess of the average rise of ACFI revenue of $5.32 per bed day. It is clear that the revenue base of residential aged care providers is not keeping pace with the rising costs.

Earnings Before Tax (EBT) for FY18 for residential care averaged $1,109 per bed per annum, which equates to an unsustainable amount of $21.33 per bed per week. This is not sufficient to generate future growth or asset replacement and renewal.

Occupancy levels in residential care facilities increased marginally to 94.9% average occupancy, however the concern is that any facility closures due to financial stress may impact the vulnerable aged requiring high care accommodation.

At an organisational level the *Average* EBT return on assets employed (ROA) was a negative 0.02%. After excluding non-recurrent revenue streams such as revaluations, fair value gains on property and investments, and non-recurrent revenues including donations, the ROA represented a negative return of 0.36%.

The financial viability of outer regional, rural and remote aged care providers is reaching a pivotal point. Over 61% of residential facilities in these geographic locations are operating at a loss, with more than 37% now operating at a cash deficiency. There are few opportunities for existing providers to merge or sell their facilities to larger providers, meaning that remedial funding would be essential in our opinion. This need has been recognised with a substantial increase of 30% to the viability supplement for qualifying facilities.

Accommodation pricing for residential care (Refundable Accommodation Deposits and Daily Accommodation Payments) have not translated into a major equity pipeline. This is due to the number of supported residents (over 47% nationally) and consumer reluctance to pay higher accommodation prices commensurate with the average housing prices. Consumer education in relation to accommodation as distinct from care is required.

For Dec-18 the *Average* surplus from accommodation revenue and accommodation costs (by majority being depreciation and refurbishment) equated to $3,983 per bed per annum. Assuming a new residential bed costs around $300,000 to build and the depreciated bed value (WDV) is currently around $185,000 this is, in itself, not a sustainable return, being less than 2.2% pa for existing facilities and 1.3% for new builds.

However, it should be noted that this accommodation surplus is partly due to generally low depreciation charges (buildings being depreciated over 40+ years with little to no refurbishment factored in). If buildings were depreciated at 4% pa (ie 25 years effective life) which is more realistic, then this would create a reported accommodation deficit rather than a surplus.

In-home care had also experienced a financial performance decline in FY18 with revenues reducing by an average of 6.1% underpinning an overall reduction in profitability of 29.8%. The decline appears to have been somewhat stabilised in the current financial year with the results for the six months to Dec-18 showing a $0.09 increase in the result from Dec-17 to $3.33 per client per day.

Since June 2016 the number of approved providers in home care has increased nationally by 400 (80.6% increase), however the number of funding packages has only increased by 43.4% (from 64,069 packages to 91,847 packages) in the same period.

In conclusion, the aged care sector requires significant investment given that the home care national prioritisation queue (consumers assessed for funding but not yet allocated full funding) has increased by over 32,500 since June 2017 to now being over 121,400, coupled with the estimated 83,000 plus new residential beds being required over the next 10 years to meet the ageing population demands.

For this investment to occur the sector must be financially sustainable which will require all stakeholders to engage in exploring sustainable and robust solutions to the funding and operational business models.

3. ORGANISATION ANALYSIS

This section provides a summary of the six months to Dec-18 financial performance of aged care providers at an organisational level rather than at individual segment or facility level. For the purposes of this analysis, we have included the detailed information provided by 122 organisations who are representative of all states and demographics.

The same provider organisations were used to compare their operating performance for FY18 and FY17.

Operating Results for six months ended 31 December 2018

The following table represents the Survey organisation (approved provider) summary revenue and expenses for the six months ended 31 December 2018 and financial years ended 2017 and 2018. The amounts expressed are the average of the 122 organisations for ease of comparison. The ACFA comparisons are for the 2016 and 2017 financial years and include the residential segment only for the approved providers.

Table 2: Income & Expenditure Comparison (average by organisation)

	Survey Dec-18 *(6 months) (Average)*	Survey 2018 *(12 months) (Average)*	Survey 2017 *(12 months) (Average)*	ACFA 2017 *(12 months) (Residential)*	ACFA 2016 *(12 months) (Residential)*	Listed Entities Dec-18 *(6 months) (Average)*	Listed Entities 2018 *(12 months) (Average)*
Income & Expenditure	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Revenue							
Operating revenue	27,525	60,144	55,711	18,600	17,460	267,034	500,816
Investment revenue	651	1,817	1,712	348	634	35	136
Other income	337	1,128	1,501	738		582	4,408
Total revenue	28,513	63,089	58,924	19,686	18,094	267,651	505,360
Expenses							
Employee expenses	19,087	41,762	38,136	13,073	11,439	181,948	338,871
Depreciation and amortisation	1,795	4,114	3,781	993	814	12,854	23,578
Finance expenses	212	454	438	190	158	4,046	6,774
Other expenses	7,438	15,934	14,226	4,315	4,564	44,251	81,596
Total expenses	28,532	62,263	56,580	18,571	16,975	243,099	450,819
Surplus (EBT)	**(19)**	**826**	**2,343**	**1,115**	**1,119**	**24,552**	**54,541**
Operating Surplus (Deficit)	**(356)**	**(301)**	**842**	**377**	**485**	**23,970**	**50,133**
Operating EBITDA	**1,000**	**2,449**	**3,349**	**1,212**	**1,192**	**40,835**	**80,349**
Ratios							
EBT return on assets (ROA)	*0.0%*	*0.4%*	*1.2%*	*2.2%*	*2.6%*	*2.9%*	*3.4%*
Operating surplus return on assets (ROA)	*-0.36%*	*-0.14%*	*0.4%*	*0.8%*	*1.1%*	*2.9%*	*3.1%*
Operating EBITDA return on assets	*1.02%*	*1.2%*	*1.7%*	*2.4%*	*2.8%*	*4.9%*	*5.0%*
Operating surplus % of operating revenue	*-1.29%*	*-0.50%*	*1.5%*	*2.0%*	*2.8%*	*9.0%*	*10.0%*
Employee expenses % of operating revenue	*69.3%*	*69.4%*	*68.5%*	*70.3%*	*65.5%*	*68.1%*	*67.7%*
Depreciation as % of property assets	*2.6%*	*2.7%*	*2.8%*	*3.8%*	*3.3%*	*2.7%*	*2.6%*

Brief Commentary

- The Operating Result includes Investment Income and excludes non recurrent Other Income (eg fair value revaluations, donations, fundraising etc). Non-recurrent expenses (such as impairment) have been offset against other income
- The operating result has declined each year since 2016 and was an average deficit by organisation of $356k for the six months ending Dec-18
- The operating result *excluding* investment income was a deficit by organisation of $1,007k for six months ending Dec-18 ($2,118k for FY18)
- ACFA income and expenditure is for the residential care segment only and shows a similar decline for the FY16 and FY17 periods and it is likely the FY18 results will also show a further significant deterioration

Balance Sheet Summary as at 31 December 2018

A summary of the balance sheet (organisation average) as at 31 December 2018 and for the full 2018 and 2017 financial years included in the below table.

Table 3: Summary Balance Sheet Comparison (average by organisation)

	Survey Dec-18 (Average)	Survey 2018 (Average)	Survey 2017 (Average)	ACFA 2017 (Residential)	ACFA 2016 (Residential)	Listed Entities Dec-18 (Average)	Listed Entities 2018 (Average)
Number of organisations	122	122	122	902	949	3	3
Number of facilities	634	647	638	2,672	2,669	180	176
Number of residential beds	51,721	52,881	50,730	200,689	195,825	17,313	16,868
Number of home care clients (packages)	20,041	21,106	19,020	n/a	n/a	342	320
Balance Sheet	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Assets							
Cash and financial assets	40,177	43,381	43,782	9,090	5,913	32,190	16,091
Operating assets	6,360	8,008	7,573	8,262	8,488	22,349	18,777
Property assets	137,800	150,969	136,779	26,431	24,899	947,709	913,666
Intangible assets	12,754	8,523	7,406	6,125	3,583	669,769	668,528
Total assets	197,090	210,881	195,539	49,908	42,883	1,672,017	1,617,062
Liabilities							
Refundable loans	102,529	114,711	105,161	27,395	23,047	795,994	763,822
Borrowings	8,279	6,937	6,183	4,969	3,958	206,769	210,696
Other liabilities	15,415	14,358	12,675	4,987	4,344	178,819	150,640
Total liabilities	126,223	136,006	124,019	37,351	31,349	1,181,582	1,125,158
Net Assets	**70,867**	**74,875**	**71,520**	**12,557**	**11,534**	**490,435**	**491,904**
Net Tangible Assets (Liabilities)	**58,114**	**66,352**	**64,114**	**6,432**	**7,951**	**(179,334)**	**(176,624)**
Ratios							
Net assets proportion % total assets	36.0%	35.5%	36.6%	25.2%	26.9%	29.3%	30.4%
Property assets proportion % total assets	69.9%	71.6%	69.9%	53.0%	58.1%	56.7%	56.5%
Cash + financial assets % refundable loans	39.2%	37.8%	41.6%	33.2%	25.7%	4.0%	2.1%
Cash + financial assets % debt	36.3%	35.7%	39.3%	28.1%	21.9%	3.2%	1.7%

Brief Commentary

- Net assets and net tangible assets has decreased for the Survey organisations and the listed entities (Estia/Japara/Regis)
- Liquidity percentage (cash + financial assets as a percentage of debt) remains high and indicates a conservative approach to capital reinvestment. *This business model varies significantly from the listed entities where cash and financial assets at 31 December was $32.2m before declared dividend payments (March/April) of $52.7m. This would bring the notional percentage to be negative.*
- The results of the sector indicate that the Operating Result expressed as a Return on Assets employed by organisations is not financially sustainable under the current funding model (refer following page Snapshot)

Organisation Profile

Table 4: Profile of Survey Organisations by Revenue Band

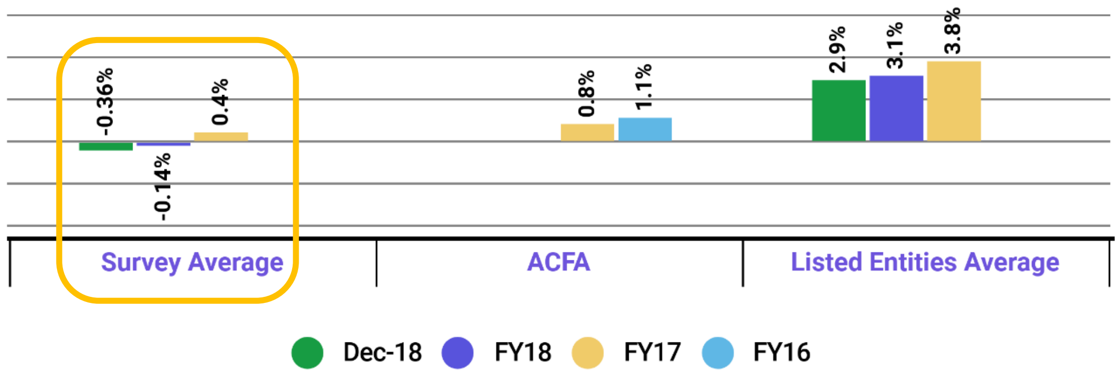
Operating revenue range ($million per annum)	<$10M	$10M - $30M	$30M- $100M	> $100M	Total
Number of Organisations	28	47	26	21	122
%	*23.0%*	*38.5%*	*21.3%*	*17.2%*	*100.0%*
Number of residential care facilities	27	94	109	378	608
%	*4.4%*	*15.5%*	*17.9%*	*62.2%*	*100.0%*
Number of residential operating places	1,921	7,714	10,310	29,360	49,305
%	*3.9%*	*15.6%*	*20.9%*	*59.6%*	*100.0%*
Number of Home Care (HCP) clients	257	1,213	2,960	15,449	19,879
%	*1.3%*	*6.1%*	*14.9%*	*77.7%*	*100.0%*

Snapshot

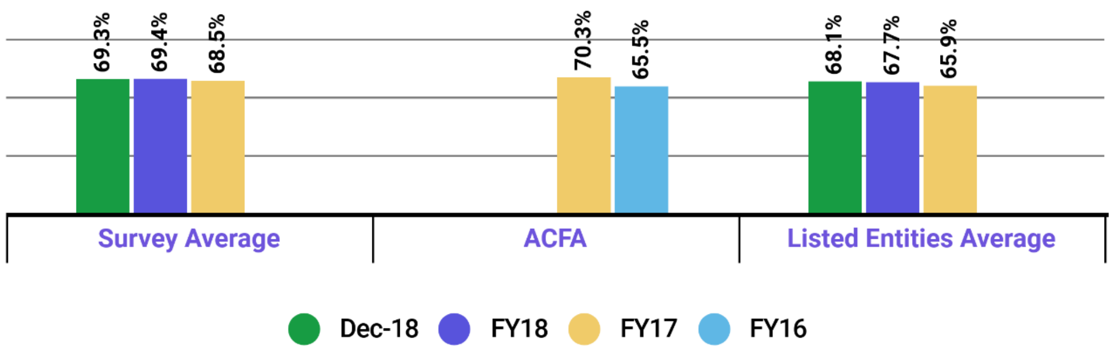
Data from 122 Organisations

OPERATING SURPLUS = EBT adjusted for non-recurrent items (revaluations / donations / bequests / fundraising / impairment

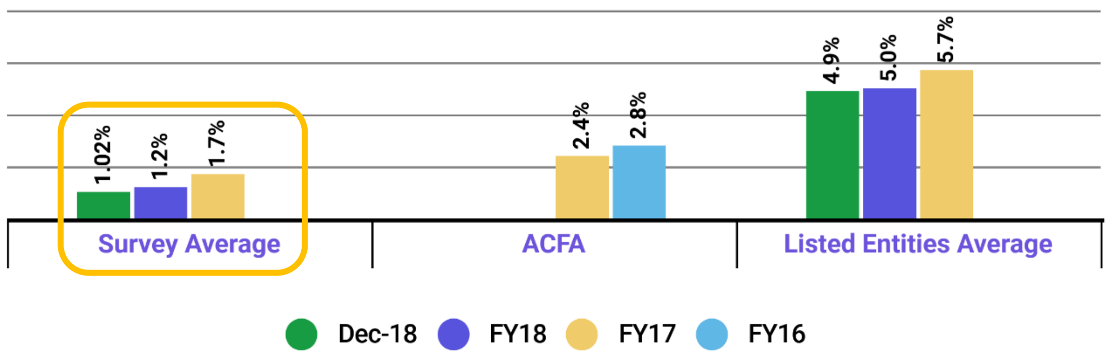
Operating Surplus Return on Assets (ROA)

