



StewartBrown

Integrity + Quality + Clarity

Aged Care Financial Performance Survey

Sector Report ***(2018 Financial Year)***



The StewartBrown June 2018 *Aged Care Financial Performance Survey* incorporates detailed financial and supporting data from over 974 residential care facilities and over 24,952 home care packages (455 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.

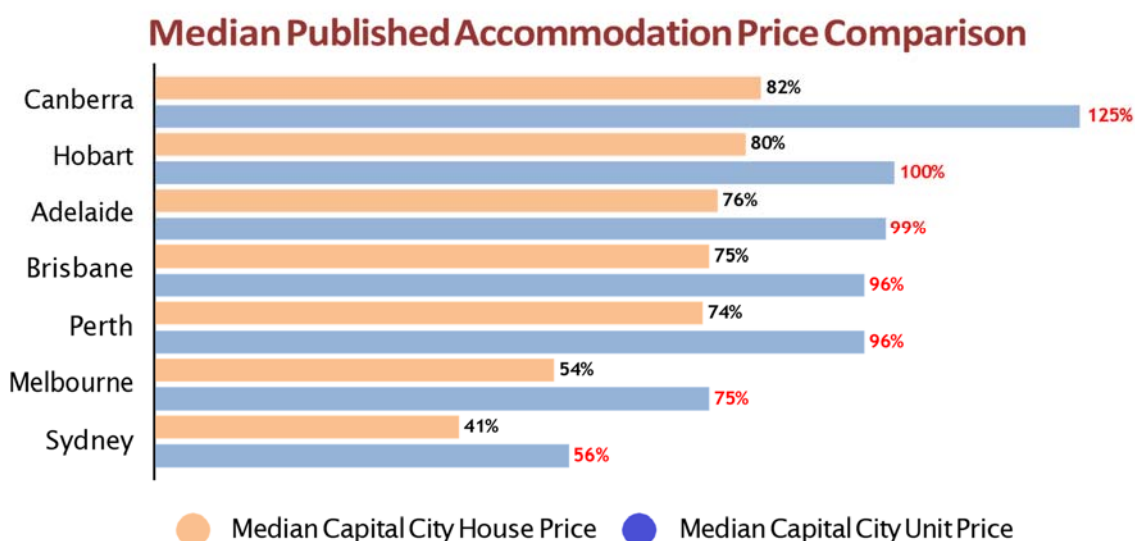
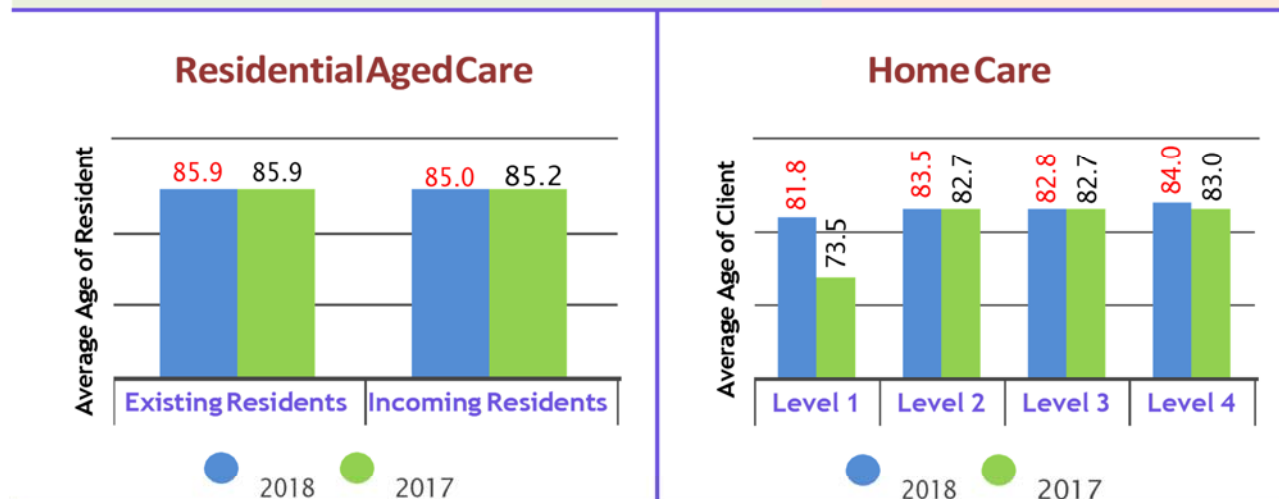
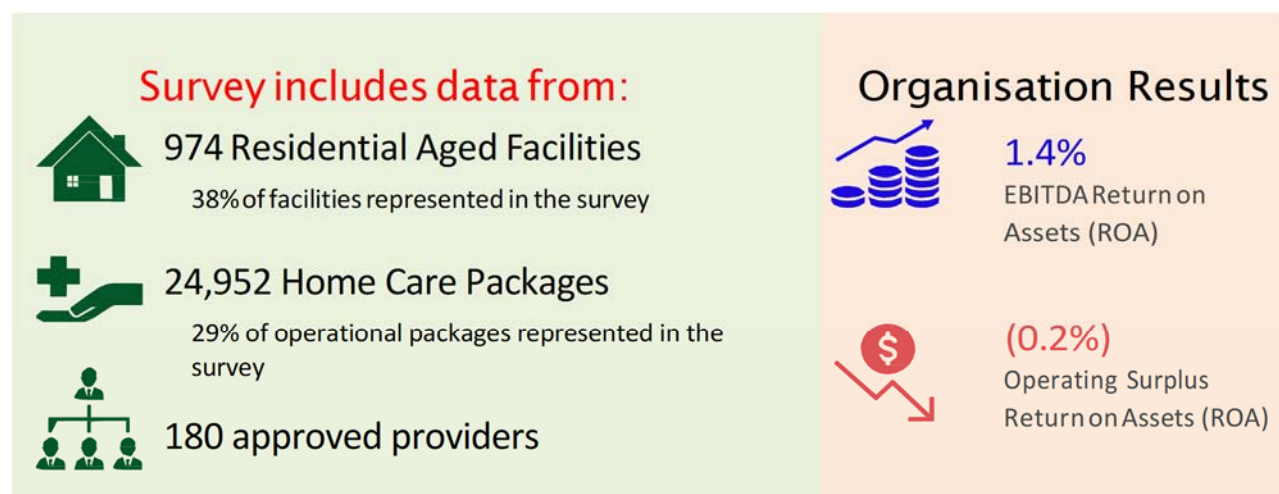
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1. HIGHLIGHTS

Key Results From FY18 Survey



Residential Aged Care



\$2.37

EBT per bed day for *Survey Average*
(2017: \$9.39)



\$30.26

EBT per bed day for *First 25%*
(2017: \$37.26)



\$6,760

EBITDAR per bed per annum for
Survey Average
(2017: \$8,829)



\$16,570

EBITDAR per bed per annum for *First 25%*
(2017: \$18,481)



21%

Proportion of facilities with negative
EBITDA
(2017: 14%)



45.1%

Proportion of facilities with negative
EBT
(2017: 33.9%)

Home Care



\$3.77

EBT per client day for *Survey Average*
(2017: \$5.37)



\$17.77

EBT per client day for *First 25%*
(2017: \$25.03)



\$6,022

Survey Average for unspent funds
(2017: \$4,255)



86.7%

Survey Average revenue utilisation
(2017: 92.3%)



9.7%

Case management costs as % of
income
(2017: 10.9%)



23.4%

Administration costs as % of income
(2017: \$26.0%)

Survey Analytics

Subscribers to the 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 Survey covers residential care, home care packages and retirement villages involving a detailed analysis of the 2018 operating income and expenses of participants including a review of assets and funding engaged in providing aged care facilities. The Survey covered the following participation:-

- ◆ 180 approved provider organisations
- ◆ 974 residential facilities (*28 additional facilities were excluded due to their operational circumstances*)
- ◆ 24,952 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
<i>StewartBrown Residential Care Survey</i>				
Facilities included	632	246	96	974
Facilities excluded	15	5	8	28
Total Survey facilities	647	251	104	1,002
<i>GEN Aged Care Data Service Listing (30 June 2018)</i>				
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)	38.5%	38.8%	28.3%	37.2%
Coverage - % of (B)	39.3%	47.1%	37.7%	40.8%

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)
- Provider Organisation Report (bi-annual)
- Listed Provider Analysis Report (bi-annual)
- Corporate Administration Report (every second year)

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 financial year ended 30 June 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, whereas the individual participants 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 is experiencing 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).

FY18 Survey Results Summary

The financial performance of the aged care sector, and specifically the residential care and home care package segments has experienced a significant deterioration in the operating results for FY18. A continuation of this decline or even just maintaining the FY18 results will potentially place a number of residential care facilities in a financially vulnerable position which could impact on the organisation's sustainability.

Following is a summary of the key financial performance results and indicators by segment from participants in the FY18 *Aged Care Financial Performance Survey*.