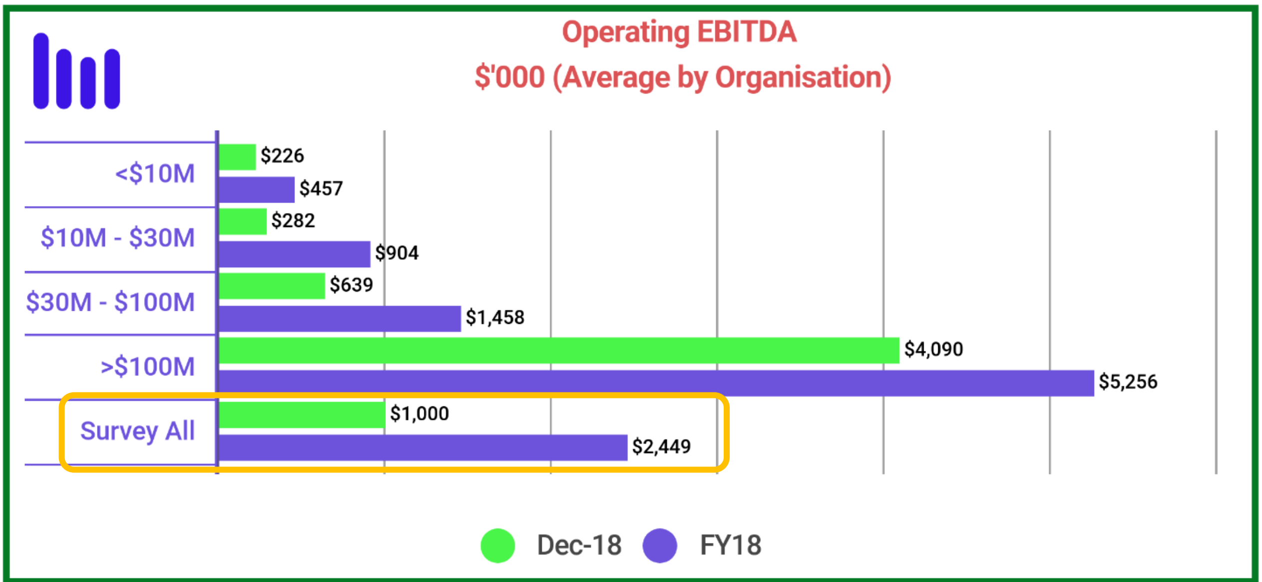


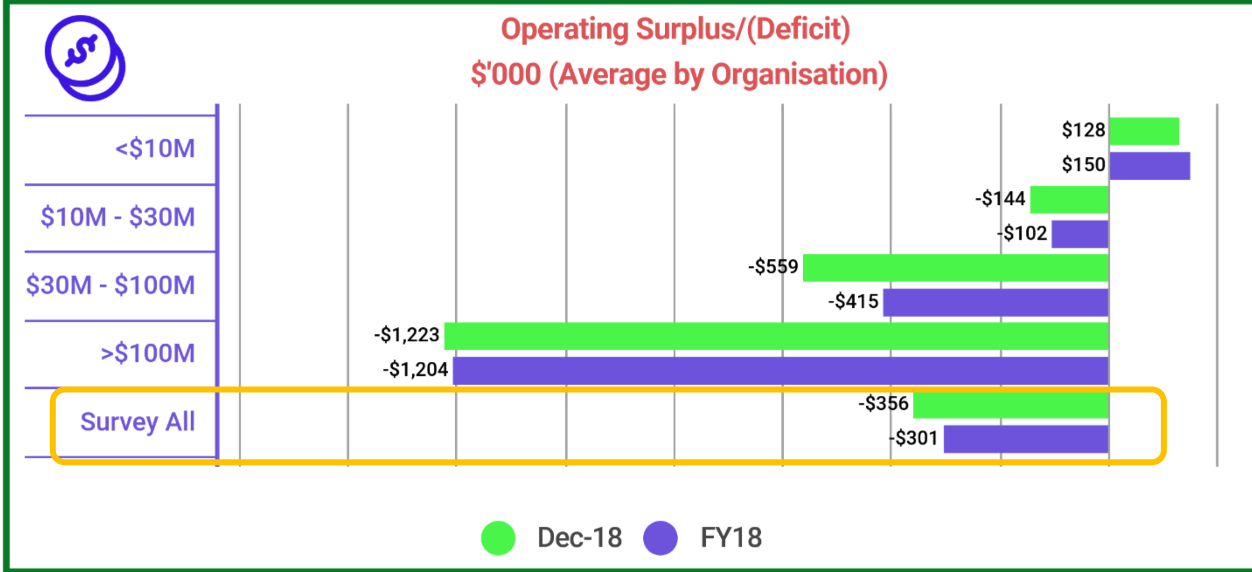
Employee Expenses as % of Operating Revenue

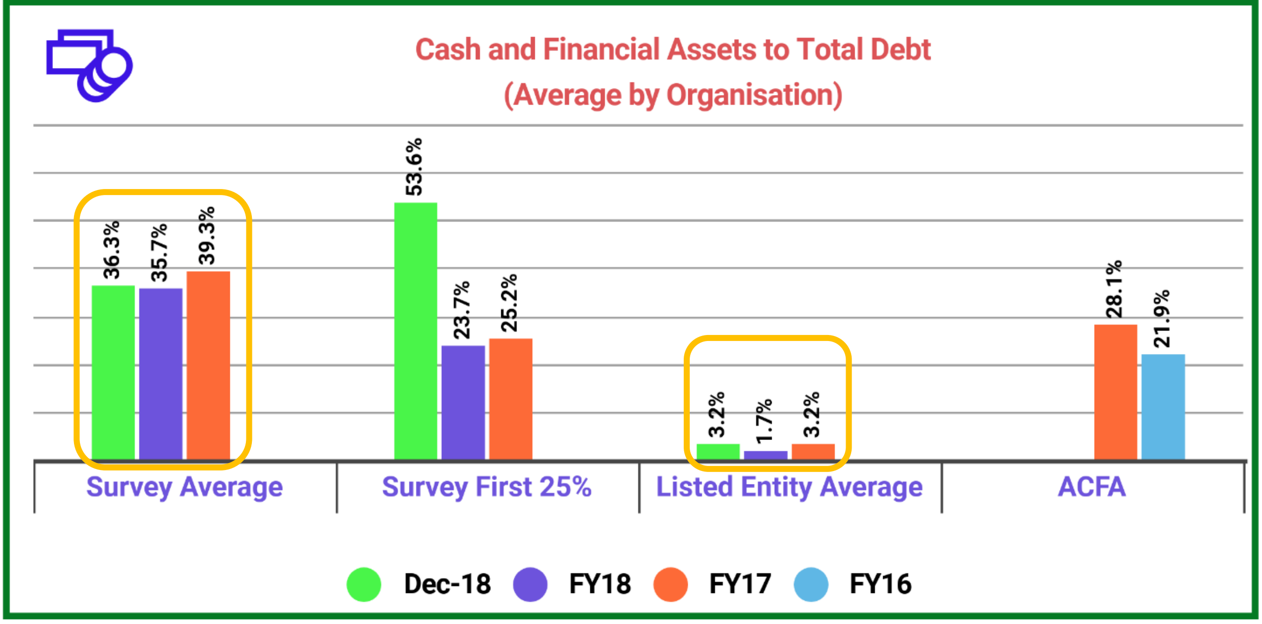


Operating EBITDA Return on Assets




Operating EBITDA
$'000 (Average by Organisation)
<$10M
$10M - $30M
$30M - $100M
>$100M
Survey All
$226
$457
$282
$904
$639
$1,458
$4,090
$5,256
$1,000
$2,449
Dec-18
FY18


Operating Surplus/(Deficit)
$'000 (Average by Organisation)
<$10M
$10M - $30M
$30M - $100M
>$100M
Survey All
$128
$150
-$144
-$102
-$559
-$415
-$1,223
-$1,204
-$356
-$301
Dec-18
FY18

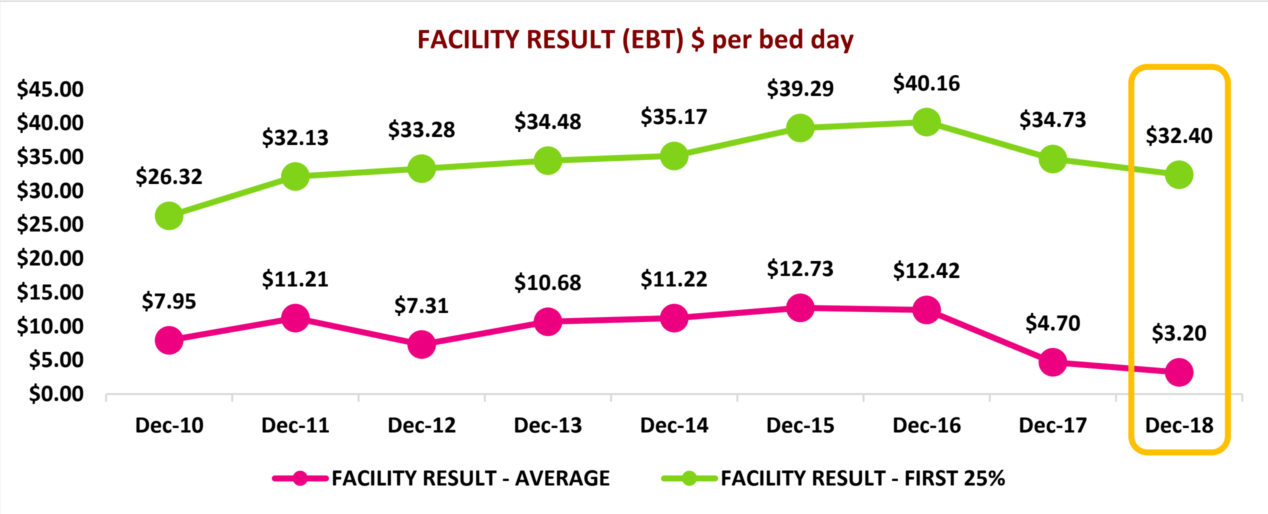

Cash and Financial Assets to Total Debt
(Average by Organisation)
36.3%
35.7%
39.3%
53.6%
23.7%
25.2%
3.2%
1.7%
3.2%
28.1%
21.9%
Survey Average
Survey First 25%
Listed Entity Average
ACFA
Dec-18
FY18
FY17
FY16

4. RESIDENTIAL CARE ANALYSIS

Facility Result Trend

The residential care sector has experienced a significant decline in Facility Result (EBT) mainly due to care expenses increasing at a much higher rate (4.5%) than revenue (3.1%). The Facility Result as shown to the right has decreased from $4.70 per bed day (pbd) in the period to Dec-17 to $3.20 pbd in the six months to Dec-18.

Figure 1: Facility Result (EBT)



<u>Revenue</u>

- Increase in ACFI revenue by $5.32 pbd - in real terms we are seeing stabilisation of acuity (care) levels. There has only been a slight movement in the proportion of facilities from "low-care" bands to higher care bands - average ACFI subsidy per bed day increased from $172.36 to $177.68 largely as a result of the COPE (inflation) subsidy rate increases
- Increase in Every Day Living revenue by $1.53 pbd mostly due to CPI increase in the Basic Daily Fee
- Increase in Accommodation revenue by $2.09 pbd due to:
  - Resident - $0.41 pbd (due to increase in DAPs ratio as compared to RADs)
  - Subsidy - $1.68 pbd (due to increase in Significant Refurbishment subsidy)

<u>Expenses</u>

- Increase in total care labour costs of $5.57 pbd and increase of roughly 6 minutes per resident per day in total care hours (total direct care hours - 3.16 per resident per day).
- Increase in hotel services $1.09 pbd (2.7%)
- Increase in utilities of $0.49 pbd (mostly due to increase in electricity $0.45 pbd)
- Increase in administration of $1.20 pbd mostly due to increase in corporate increased compliance costs
- Increase in accommodation expenditure by $1.25 pbd (6.8%)

<u>Additional Trends</u>

- Occupancy - slight increase from 94.3% to 94.9%
- Increase in supported resident ratio from 46.2% to 46.9%
- Increase in average Refundable Accommodation Deposit held and received during the year
- Increasing preference for DAPs over RADs - split is now 24.1% RAD, 57.4% DAP and 18.5% Combination

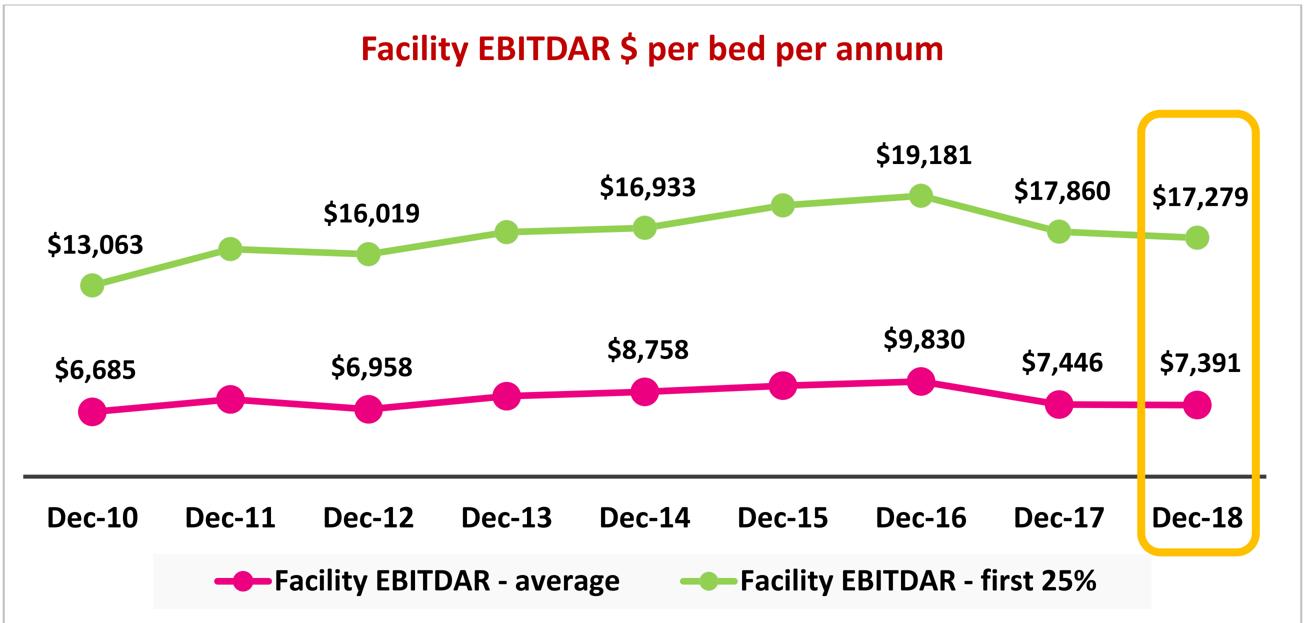
Table 5: Summary Results for Dec-18 Survey

	Dec-18 965 Facilities	Dec-17 915 Facilities		Difference
Facility Result (EBT) $ per bed day	$3.20	$4.70	↓	($1.50)
Facility EBT $ per bed per annum (pbpa)	$1,109	$1,617	↓	($508)
Facility EBITDAR $pbpa	$7,391	$7,466	↓	($75)
Average Occupancy	94.92%	94.37%	↑	0.55%
Average ACFI per bed day	$177.68	$172.36	↑	$5.32
Direct care hours per resident per day	3.16	3.06	↑	0.10
ACFI direct service costs as % of ACFI	81.43%	80.31%	↑	1.12%
Supported ratio	46.90%	46.23%	↑	0.67%
Average Bond/RAD held	$310,680	$284,588	↑	$26,092
Average RAD taken during period	$328,088	$323,849	↑	$4,240

Facility EBITDAR Trend

The below graph shows the Facitity EBITDAR (Earnings Before Interest, Taxation, Depreciation, Amortisation and Rent) trend year on year since 2010 for the December survey period . At the *Average* facility level it is becoming increasingly difficult to remain financially sustainable. A return of $7,391 per bed per annum is unlikely to be sufficient to refurbish or replace infrastructure when the time comes, nor to attract the necessary capital to grow the sector.

Figure 2: Facility EBITDAR trend



At a regional level these results deteriorate further where the average EBITDAR for a facility in outer regional, remote or very remote areas was $3,939 for the half year to Dec-18. We note that the Government has announced an increase in the viability supplements for those facilities that qualify for it, but this will not address the underlying issues facing these facilities, which includes staff shortages, higher costs of goods and services, lower accommodation prices and lower occupancy rates.

Snapshot: Dec-18 Facility Results By ABS Region

Major Cities

626 Facilities

$1,868
Facility EBT $ per bed per annum

$8,308
Facility EBITDAR $ per bed per annum

$180.23
Average ACFI Per bed day

80.8%
ACFI services costs as a % of ACFI

3.19
Direct care hours per resident per day

45.6%
Supported resident ratio

95.1%
Average Occupancy

$336,739
Average accommodation deposit held

$356,910
Average RAD taken during period

Inner Regional

245 Facilities

$(171)
Facility EBT $ per bed per annum

$5,828
Facility EBITDAR $ per bed per annum

$171.30
Average ACFI Per bed day

82.6%
ACFI services costs as a % of ACFI

3.06
Direct care hours per resident per day

47.3%
Supported resident ratio

95.1%
Average Occupancy

$249,904
Average accommodation deposit held

$260,555
Average RAD taken during period

Outer Regional, Remote & Very Remote

94 Facilities

$(1,786)
Facility EBT $ per bed per annum

$3,939
Facility EBITDAR $ per bed per annum

$175.05
Average ACFI Per bed day

83.9%
ACFI services costs as a % of ACFI

3.24
Direct care hours per resident per day

53.8%
Supported resident ratio

92.2%
Average Occupancy

$237,373
Average accommodation deposit held

$256,175
Average RAD taken during period

Impact of Dec-18 Performance - Number of Facilities with Negative Facility Result (EBT)

Please note that the following analysis is based on the financial operating performance at residential facility level - not at the organisation level.

The total percentage of facilities making an EBT loss has increased from 41.3% to 42.3%. The results have historically declined for the second six months so we would anticipate the percentage to increase further from a recurrent trend perspective. *Please note that the recently announced one-off subsidy will improve the overall results, however our opinion is that this should be discounted when considering the forecast trends.*

The total percentage of facilities making an EBITDAR (cash) loss is 19.5% of the 965 facilities participating in the Survey. In addition to this a further 41 facilities were excluded from the Survey due to being outside the acceptable range.