Organisation (Approved Provider)

- Operating EBT Result (*) (average by organisation) reduced by \$1,275k to a deficit of \$52k
- Operating EBITDA reduced by \$831k to \$3,326k surplus
- Operating Result expressed as a return on assets employed has reduced from 0.5% positive to negative 0.02%. 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 reduced by 0.44% to 1.44% (FY17 1.9%)
- Liquid cash and financial assets as a percentage of debt (RADs and external) has reduced by 2.7% to 38.1% (FY17 40.8%). The listed entity ratio reduced by 1.5% to 1.7% (FY17 3.2%)

**Operating result excludes non-recurrent revenues and expenses (revaluations/donations/impairment etc)*

Residential Care

- Average ACFI per bed day (pbd) for survey participants was neutral (\$172.57 pbd)
- Occupancy levels for survey participants remained neutral (94.3% average occupancy)
- Total care hours per resident per day increased by 0.15 hours to 3.06 hours (FY17 2.91 hours)
- Direct care costs increased by 4.3% (\$140.24 pbd)
- Costs for providing everyday living services exceeded revenue by \$7.85 pbd
- Average Earnings Before Tax (EBT) for residential facilities reduced by \$2,420 per bed per annum (pbpa) to \$816 pbpa (FY17 \$3,236 pbpa)
- Average EBITDAR for residential facilities reduced by \$2,069 pbpa to \$6,760 pbpa (FY17 \$8,829 pbpa)
- 45.1% of residential facilities recorded a negative Operating Result (EBT) (33.9% for FY17)
- 21.2% of residential facilities recorded a negative EBITDA (16.1% for FY17) (*representing a cash loss*)
- 63.5% of outer regional, rural and remote facilities recorded an EBT loss (*37.5% recorded a cash loss*)

Aged Care Financial Performance Survey
 Sector Report (FY18)

Home Care Packages

- Revenue per client day (pcd) average for survey participants reduced by 6.1% (being \$4.48 pcd)
- Operating Result (EBT) surplus average per client day for survey participants reduced by \$1.60 pcd to \$3.77 pcd (FY17 \$5.37 pcd)
- Direct service costs increased by \$1.30 pcd (60.9% of total revenue)
- Revenue utilisation (average unspent funds) has deteriorated by 8.3%
- Unspent funds average per client has increased by \$1,729 per client (to average \$5,984 per client)
- Staff hours per client per week reduced by 0.47 hours (average 6.69 hours per week)
- 45% of clients transitioned to residential care (30% in FY17)
- 9% of clients transferred to another provider (4% in FY17) - the majority being due to change of place of residence

Commentary

The FY18 financial results for the sector indicate clearly that the current funding model is under significant strain. Both residential care and home care experienced declines in financial performance, interestingly though, for somewhat unrelated reasons.

The residential care financial performance decline was revenue related, largely due to the combination of the COPE indexation freeze on ACFI subsidy, amendments to the ACFI scoring matrix, ACFI downgrades and increased costs. Costs rose 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 remained relatively neutral at \$172.57 per bed day (an increase of \$0.40 per bed day). 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 exit 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 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 45.1% of residential facilities reported an EBT operating deficit for FY18, and even more disconcerting is that 21.2% 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 2.91 hours to 3.06 hours, with no additional funding revenue to compensate for these increased staffing hours.

Average Earnings Before Tax (EBT) for FY18 for residential care was \$816 per bed per annum, which equates to an unsustainable amount of \$15.69 per bed per week.

Occupancy levels in residential care facilities remained steady at 94.3% average occupancy, however the concern is that any facility closures due to financial stress may impact the vulnerable aged requiring high care accommodation.

Capital equity injection and use of existing capital for necessary rebuild and refurbishment of facilities has noticeably slowed, a contributing reason being due to legislative and regulatory uncertainty in addition to the low financial returns. The average EBT return on assets employed (ROA) was a mere 0.5% and after excluding non-recurrent revenue streams such as revaluations and fair value gains on property and investments, the ROA represented a negative return of 0.02%

The financial viability of outer regional, rural and remote aged care providers is reaching a pivotal point. Over 63% 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 will be essential in our opinion.

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 45% nationally) and consumer reluctance to pay high accommodation prices commensurate with the average housing prices.

For FY18 the average surplus from accommodation revenue and accommodation costs (by majority being depreciation and refurbishment) equated to \$3,837 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 2.07% pa for existing facilities and 1.28% for new builds.

However, it should be noted that this 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 deficit rather than a surplus.

Whilst residential care has attracted significant community and media interest, in-home care has also experienced a financial performance decline with revenues reducing by an average of 6.1% underpinning an overall reduction in profitability of 29.8%. This may explain the reduction in staffing hours delivered to clients.

Since June 2016 the number of approved providers in home care has increased nationally by 373 (75.2% increase), however the number of funding packages has only increased by 17.57% (from 72,272 packages to 84,971 packages) since deregulation in February 2017.

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.

Future Financial Sustainability

In **Chapter 5** of this report we have prepared a FY19 financial projection for residential care based on a series of assumptions. Our FY19 forecast Facility Result based on the current funding levels projects an operating deficit of \$0.20 per bed day for the sector average.

We also identify the following specific issues that we feel need to be considered in relation to improving financial performance and long-term sustainability of the aged care sector.