Figure 3: Analysis of Facilities making EBT and EBITDAR losses in total Survey

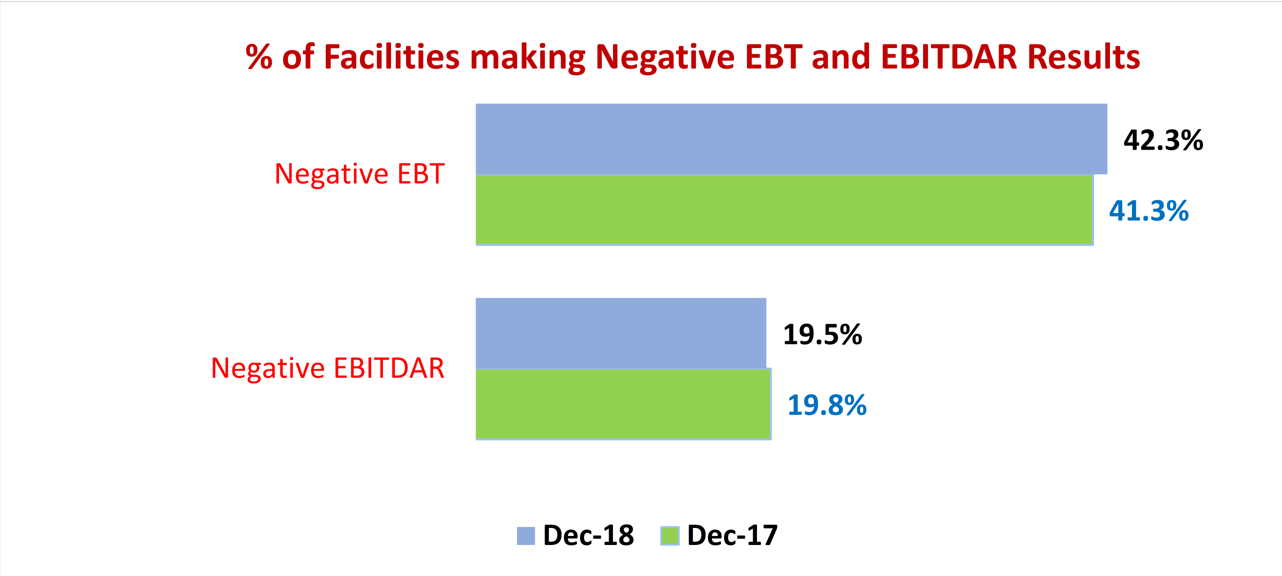


Figure 4: Analysis of Facilities making EBT losses (by remoteness) in total Survey

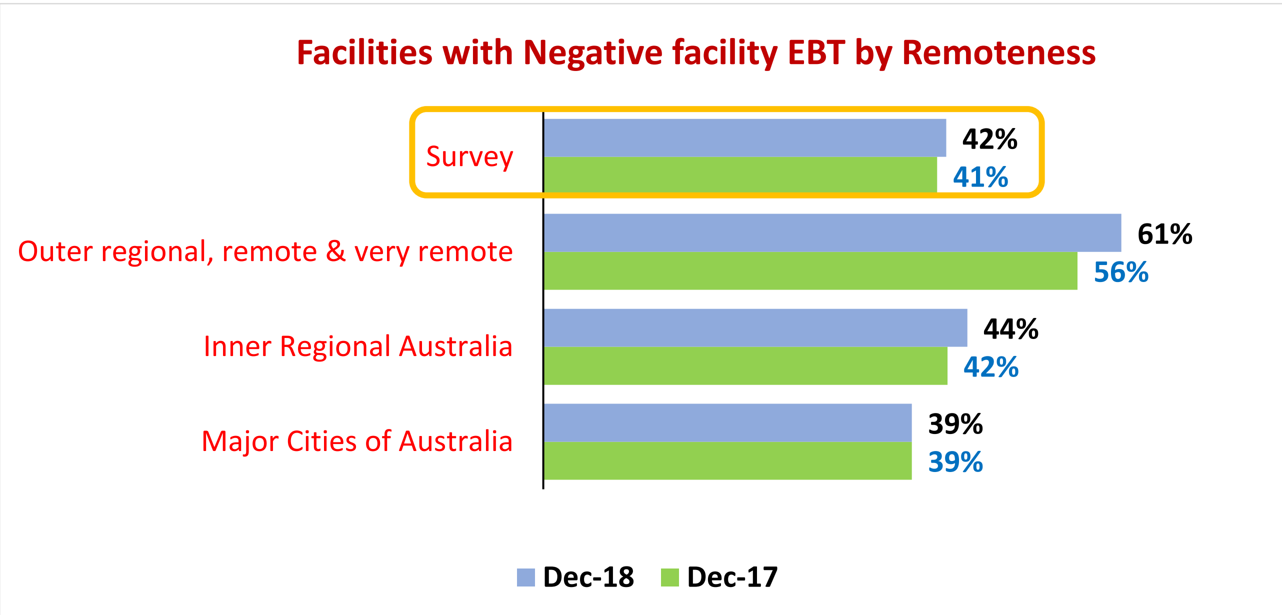
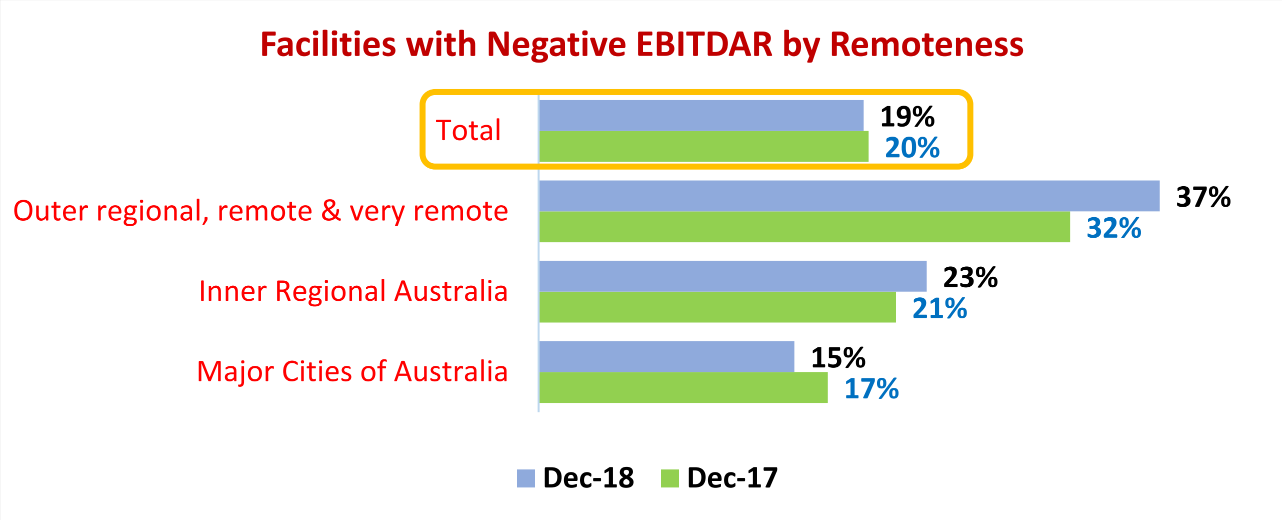


Figure 5: Analysis of Facilities making EBITDAR losses (by remoteness) in total Survey



Brief commentary

Figures 4 and 5 above graph the number of facilities making an EBT and EBITDAR loss as a percentage of total number of facilities in their respective geographic location (remoteness). For each location the number of facilities reporting a loss for the six months ending Dec-18 is significant, as follows:-

- Outer regional/remote/very remote facilities - 61% of facilities in this geographic area made an EBT loss and 37% made an EBITDAR loss
- Inner regional facilities - 44% made an EBT loss and 23% made an EBITDAR loss
- Similarly, of the facilities located in major cities, some 39% made an EBT loss and 15% made an EBITDAR loss

Direct Care Staffing Hours

Direct Care staffing metrics include care staff costs and care staff hours. Improvement in the financial performance of a facility are directly related to appropriately aligning staffing hours and levels to the funding and ensuring that the design of the facility is operationally efficient.

A summary of the direct care staff hours by category per resident per day for the Survey *Average* and Survey *First 25%* is included in the table below.

Table 6: Direct Care staffing metrics for Survey Average and Survey First 25%

	Average			*First 25%*		
	Dec-18	*Dec-17*		*Dec-18*	*Dec-17*	
Hours by Staff Category - hours worked per resident per day						
Care management	0.12	0.12	-	0.10	0.10	-
Registered nurses	0.38	0.38	-	0.33	0.33	-
Enrolled & licensed nurses	0.34	0.29	↑	0.40	0.24	↑
Other unlicensed nurses & personal care staff	2.15	2.11	↑	1.84	1.93	↓
Allied health & lifestyle	0.17	0.15	↑	0.17	0.13	↑
Imputed agency care hours implied	0.02	0.01	↑	0.02	0.02	-
Total Care Hours	**3.16**	**3.06**	↑	**2.87**	**2.74**	↑

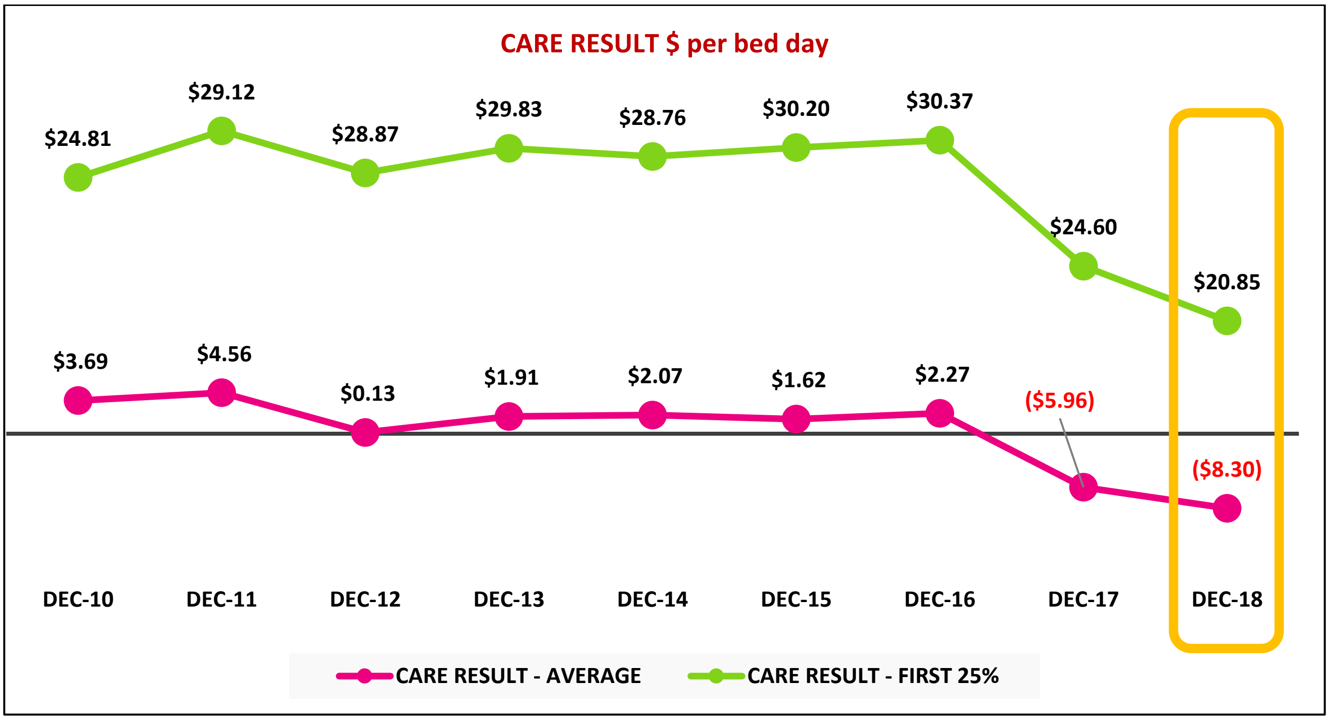
Brief commentary

- The category allocations are consistent with that used by the Nurses and Midwifery Board of Australia, and accordingly AIN and TAFE qualified staff have been included under the "Other unlicensed nurses & personal care staff" classification
- Total labour costs have increased for both the Survey *Average* and *First 25%* since June 2017 by 4.4% and 6.6% respectively
- Total care hours have increased for both the Survey *Average* and for the *First 25%* by 3.2% and 4.6% respectively, and are now at 3.16 hours and 2.87 hours worked per resident per day respectively
- Initial feedback from providers in relation to an explanation for the increase in care hours in the first half of FY18 was that it may be partially due to the impact of influenza and gastro outbreaks, however it is noted that the care hours have not reduced but instead remained at that level

Care Result Trend

The Care Result (ACFI + Everyday Living + Administration) trend is shown in the below graph. The Dec-18 Facility Care result is a deficit of $8.30 per bed day (Dec-17 $5.96 pbd deficit). This represents an unsustainable operating performance unless additional revenue (subsidy and resident) is achieved.

Figure 6: Care Result Trend for Survey Average and Survey First 25%



ACFI Revenue and Direct Care Costs Trend

The relationship between ACFI subsidy received (based on resident assessed acuity) and direct care costs remains a key driver for maintaining a sustainable operating financial model. The graph below indicates that the direct care costs are now rising at a greater rate than the corresponding ACFI subsidy, and this gap is likely to increase as staff cost increases (average of 3.0% annually) are greater than ACFI COPE (inflation) increases (1.17% for FY19).

Figure 7: Cumulative increases in ACFI subsidy and Direct Care costs as compared to CPI

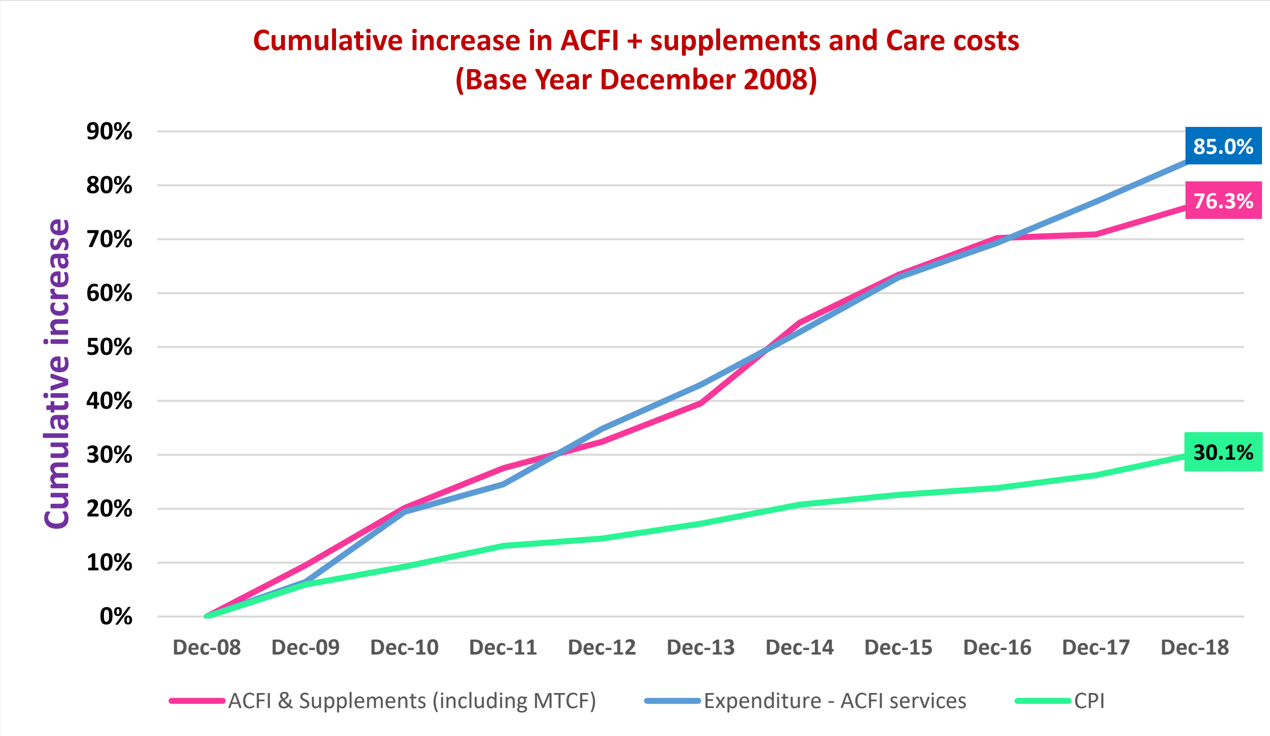


Table 7: ACFI Revenue and Expenditure Trend Points

	Dec-08	Dec-17	Dec-18	Cumulative increase since Dec-08
ACFI & Supplements (including MTCF)	$100.55	171.84	$177.30	76.3%
Expenditure - ACFI services	$78.23	138.43	$144.69	85.0%

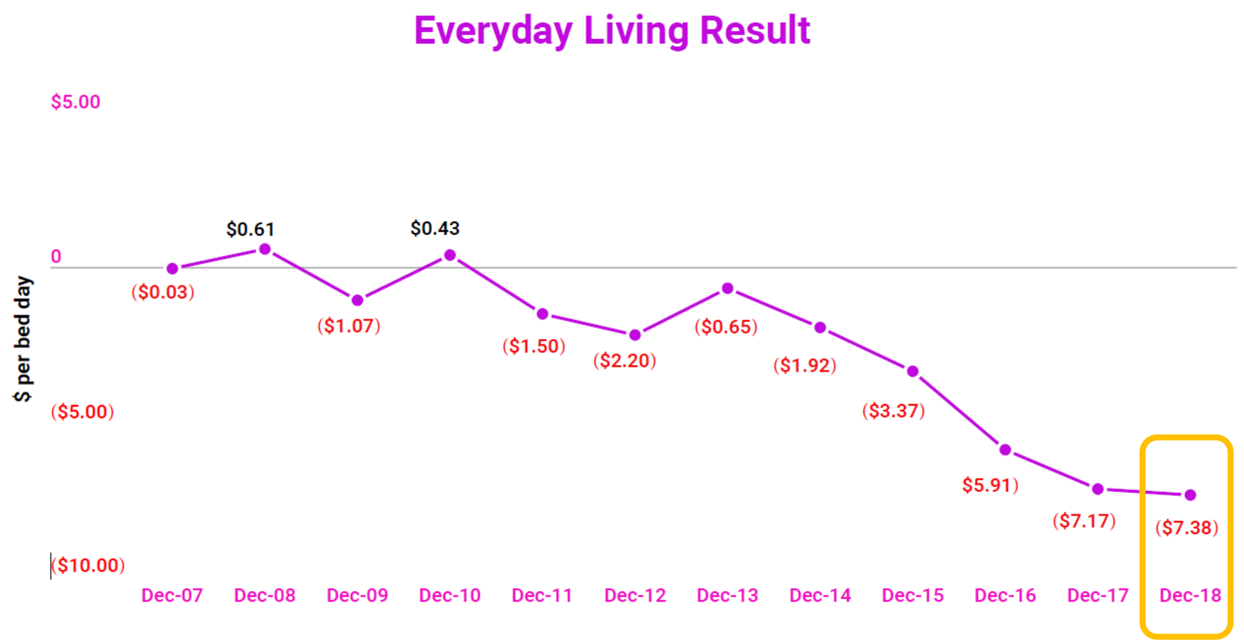
Everyday Living Result

The recoupment of everyday living costs continues to be an area of concern for approved providers. Whilst opportunities exist to charge additional optional services to residents, several challenges exist in this regard. A major issue is in relation to supported residents who, by majority, do not have the financial means to pay for additional services, or indeed pay a higher Basic Daily Fee (85% of the single pension).

Many providers are also very conscious to not introduce a tiered system whereby some residents are able to access additional services based on their ability to pay whilst others do not receive such additional services due to the inability to pay a higher charge.

With a supported resident ratio averaging in excess of 45% across all aged care facilities, this will continue to be an issue for providers in addressing the introduction of additional services.

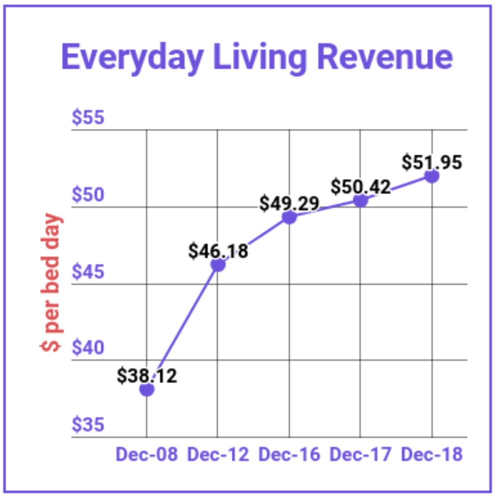
For the six months to Dec-18 the costs of providing everyday living services exceeded the revenue by $7.38 pbd (Dec-17 $7.17 pbd). Refer to the Everyday Living snapshot (next page) for a summary of the various components.



The Everyday Living Result has declined over the past 11 years by an average of **$7.35** per bed day and by **$7.99** per bed day from the peak result (Dec-08). In the past 12 months, the Everyday Living Result has declined by an average of **$0.21** per bed day.

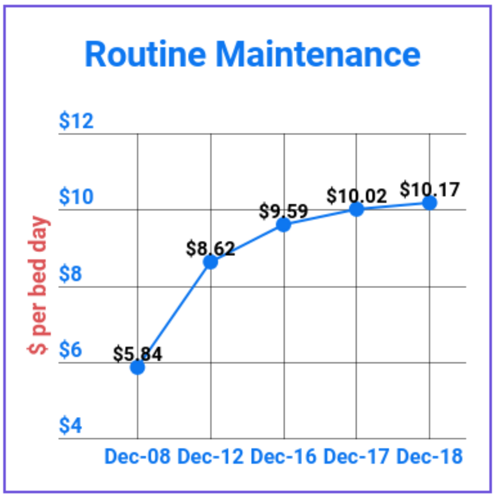
It is clear that the increase in the Basic Daily Fee has not kept pace with cost increases, particularly in catering, cleaning and laundry costs. As noted above, providers have had difficulty in introducing effective additional services to overcome this shortfall so that these costs are being subsidised by other income streams.

StewartBrown recommends that consideration be given to increasing the Basic Daily Fee base amount by $10 per bed day. Supported residents should be funded by additional subsidy to ensure equity. Such an increase in the base amount will improve the financial sustainability of the residential aged care significantly.

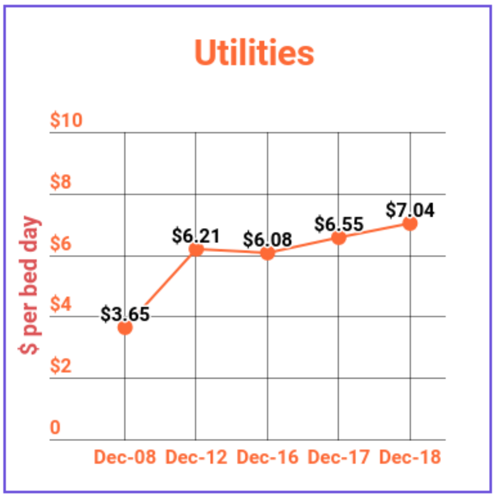


Since Dec-08 Everyday Living Revenue increased by an average of **$13.83** per bed day or **36.3%**

Hotel services costs increased by an average of **$13.98** per bed day or **50.0%**



Routine Maintenance costs increased by an average of **$4.33** per bed day or **74.1%**



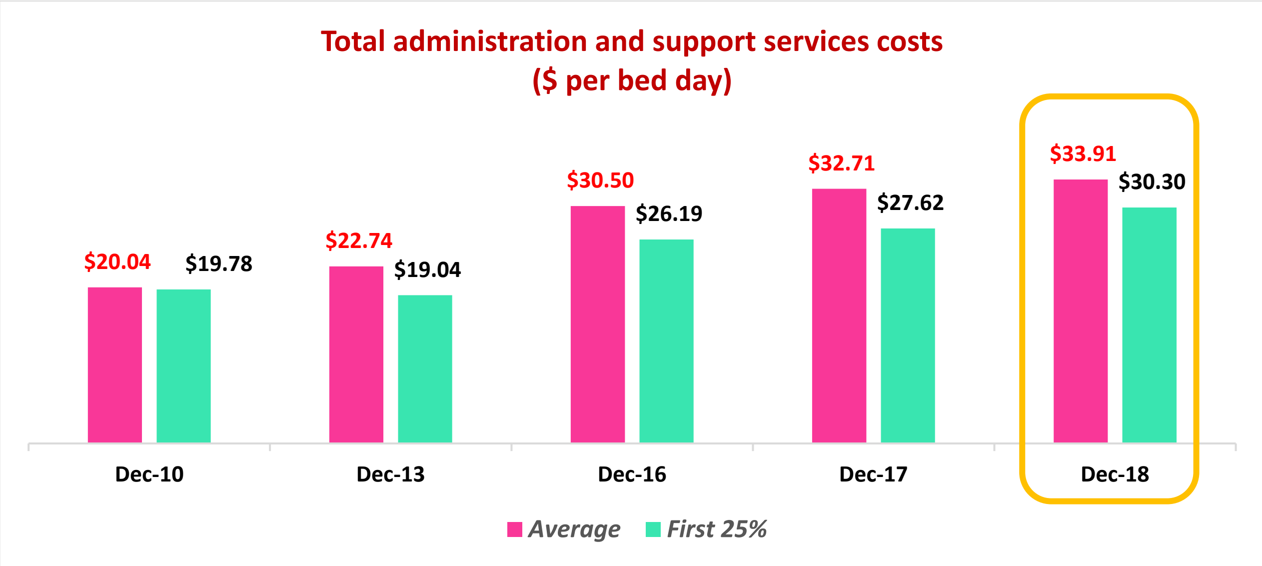
Utility costs increased by an average of **$3.39** per bed day or **93.0%**

Total Everyday Living Expenses have increased by an average of **$21.81** per bed day or **58.1%** during the same period that revenue increased by only **$13.83** per bed day

Administration Costs

Administration costs have continued to increase at a rate higher than CPI. One of the main drivers for this is increasing compliance requirements and this has now been exacerbated by costs associated with fulfilling information requests in relation to the Royal Commission. In its December half year report to the ASX, Estia stated that the external direct costs associated with preparing for and making submissions to the Royal Commission amounted to $914,000 during that reporting period. While the majority of providers will not be incurring this level of cost, they will be incurring additional costs to meet their obligations to the Commission. It is likely that administration costs will increase again in the second half of this financial year as a result.

Figure 8: Administration Costs Trend ($ per bed day)



Accommodation Result

It is important that facilities achieve a surplus from the Accommodation Result as this funding is essential to maintain the building and surroundings at a level commensurate with consumer expectations. Discussions with providers, coupled with data collected from participants, indicate that a major internal refurbishment policy of every 8 - 10 years is required, even for new builds.

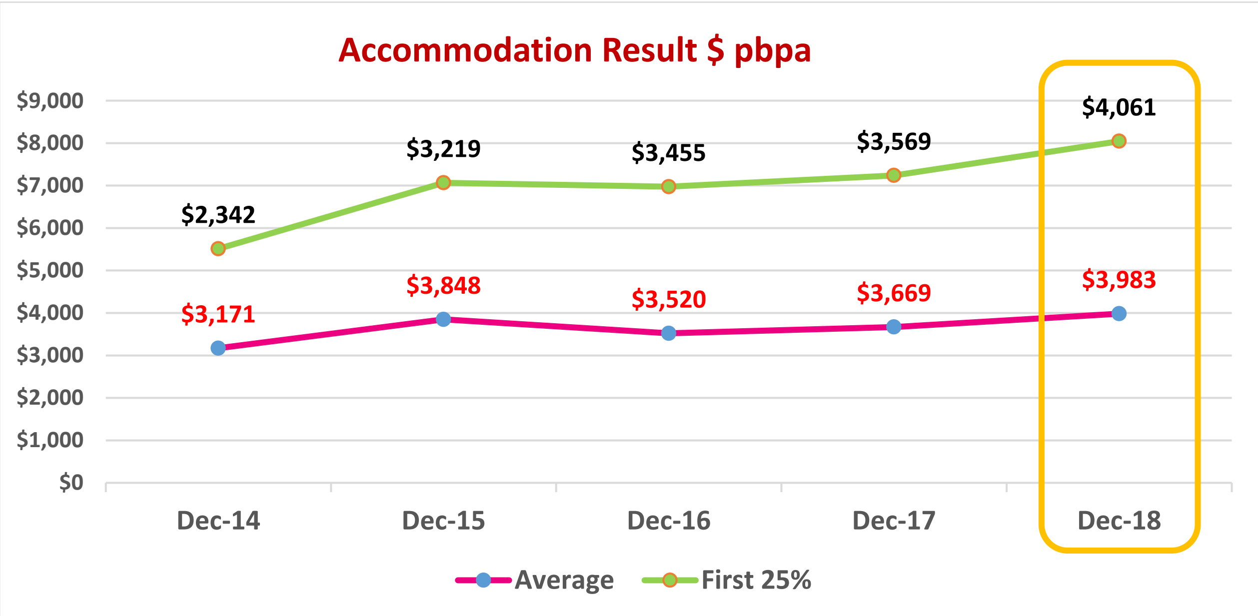
The Accommodation Surplus for Dec-18 was $11.50 per bed day (Dec-17 $10.65 pbd) which represents $3,983 per room per annum. The increase in the percentage of new residents paying a Daily Accommodation Payment (DAP) rather than a RAD has been a contributing factor. This result is achieved after an average depreciation expense of $5,854 pa. However, given the necessity to upgrade facilities regularly, a depreciation rate of 4% (i.e. 25 year write-off period for residential care buildings) should be adopted by providers as it is highly probable that this equates to the effective (useful) operational life of a residential facility in an increasing "retail" style accommodation market.

A further relevant consideration is that currently the surplus from the Accommodation Result is being used to offset the loss from the Care Result. In the six months to Dec-18 the Care Result was a deficit of $8.30 per bed day which, if funded from the Accommodation Result, impacts on the ability of organisations to fund future refurbishment of a facility. This not only affects the accommodation revenue (accommodation pricing) but does not allow for efficiency gains to be achieved through building design modifications.

Table 8: Residential Care Accommodation Result for Survey Average and First 25% for Dec-18 and Dec-17

	Survey *Average*			Survey *First 25%*		
	Dec-18	Dec-17		Dec-18	Dec-17	
	$ pbd	$ pbd		$ pbd	$ pbd	
Accommodation Revenue	**31.12**	**29.03**	↑	**29.70**	**27.59**	↑
Depreciation	16.90	15.83	↑	16.21	15.47	↑
Refurbishment	0.21	0.28	↓	0.19	0.39	↓
Other accommodation costs	2.52	2.26	↑	1.74	1.60	↑
Accommodation Expenses	**19.62**	**18.37**	↑	**18.14**	**17.46**	↑
Accommodation Result	**$11.50**	**$10.65**	↑	**$11.56**	**$10.13**	↑
Accommodation Result $pbpa	**$3,983**	**$3,669**	↑	**$4,061**	**$3,569**	↑
Depreciation charge $pbpa	**$5,854**	**$5,454**	↑	**$5,697**	**$5,450**	↑
Depreciation charge $pbpa for WDV of $200,000 per bed at 4%						**$8,000**
Depreciation charge $pbpa for new build of $325,000 per bed at 4%						**$13,000**

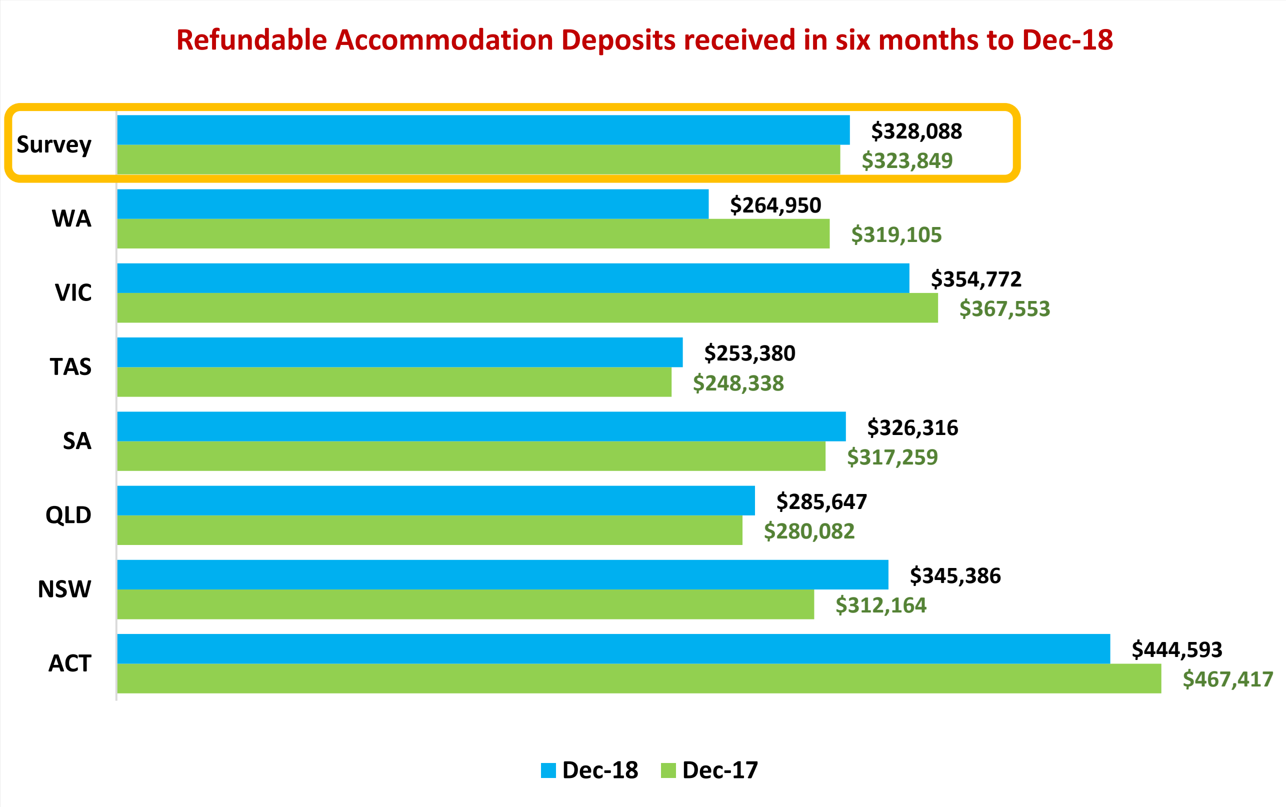
Figure 9: Residential Care Accommodation Result Trend



Accommodation Pricing

There has been a increase in the average published accommodation prices during the year to Dec-18 and this has resulted in the amount of Refundable Accommodation Deposits (RADs) received during the period increasing by a national average of $4,239 (1.3%). Accommodation pricing is an important component for the sustainability of a residential facility. It is a revenue benefit (DAP) or a capital benefit (RAD) depending upon the equity position of the organisation.

Figure 10: Average Refundable Accommodation Deposits Received for Dec-18 and Dec-17



It does appear likely that, from a consumer perspective, there remains some confusion in relation to accommodation pricing and this has resulted in providers not having an effective accommodation pricing strategy.

The acuity (care needs) of a resident is directly related to the ACFI funding and expenditure. Everyday living expenses are offset against the Basic Daily Fee and additional services (if charged).

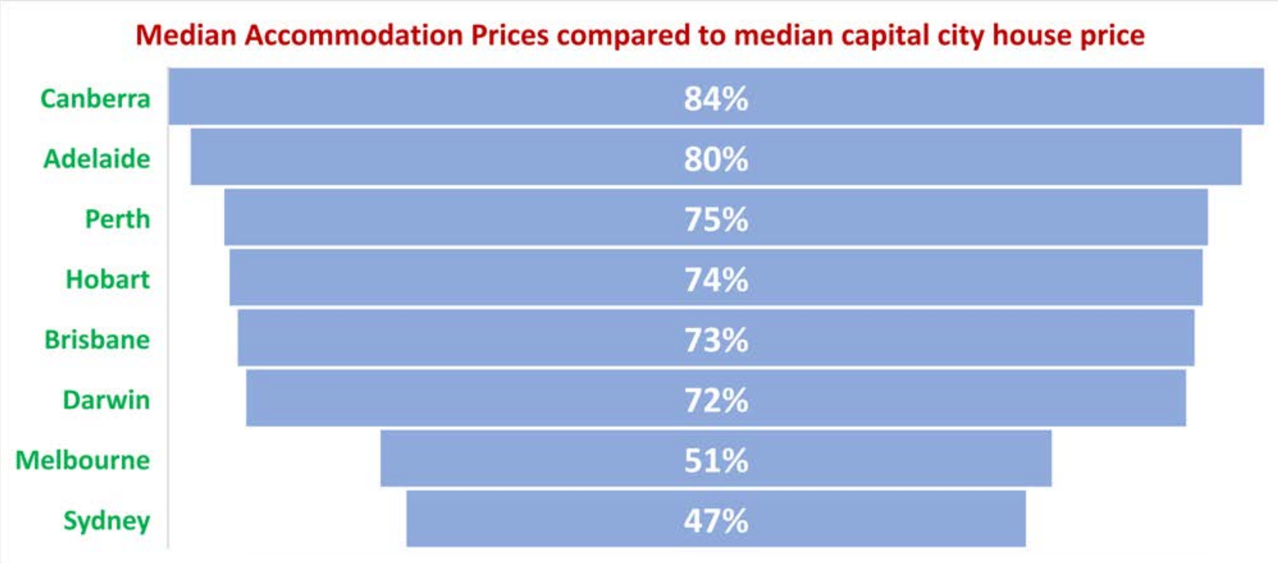
Accommodation pricing **is not** assessed on care needs but on the standard of accommodation and the financial ability of an incoming resident to meet the price through either a RAD, DAP or a combination of both. The consumer expectation that the standard of accommodation, and accordingly, the pricing is relative to direct care provided is somewhat misconstrued. A higher accommodation price does not equate to a higher standard of direct care.

Accommodation pricing strategies should be more targeted to the local house or unit prices in the geographic area. The pricing strategy should also consider other factors such as:

- Amenity and general standard of accommodation offered
- Target market
- Common areas and other facilities available to residents and their families
- Cost to build in the construction of the facility, the standard of accommodation

The figure below indicates that there is a disparity in this relationship, particularly in Sydney and Melbourne.

Figure 11: Median Published RAD compared to Median House Price



Occupancy

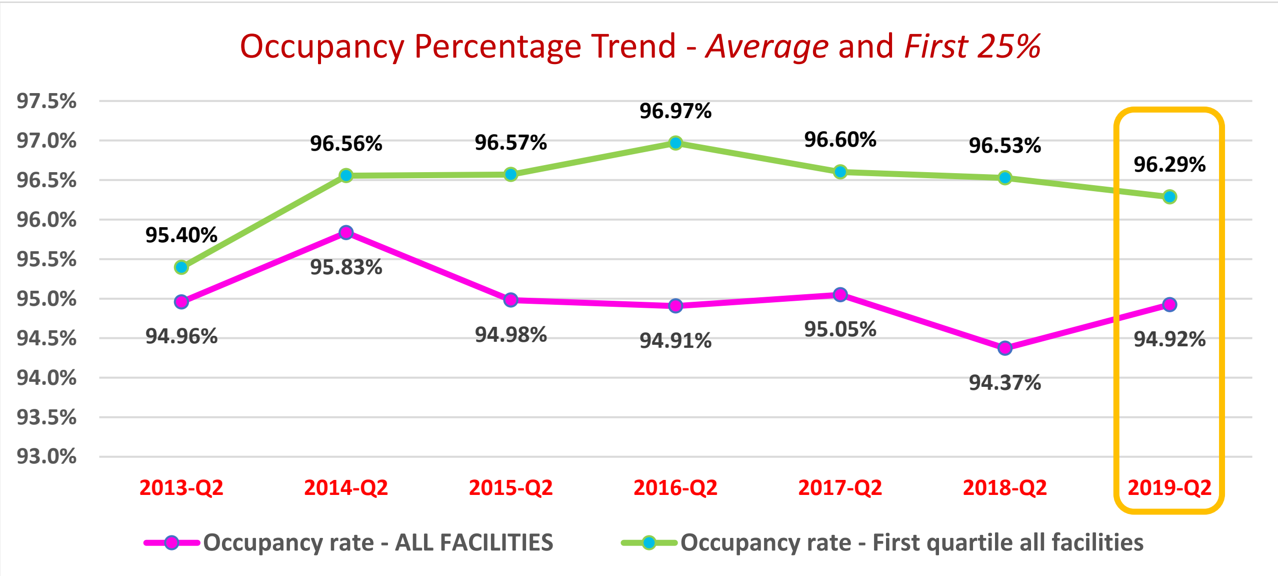
The occupancy percentage overall remains steady at 94.92% nationally (94.37% at Dec-17) with the *First 25%* of providers (based on Facility Result) having and average occupancy of 96.29% (96.53% at Dec-17).

It should be recalled that the occupancy levels dropped in the Dec-17 six months due to a severe influenza outbreak and an expected correction has now largely occurred.

Please note that the DOH calculates occupancy on approved places (and as advised by providers) whereas StewartBrown calculates the occupancy based on number of operational places which exclude off-line places due to refurbishment or other strategic reasons. Additionally, StewartBrown do not include State or local government occupancy levels as these are often unreliable.

A tend analysis of occupancy levels is included in the below figure.

Figure 12: Occupancy Percentage Trend Analysis



5. RESIDENTIAL CARE - FINANCIAL FORECAST

Recap - FY18 Forecast

As background, StewartBrown performed a forecast of the FY18 facility results In October 2017 based on the COPE freeze of ACFI funding, changes in the ACFI assessment and a similar set of assumptions as now used for the FY19 forecast.

The FY18 forecast for the Survey *Average* was $2.18 per bed day (actual FY18 result was $2.37 pbd) and for the Survey *First 25%* was $31.08 pbd (actual FY18 result was $30.26 pbd).

This suggests that whilst it was clear early in the FY18 fiscal year that the operating performance was going to deteriorate because of underlying funding and cost increase pressures, the ability of facilities (in all revenue domains and geographic locations) to adjust their business models to minimise this financial effect was negligible. Similar implications will exist in the FY19 financial results.

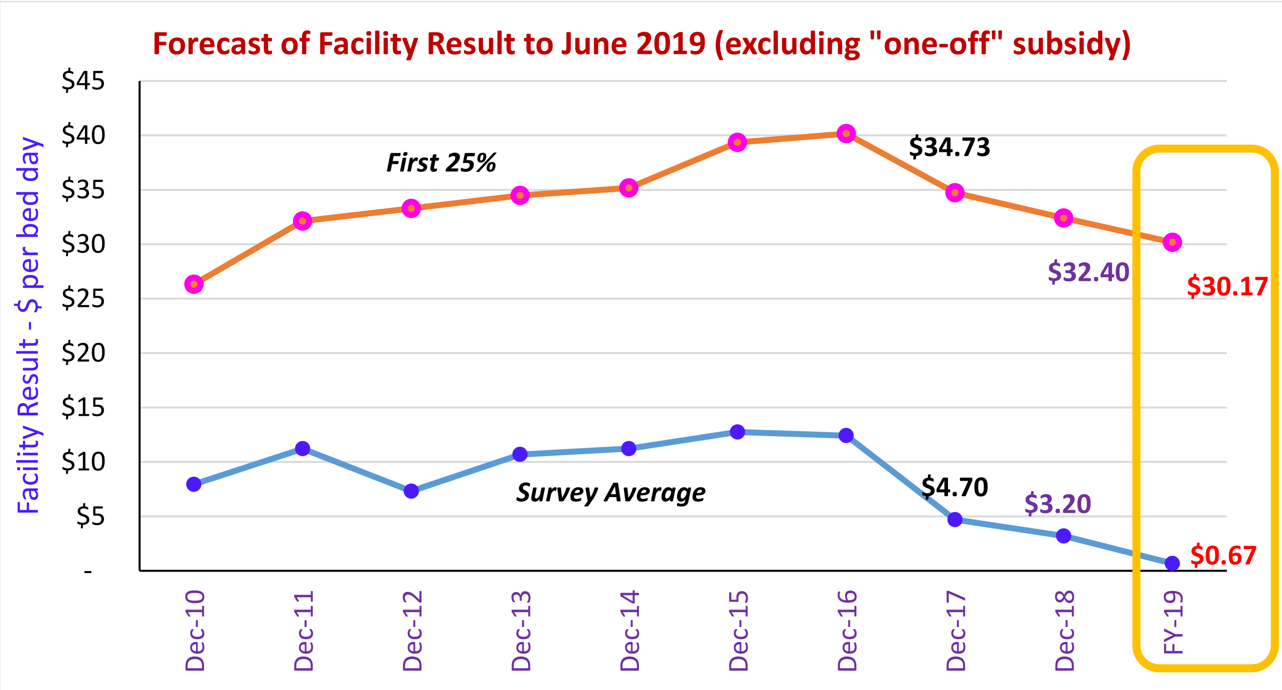
FY19 Residential Care Forecast

Forecast Assumptions

We have calculated the projected Facility Results for FY19 using the following assumptions:

- ✓ Based on Dec-18 actual Facility Results
- ✓ Adjusted for the "one-off" 9.5% increase in subsidy funding effective 20 March, 2019 (refer below)
- ✓ Adjusted for other revenue increases in line with pension/ CPI increase
- ✓ Adjusted for Wage increases of 3.0% pa
- ✓ Depreciation assumed to remain stable
- ✓ Adjusted for other expenditure increases at CPI of 2.1% pa and Utilities at 5.0% pa

Figure 13: FY19 Residential Care Forecast (Facility Result) (excluding "one-off" 9.5% subsidy increase)



Commentary

As at Dec-18 the EBITDAR pbpa for the Survey *Average* was $7,391, therefore, the impact of a facility operating surplus of $0.67 per bed day (keeping all else constant) and excluding the "one-off" 9.5% subsidy increase is:-

- A reduction of Facility EBT per bed per annum from $1,109 to $175 per bed per annum and;
- A reduction of Facility EBITDAR from $7,391 per bed per annum to $6,518 per bed per annum

Additional Funding Support

Background

The Prime Minister announced on 10 February 2019 an additional funding package for residential aged care. The announcement stated "The $320 million residential aged care component equates to approximately $1,800 per permanent resident and will provide additional support to the sector over the next 18 months, to deliver quality aged care services while the Government considers longer-term reform funding options".

Application

The Department of Health have advised how the additional $320 million residential aged care general subsidy will be applied:-

- It will be an effective (non-discriminatory) 9.5% increase on the basic ACFI, RCS and respite subsidies for the period 20 March 2019 to 30 June 2019
- Providers will not be required to acquit the additional funding (ie justify additional expenditure in addition to their current expenditure levels)
- From 1 July 2019, ACFI will revert back to the pre 9.5% level (ie current ACFI level)
- The COPE increase (if approved) from 1 July 2019 will be based on the pre 9.5% level
- Whilst the announcement refers the additional subsidy support effectively covering an 18 month period, the fact that the subsidy will be fully paid up to 30 June 2019 with no requirement to acquit means that in accordance with Australian Accounting Standards *AASB 15 Revenue from Contracts with Customers* (new) or *AABS 118 Revenue* (existing) we are of the opinion the additional subsidy should be fully disclosed in the 2019 financial year (ie no future apportionment in FY20)

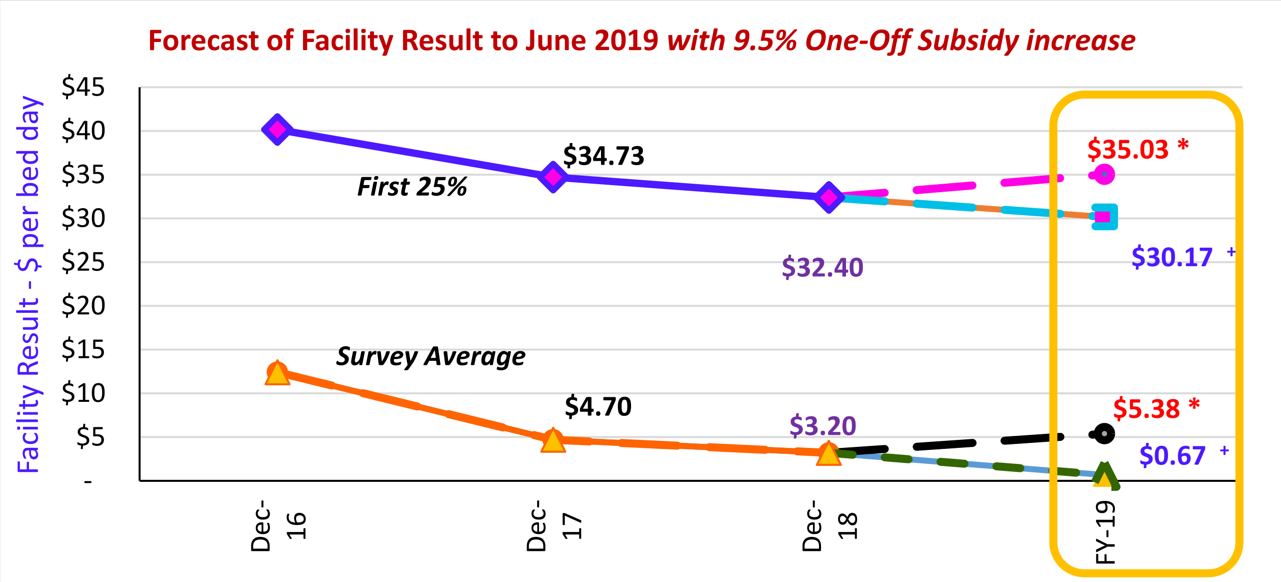
Impact

The additional subsidy will positively impact on the FY19 financial performance for residential aged care providers, however will not impact on FY20 forecasts due to it being a "one-off" subsidy that will be fully remitted by 30 June 2019.

From an trend analysis perspective, StewartBrown will show both the results with the additional subsidy and without the additional subsidy, with the latter trend being of greater importance for forecasting and analysis purposes.

The additional funding support will provide a facility with an average ACFI of $177.30 with approximately $1,720 per bed by June 30. The effect on the forecast results are shown in the graph below.

Figure 14: FY19 Forecast facility Result showing the likely effect of the 9.5% one-off subsidy funding boost



Impact of FY19 Projections - Increase in Number of Facilities with Negative Results

The below table projects the number of facilities that could transition into having EBT and EBITDAR losses should the FY19 projections be realised. A comparison to FY17 and FY18 is included.

Table 9: FY19 Projection Number of Facilities with EBT and EBITDAR deficits (FY19 includes "one-off" subsidy boost)

	FY17 %	FY18 %	FY19* %		FY17 No.	FY18 No.	FY19* No.
% of facilities with negative facility EBT by remoteness							
Major Cities	30.2%	41.5%	35.8%		187	262	224
Inner Regional	36.1%	47.2%	40.8%		87	116	100
Outer regional, remote & very remote	52.1%	63.5%	60.6%		50	61	57
Survey	**33.9%**	**45.1%**	**39.5%**		**324**	**439**	**381**
% of facilities with negative facility EBITDAR by remoteness							
Major Cities	12.6%	18.0%	13.7%		78	114	86
Inner Regional	13.3%	22.4%	21.2%		32	55	52
Outer regional, remote & very remote	25.0%	37.5%	35.1%		24	36	33
Survey	**14.0%**	**21.0%**	**17.7%**		**134**	**205**	**171**

** FY19 forecast includes the additional 9.5% "one-off" subsidy. When considering the forecast without this additional subsidy the number of facilities (and percentage) would likely be an increase on FY18. This is an important consideration when assessing the likely performance (and sustainability) for FY20 and beyond*

6. HOME CARE ANALYSIS

Overview

The Home Care Packages (HCP) segment experienced a significant decline in profitability in FY18 with revenue and overall EBT per client day declining in both the Survey *Average* and Survey *First 25%* quartile. This result was compounded by an increase in unspent funds (revenue utilisation) per client and in aggregate.

For the six months to Dec-18, there are indications that this decline may have stabilised although the results for the *First 25%* continued to decline.

The overall Survey *Average* EBT result was a surplus of $3.33 per client day (Dec-17 $3.24 pcd) however Band 4 (highest acuity mix) have seen their results decline from $7.39 pcd to $5.92 pcd. The Band 4 *First 25%* also had a reduction in surplus to $25.14 pcd (Dec-17: $29.63 pcd). The Survey *First 25%* had a smaller reduction in their results from $18.98 pcd (Dec-17) to $18.04 pcd (Dec-18)

Revenue

- Increased by 9.6%
- Pricing pressure due to increased competition
- Revenue utilisation improved marginally from 87.6% (Dec-17) to 88.9% (Dec-18)
- Higher average unspent funds per client despite improvement in revenue utilisation

Expenses

- Decreased by 9.9%
- Direct service costs increased by $2.78 pcd
- Cost of direct service and brokered/sub-contracted as a percentage of total income has increased to 61% from 59% (Dec-17)
- Decrease in case management and advisory $0.11 pcd (reduction in staff costs)
- Increase in administration costs of $1.15 pcd (mostly reduction in corporate recharge and staff costs)

For both the Survey *Average* and *First 25%* the profitability declines were in Bands 1 and 4, whilst Bands 2 and 3 had slight improvements in results. The majority of the packages in the Survey are in Band 3 (37.9%) followed by Band 4 (31.8%).

Figure 15: Comparison of Survey Average EBT (operating surplus) Dec-18 and Dec-17

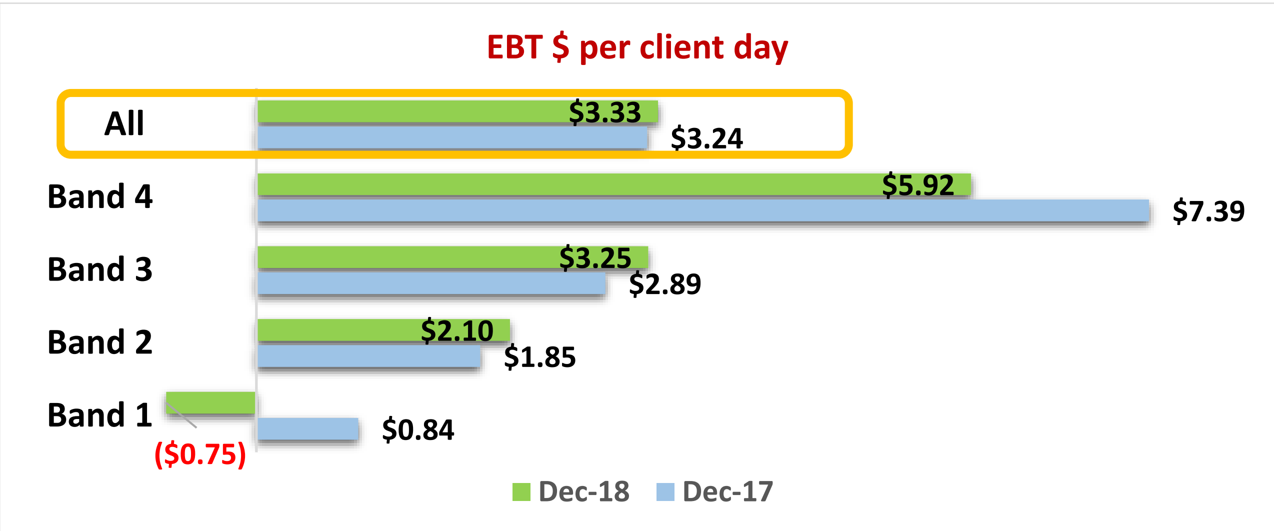


Figure 16: Comparison of Survey Average EBTDA per client per annum Dec-18 and Dec-17

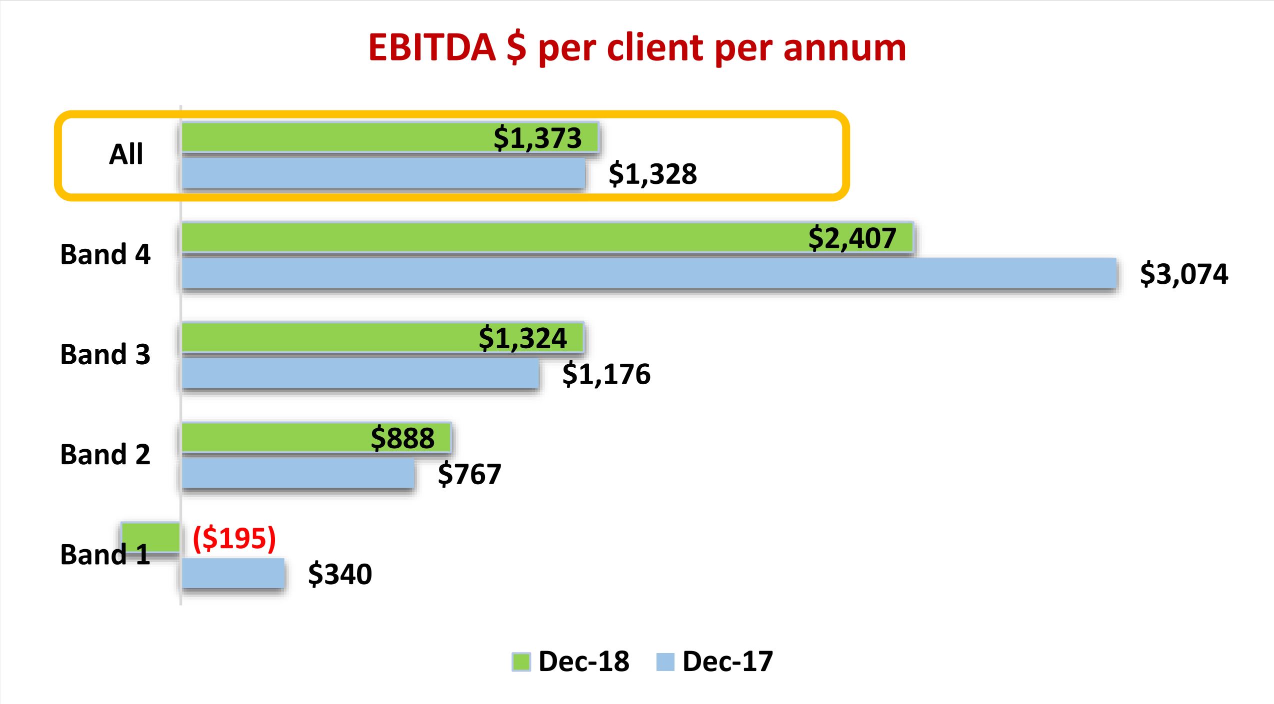
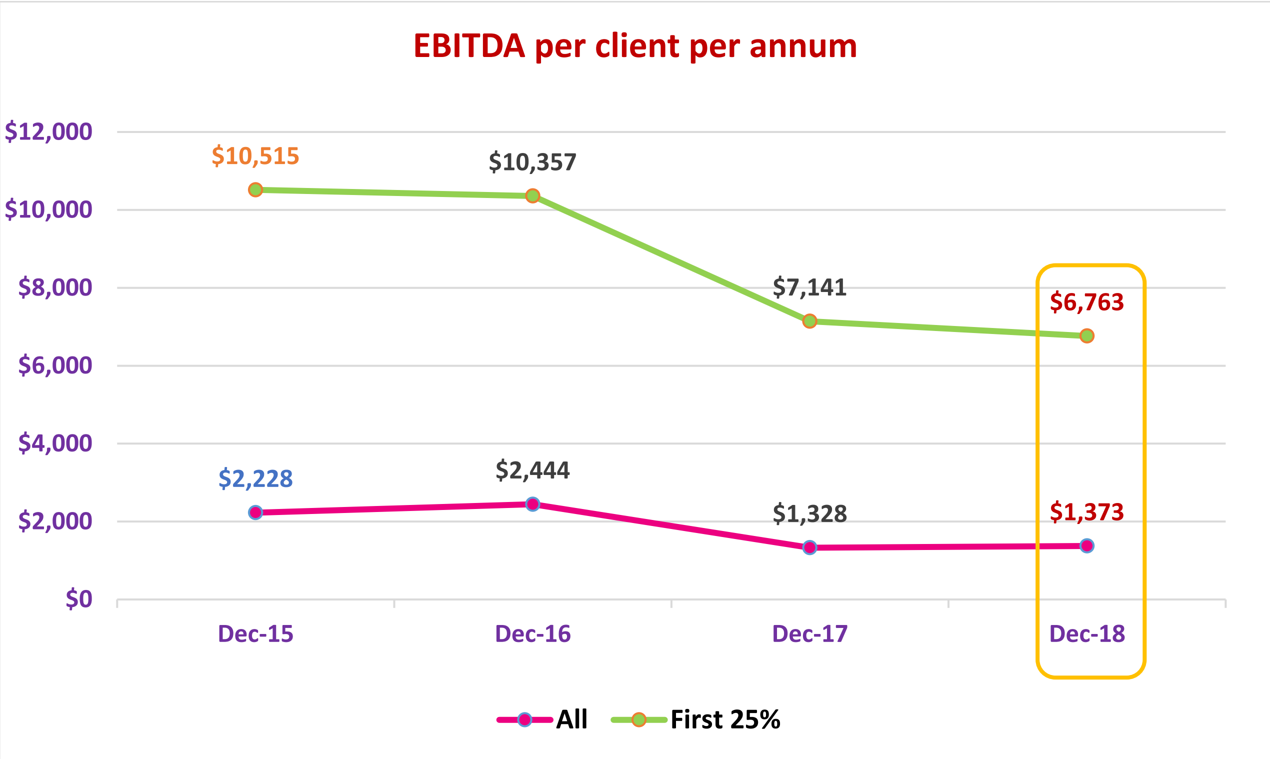
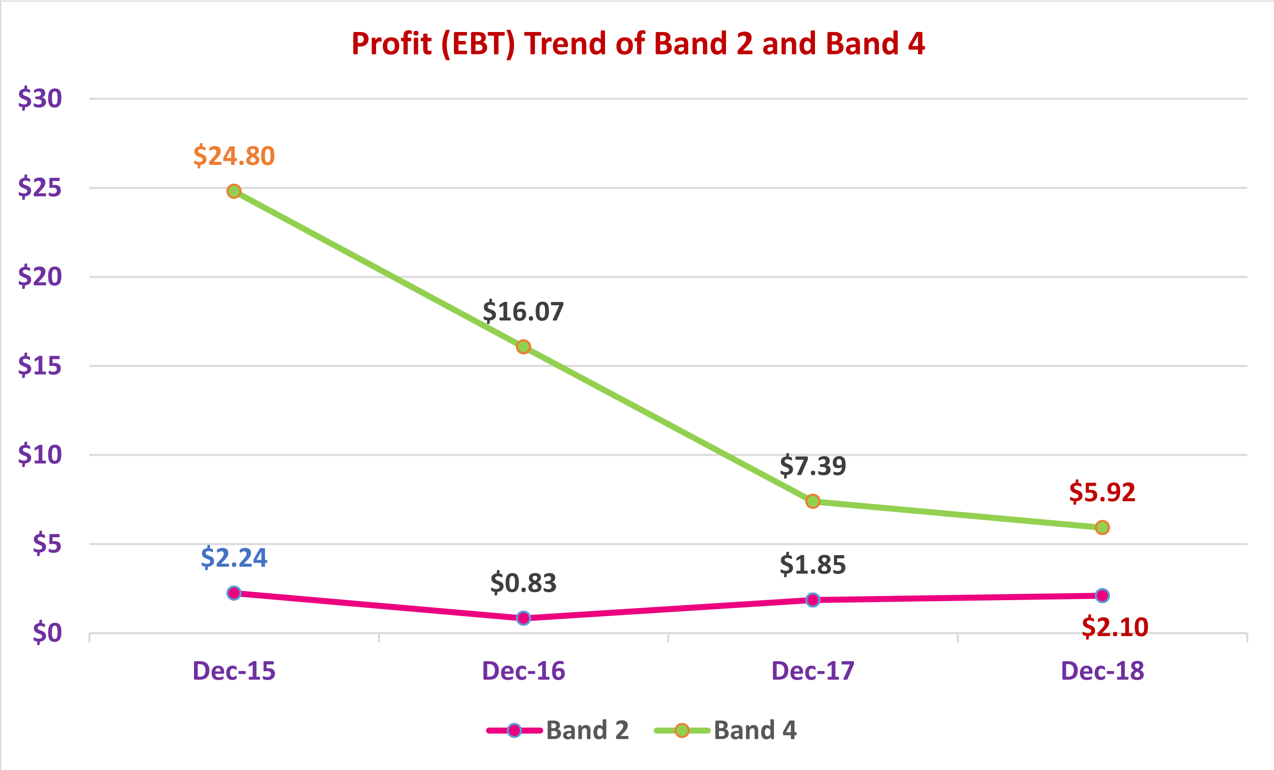


Figure 17: Comparison of Survey Average EBTDA Per client per annum trends



The trend graph above clearly shows the decline in results over time with the *First 25%* being affected in a more significant way than the survey *Average*.

Figure 18: Trend analysis for EBT Band 2 and Band 4



Similarly, as shown by Figure 18, the decline in results for Level 4 (high care) packages has been dramatic. At the commencement of Consumer Directed Care (CDC) Level 4 packages had an *Average* result of $24.80 per client per day but this has now declined to $5.92 per client per day for the Dec-18 survey.

This represents a return on revenue of 5.3% which bordering on being unsustainable given the investment that providers are now required to make in technology, staff recruitment and retention and growth.

Snapshot: Home Care Packages

Profitability

9.6%
Increase in revenue

88.9%
Revenue utilisation compared to 87.6% in Dec-17

9.9%
Increase in Expenses

$3.33
EBT per client per day compared to average of $3.24 in Dec-17

$18.04
EBT per client per day for First 25% down from $18.98 in Dec-17

Client Profile

Average Age

	2018	2017
Level 1	81.8	73.5
Level 2	83.5	82.8
Level 3	82.8	82.7
Level 4	84.0	83.0

(Years)

Average Length of Stay

	2018	2017
Level 1	2.2	1.4
Level 2	2.2	2.0
Level 3	1.4	1.6
Level 4	1.9	1.4

(Years)

Client Exits

330
Data received from 330 home care programs

3,669
Total client exits in data set

46%
Exited to residential care 45% in Jun-18

12%
Exited to other home care providers 9% in Jun-18

42%
Exited system as a result of passing or other reason 45% in Jun-18

EBT for Survey *First 25%*

The EBT performance of the Survey *First 25%* for Dec-18 continued to decline in contrast to the Survey *Average* with the effects of the reduced prices, revenue utilisation and increased administration costs being the predominant reasons.

Figure 19: Comparison of Survey First 25% EBT (operating surplus) Dec-18 and Dec-17

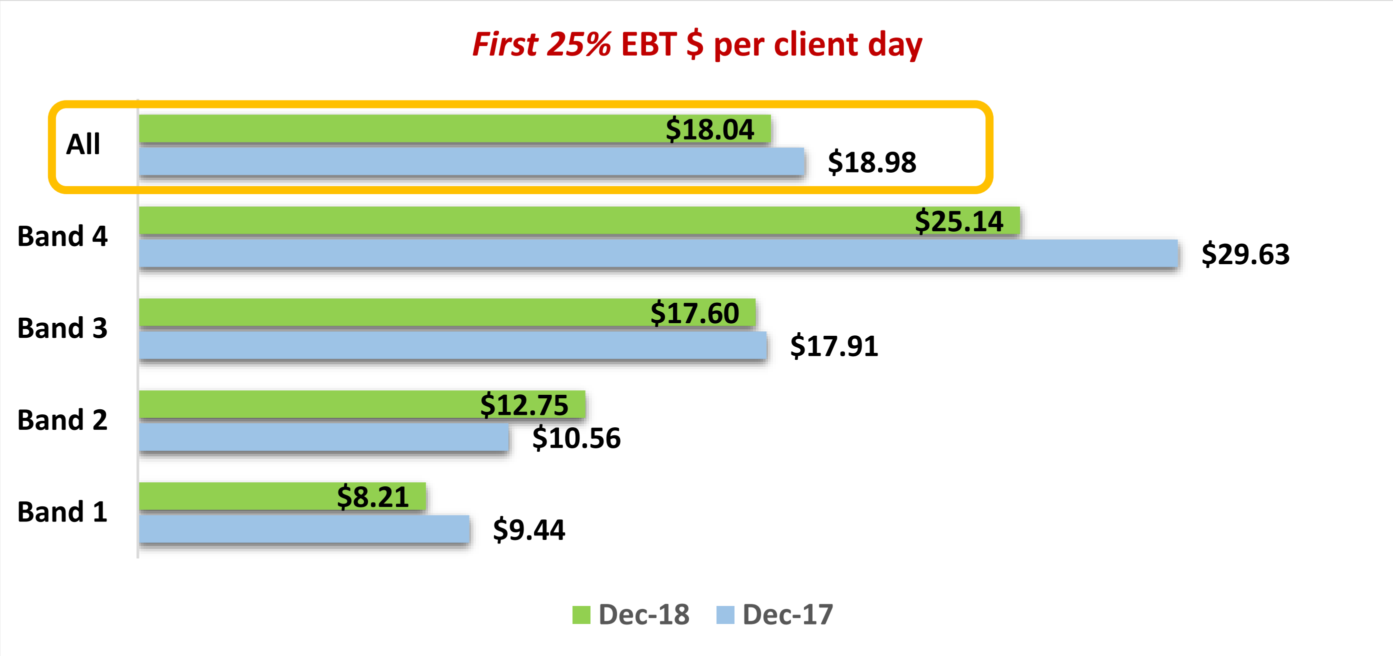
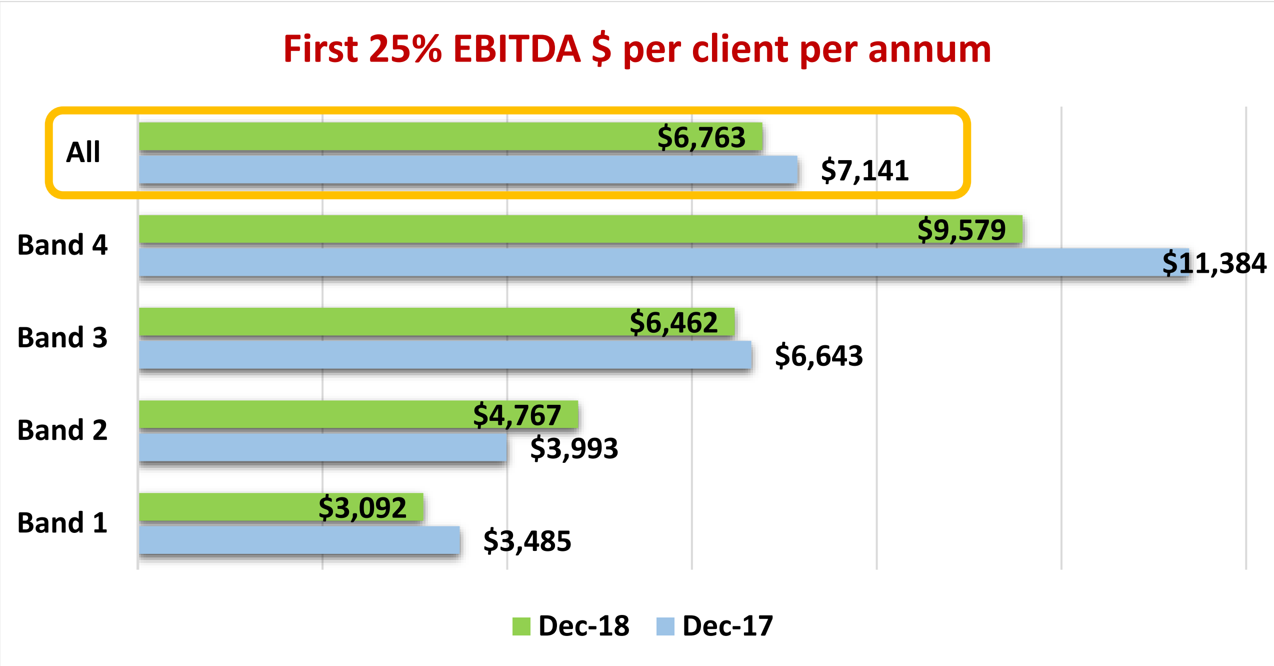


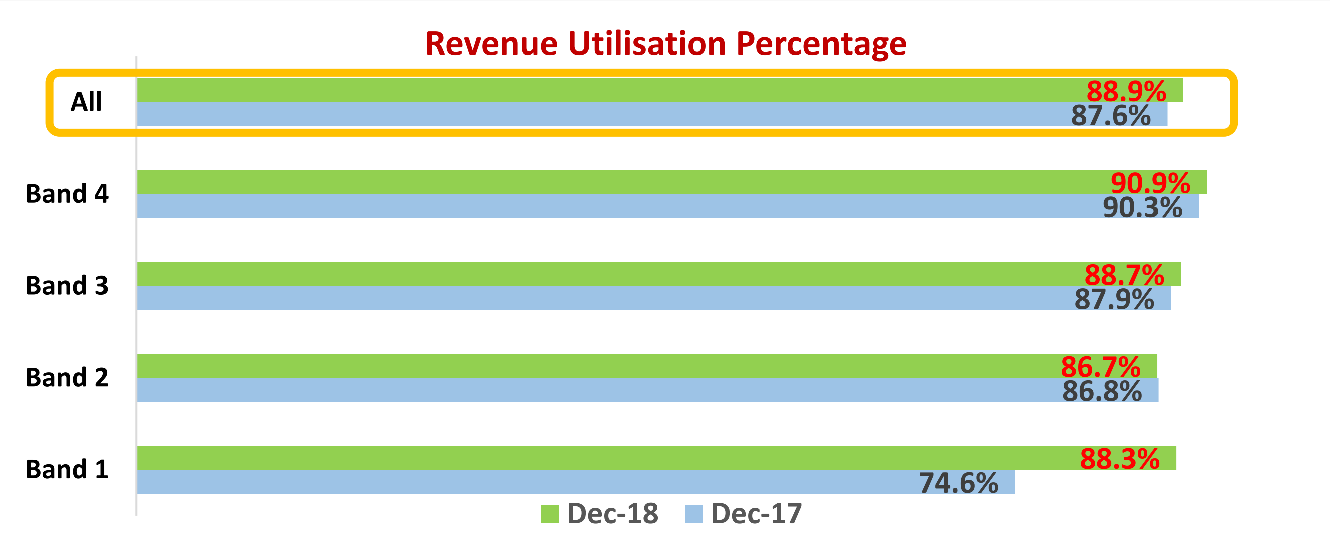
Figure 20: Comparison of Survey First 25% EBTDA Per client per annum Dec-18 and Dec-17



Revenue Utilisation

While there had been a significant decline in revenue utilisation in FY18 the year on year trend for Dec-18 has been a marginal improvement in revenue utilisation from 87.6% at Dec-17 to 88.9% at Dec-18. This has had a marginal affect on profitability as the fixed costs have been spread over slightly revenues and some of the variable (staff costs) are unlikely to have been adjusted a great deal. The improvement in revenue utilisation must be a continuing priority for the remainder of FY19.

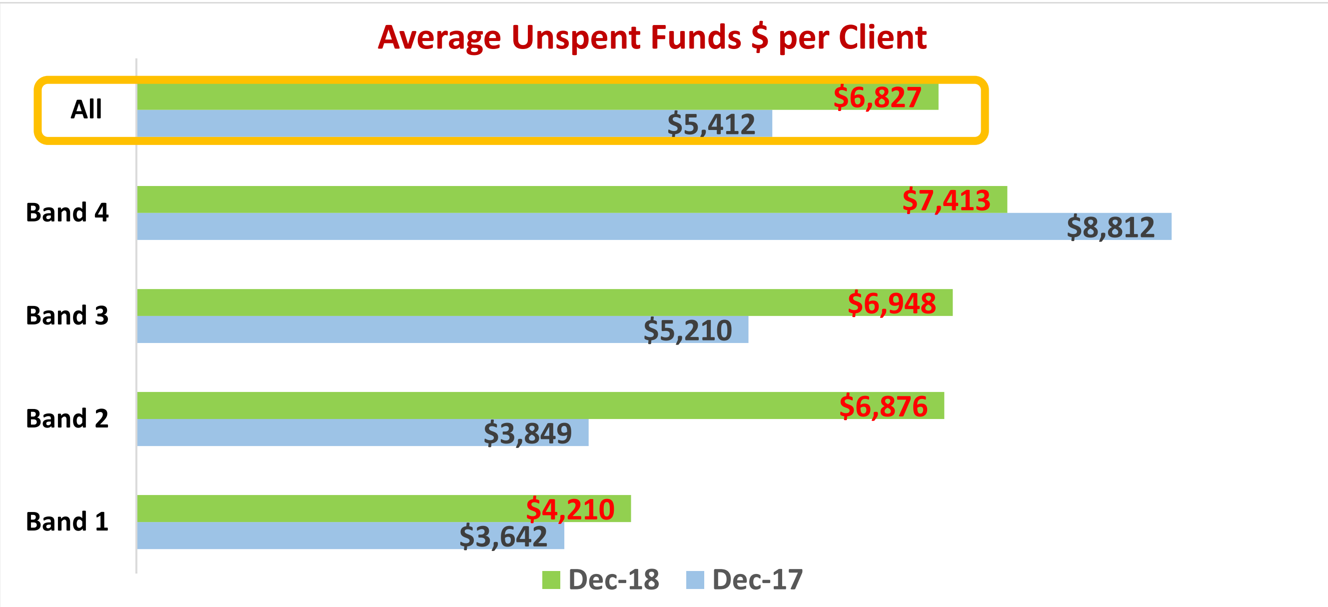
Figure 21: Revenue Utilisation comparison for Dec-18 and Dec-17



Unspent Funds

Despite the marginal improvement in *Average* revenue utilisation there has been a continuation in the increase of unspent funds for each client. ACFA estimated the unspent funds liability for FY17 to be $319 million and this is likely to be over $600 million as at FY19 year-end. This represents subsidy funds, by majority, that if not being utilised for direct care delivery could be diverted into those consumers on the national prioritisation queue that do not yet have funding provided.

Figure 22: Average Unspent Funds per client as at Dec-18 and Dec-17



Comment

The increasing amount of unspent funds is in many respects the most significant from both a service delivery and financial performance perspective.

From a consumer perspective, the large amount of unspent funds could be as a result of not fully utilising the subsidy provided to enable an overall package of care and support. Our indications are that between 8% - 12% of unspent funds are later utilised by a care recipient, with the remainder being used for capital purchases or returned to the government due to the consumer moving out of in-home care.

From a provider perspective, unspent funds affects the profitability (and sustainability) as the fixed costs for each client have already been absorbed and should the funds be utilised it is only the additional variable costs that would be incurred. We estimate the additional variable costs would be in the order of 35% - 40%, and the balance would be profit (in an overall sense).

We are also not aware of any provider who would not prefer to either provide services commensurate to the funding or have the underutilised funds reallocated to other new care recipients that are currently awaiting packages.

Another related issue is that due to the high level of unspent funds per client, there is a reluctance by providers to charge (and consumers to be charged) a client contribution (basic daily care fee) as it would effectively only add to the quantum of unspent funds. This distorts the overall funding model and discourages the notion of consumers "co-contributing" to their care needs.

Staff Hours Worked per Client

The average direct care hours per client per week have declined from the levels in FY17. This is partly due to lower available package revenue as a direct result of the increased unspent funds.

While a decrease in administration and support staff hours was observed across the survey for the FY18, there has been an increase in hours when comparing the Dec-18 period to the Dec-17 period. In contrast, there is a significant reduction in administration and support hours for the First 25% in this Dec-18 period. Many providers are making a concerted effort to improve efficiencies in this area to reduce costs.

Table 10: Home Care Staff Hours per client per week from Dec-18 and Dec-17

	Average			*First 25%*		
	Dec-18	**Dec-17**		**Dec-18**	**Dec-17**	
Direct service provision	5.05	5.38	↓	5.41	6.36	↓
Agency	0.18	0.27	↓	0.10	0.29	↓
Case management & advisory	0.94	0.90	↑	0.91	1.36	↑
Administration & support services (including co-ordination)	0.52	0.58	↑	0.53	0.80	↓
Total Staff Hours	**6.69**	**7.14**	↓	**6.96**	**8.81**	↓

Sector Data (GEN)

- Additional 406 approved home care providers since Jun-16 (902 in total as at 31 December 2018)
- Post deregulation - growth since Mar-17 to Dec-18 is 30.2% (209 providers)
- Additional 26,577 consumers since Jun-16 (at Sep-18 is 90,646 consumers)
- Reduction of 1,201 persons in packages in Sep-18 quarter
- Post deregulation - growth since Mar-17 to Sep-18 is 30% (20,067 consumers)
  - 22.2% increase in home care consumers between Sep-17 and Sep-18 (16,441 additional consumers).
- 53,770 queued either in or offered a lower level package and 73,978 not in or assigned a lower level package as at 30 September 2018 (127,748 in total in national prioritisation queue). This is an overall increase of 1,016 in the September quarter.

Figure 23: Number of Home Care Providers (GEN data)

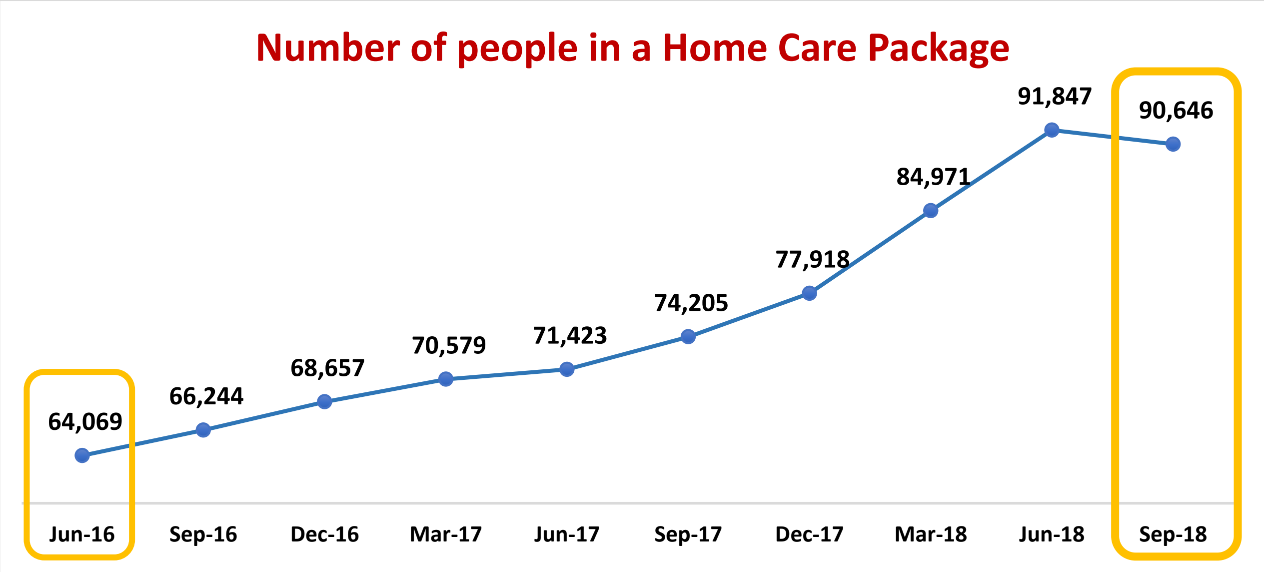
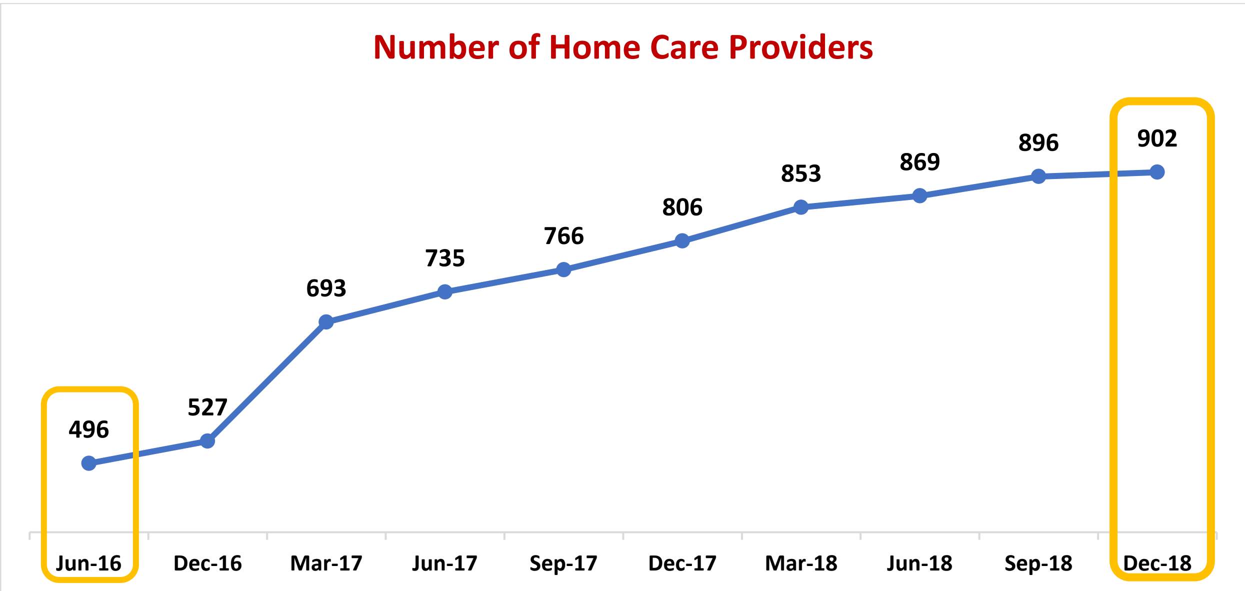


Figure 24: Number of Home Care Consumers (GEN data)



7. FUTURE SUSTAINABILITY - ISSUES TO CONSIDER

Analysis

A number of significant issues need to be considered when assessing the future funding model that is required to meet the requirements of a sector that is experiencing considerable resource pressures.

Whilst residential care has some clear financing issues that should be addressed as a priority, it should be noted that the Home Care Packages Program (HCP), Commonwealth Home Support Programme (CHSP) and Veterans Home Care Program (VHC) amongst a number of similar community programmes must also be considered in relation to the future funding models.

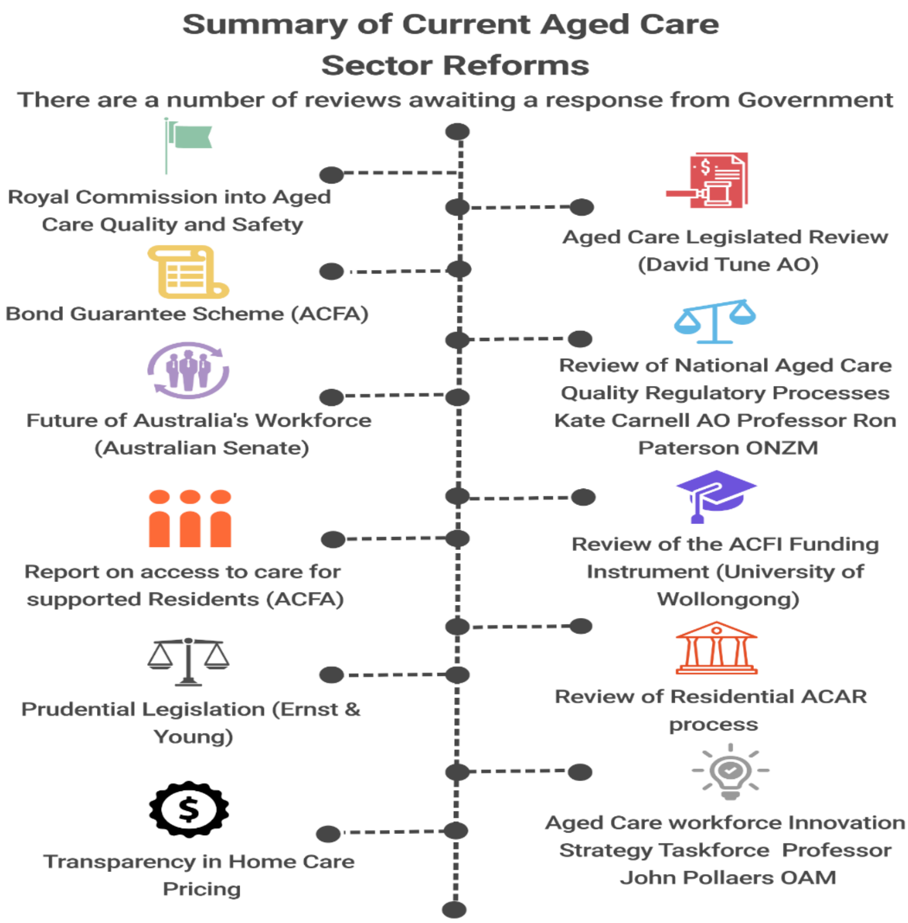
For the purpose of this brief analysis we are making specific comment on the Residential Care and HCP segments.

Current Reforms

The future sustainability of the sector will be dependent upon the impact of impending reforms and initiatives.

The graphic below summarises the current reforms that are progressing within the sector. Individually each reform has considerable importance and support, however, the sector has undergone considerable reforms dating back to 1997 (*Aged Care Act*) which have compounded the administrative and governance burden and affect strategic decisions due to uncertainty.

Figure 25: Summary of Current Aged Care Sector Reforms



Issues to be Considered

Specific areas that will need to be considered in developing a financially sustainable aged care sector include:-

Residential Care

- ACFI Funding - review the quantum of inflation (COPE) increases together with a stronger relationship between the funding instrument and actual resident care needs
- Additional funding is required for the Behaviour (BEH) and Complex Health Care (CHC) CFI domains due to the increased number of residents with dementia or other behaviour attributes, and with greater numbers of residents requiring palliative care and having almost sub-acute health conditions
- Rural, Remote and Very Remote facilities will continue to require a range of specific funding initiatives and support *(a possible remedy may be to fund the facilities at full occupancy levels based on the average ACFI - a similar concept to that adopted for MPS)*
- Workforce strategies, including availability, retention, career development, staffing levels, remuneration and conditions
- Additional and Optional Service Fees - clearer regulatory guidance, move toward either the deregulation of Basic Daily Fee or increasing the Basic Daily Fee base amount *(to $60 per day as a guide)*
- Accommodation Pricing - consumer education as to what is included in accommodation pricing, providers to increase the pricing and with an emphasis on a receiving a greater percentage of combination (RAD and DAP) receipts
- Innovation to be supported and encouraged at regulatory and legislative level
- Enhancement of My Aged Care functionality and portability
- Clearer and defined legislative and regulatory environment

Home Care

- National Prioritisation Queue and waiting lists - continued funding initiatives (in addition to MYEFO and recently announced increased package funding) to reduce the size of the prioritisation queue and reduce the length of time from consumer funding approval to the funding being provided - we note the additional home care places announced in MYEFO and further packages announced more recently in February
- Pricing Transparency - ensure that it does not disadvantage providers or consumers and allows for care delivery and business model innovation
- Pricing and Service Delivery - more clarity and flexibility in relation to provision of service guidelines *(including clear guidelines in relation to providing a package "bundle")*
- Quality Audits - enhanced monitoring and appropriate responses to non-conformance
- Unspent Funds - clearer definitions around use of unspent funds and possible redistribution of under-utilised funds to other consumers on wait lists (dependent on assessment of composition of unspent funds)
- Consumer Education - greater focus on providing increased consumer (and provider) education
- Enhancement of My Aged Care functionality and portability
- Clearer and defined legislative and regulatory environment (including quality and service delivery guidelines)
- Partial integration of CHSP and HCP programs *(possibly via Levels 1 and 2 funding)*
- Commitment to compulsory charging of client contributions (to encourage the notion of co-contributing to care)

8. APPENDIX A - GLOSSARY

Facility Result

*The **Facility Result** comprises the below components. The Care Result is a derivative of the resident acuity (care) needs whilst the Accommodation Result is derived from revenue streams not directly related to resident acuity but the resident's financial ability to pay for residential accommodation.*

ACFI Result

- ACFI Income (incl. MTCF) and care supplements Less
- Direct care wages and on-costs including w/comp and quality & education costs
- Other direct care expenses including medical, continence and therapy supplies

\+

Everyday Living Result

- Basic Daily fee and extra/additional service fees

Less

- Hospitality services (catering, cleaning & laundry)
- Utilities
- MV expenses
- Routine property and other maintenance expenses

\-

Administration Costs

- Cost of administration and support services excluding w/comp and quality and education costs (reallocated to care and everyday living)

=

ACFI + Everyday Living less Administration

CARE RESULT

ACFI + Everyday Living less Administration

CARE RESULT

\+

Accommodation Result

- Accommodation supplements
- Retention from bonds
- Daily accommodation payments and accommodation charges
- Interest on outstanding deposits

Less

- Depreciation and amortisation
- Rent
- Room refurbishment costs

=

Care + Accommodation

Facility Result

Accommodation Result
Accommodation Result is the net result of accommodation revenue (DAPs/DACs/Accommodation supplements) and expenses related to capital items such as depreciation, property rental and refurbishment costs. It no longer includes costs associated with recurrent repairs and maintenance and motor vehicles.

ACFA
Aged Care Financing Authority - the statutory authority which provides independent advice to the government on funding and financing issues, informed by consultation with consumers, and the aged care and finance sectors.

ACFI revenue
Aged Care Funding Instrument (ACFI) revenue includes the subsidy received from the Commonwealth and the means-tested care fee component levied to the resident. ACFI revenue includes the additional care supplement subsidies and some specific grant (not capital) funding.

ACFI Result
ACFI Result represents the net result from revenue and expenses directly associated with care. It includes ACFI and Supplements (including means-tested care fee) revenue less total care expenditure, and this includes an allocation of workers compensation and quality and education costs.

Administration Costs
Administration Costs includes the direct costs related to administration and support services and excludes the allocation of workers compensation and quality and education costs to ACFI and Everyday Living.

***Average*s**
For residential care 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 occupied bed days for the facilities in the group. For example, the average for contract catering across all facilities would be the total amount submitted for that line item divided by the total occupied bed days for all facilities in the survey.

For home care 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.

***Average* by line item**
This measure is *average*d across only those facilities that provide data for that line item. All other measures are *average*d across all the facilities in the particular group. The *average* by line item is particularly useful for line items such as contract catering, cleaning and laundry, property rental, extra service revenue and administration fees as these items are not included by everyone

Bed day
The number of days that a residential care place is occupied in the Survey period. Usually represents the days for which an ACFI subsidy or equivalent respite subsidy has been received.

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 facilities/ programs in Band 4, then the benchmark would be the average of the *First 25%* of the facilities/ programs in Band 4.

Care Result
This is the element of the facility result that includes the direct care expenses and everyday living costs and administration and support costs. It is calculated as ACFI Result *plus* Everyday Living Result *minus* Administration Costs.

Dollars per bed day
This is the common measure used to compare items across facilities. The denominator used in this measure is the number of occupied bed days for any facility or group of facilities.

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.

EBIT
Earnings Before Interest (including investment revenue) and taxation. This is a measure that excludes those variables relating to the tax status and financial position of an entity but recognises the consumption of capital in the form of depreciation and amortisation.

EBITDAR
This measure represents earnings before interest (including investment revenue), taxation, depreciation, amortisation and rent. The calculation excludes interest (and investment) revenue as well as interest expense on borrowings. EBITDAR is used for residential care analysis only, whereas Home Care uses EBITDA only.

The main reason for this is to achieve some consistency in the calculation. Different organisations allocate interest and investment revenue differently at the "facility level". To ensure that the measure is consistent across all organisations we exclude these revenue and expense items.

EBITDAR per bed per annum

Calculation of the overall Facility EBITDAR for the financial year divided by the number of operational beds in the facility.

EBT
Earnings before tax. This may also be referred to as the net result or, in the residential facility analysis, as the facility result.

Facility EBITDAR
The starting point for this calculation is the Facility Result which is the combination of the Care and Accommodation results. It excludes all "provider revenue and expenditure" including fundraising revenue, revaluations, donations, capital grants and sundry revenue. It also excludes those items excluded from the EBITDAR calculation above. This measure is more consistent across the facilities because it excludes all those items which are generally allocated at the facility level on an inconsistent and arbitrary basis depending on the policies of the individual provider.

*** The previous metric of Provider EBITDA is no longer included in the reporting as it is not considered to be a key indicator of facility performance.*

Everyday Living Result
Revenue from Basic Daily Fee plus Extra or Optional Service fees less Hotel Services (catering, cleaning, laundry), Utilities, Motor Vehicles and regular Property & Maintenance (includes allocation of workers compensation premium and quality and education costs to hotel services staff)

***First 25%* - Residential Care and Home Care Packages (HCP)**

The Residential Care and Home Care results (EBT) are distributed for the Survey period from highest to lowest in terms of $ per bed/client per day ($pd). This is then divided into four quartiles - the first 25%, second 25%, third 25%, fourth 25% and the average of each quartile is reported. The *First 25%* represents the quartile of programs with the highest EBIT $pd, the second 25% represents the quartile with the second highest EBIT $pd, the third 25% represents the quartile with the third highest EBIT $pd, whilst the fourth 25% represents the quartile of programs with the lowest (fourth highest) EBIT $pd.

Location - City

Facilities have been designated as being city based according to the designation by the Department of Health in their listing of aged care services. Those that were designated as being a “Major City of Australia” have been designated City.

Location - Regional

Facilities have been designated as being regionally based according to the designation by the Department of Health in their listing of aged care services. Those that were designated as being an “Inner Regional”, “Outer Regional” or “Remote” have been designated as Regional.

Survey

Survey is the abbreviation used in relation to the *Aged Care Financial Performance Survey*.

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