Residential Care

- ◆ ACFI funding - greater annual inflation (COPE) subsidy increases
- ◆ Additional subsidy funding for Behaviour (BEH) and Complex Health Care (CHC) domains within ACFI
- ◆ Rural, remote and very remote - additional viability supplements
- ◆ Workforce strategies and initiatives funding
- ◆ Extra and optional fees - deregulation and clearer regulatory guidance
- ◆ Accommodation Pricing - increase pricing

Home Care

- ◆ National prioritisation queue and waiting lists - increased home care package funding
- ◆ Pricing transparency - successful implementation for both consumers and providers
- ◆ Pricing and service delivery - more clarity and flexibility in relation to provision of service guidelines
- ◆ Quality audits - enhanced monitoring and appropriate responses to non-conformance
- ◆ Unspent funds - clearer definition around use of unspent funds
- ◆ Consumer education - greater focus on providing increased consumer (and provider) education
- ◆ Integration of CHSP and HCP programs (as appropriate)

General

- ◆ My Aged Care - enhancement of functionality and portability
- ◆ Legislative and regulatory environment - improved clarity and certainty
- ◆ Innovation - to be supported and encouraged at regulatory and legislative level
- ◆ Consumer education - targeted to include the continuity of care for each segment
- ◆ Greater level of congruence between State regulatory environment for Retirement Villages and to provide an easier transition from senior's housing to residential care
- ◆ Education and guidance on Governance for aged care providers

3. ORGANISATION ANALYSIS

This section provides a summary of the FY18 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 130 organisations who are representative of all states and demographics.

The same provider organisations were used to compare their operating performance for FY18, FY17 and FY16.

Operating Results for year ended 30 June 2018

The following table represents the Survey organisation (approved provider) summary revenue and expenses for the financial years ended 2016 to 2018. The amounts expressed are the average of the 130 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 FY18 (Average)	Survey FY17 (Average)	Survey FY16 (Average)	ACFA FY17 (Residential)	ACFA FY16 (Residential)	Listed Entities FY18 (Average)	Listed Entities FY17 (Average)
Income & Expenditure	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<u>Revenue</u>							
Operating revenue	70,217	65,246	57,085	18,600	17,460	500,816	477,816
Investment income	2,126	2,109	1,824	348	634	136	194
Other income	1,360	3,030	1,252	738		4,408	6,438
<i>Total revenue</i>	73,703	70,385	60,161	19,686	18,094	505,360	484,448
<u>Expenses</u>							
Employee expenses	47,900	44,009	37,650	13,073	11,439	338,871	314,715
Depreciation and amortisation	5,021	4,572	3,863	993	814	23,578	20,873
Finance expenses	483	470	309	190	158	6,774	6,645
Other expenses	18,991	17,080	15,035	4,315	4,564	81,596	79,090
<i>Total expenses</i>	72,395	66,131	56,857	18,571	16,975	450,819	421,323
Surplus (EBT)	1,308	4,254	3,304	1,115	1,119	54,541	63,125
Operating Result - Surplus (Deficit)	(52)	1,224	2,052	377	485	50,133	56,687
Operating EBITDA	3,326	4,157	4,400	1,212	1,192	80,349	84,011

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 \$52k for FY18
- The operating result *excluding* investment income was a deficit by organisation of \$2,178k for FY18 (\$885k for FY17)
- 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 significant deterioration

Balance Sheet Summary as at 30 June 2018

A summary of the balance sheet (organisation average) for the 2016 to 2018 financial years is included in the below table.

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

	Survey FY18 (Average)	Survey FY17 (Average)	Survey FY16 (Average)	ACFA FY17 (Residential)	ACFA FY16 (Residential)	Listed Entities FY18 (Average)	Listed Entities FY17 (Average)
Balance Sheet	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<u>Assets</u>							
Cash and financial assets	50,710	49,871	48,494	9,090	5,913	16,091	27,416
Operating assets	12,669	13,348	6,079	8,262	8,488	18,777	22,955
Property assets	167,622	152,428	126,408	26,431	24,899	913,666	780,715
Intangible assets	8,650	7,562	6,276	6,125	3,583	668,528	648,527
Total assets	239,651	223,209	187,257	49,908	42,883	1,617,062	1,479,613
<u>Liabilities</u>							
Refundable loans	126,177	115,975	100,116	27,395	23,047	763,822	700,008
Borrowings	6,919	6,187	5,006	4,969	3,958	210,696	145,838
Other liabilities	18,536	16,755	11,976	4,987	4,344	150,640	140,178
Total liabilities	151,632	138,917	117,098	37,351	31,349	1,125,158	986,024
Net Assets	88,019	84,292	70,159	12,557	11,534	491,904	493,589
Net Tangible Assets	79,369	76,730	63,883	6,432	7,951	(176,624)	(154,938)

Brief Commentary

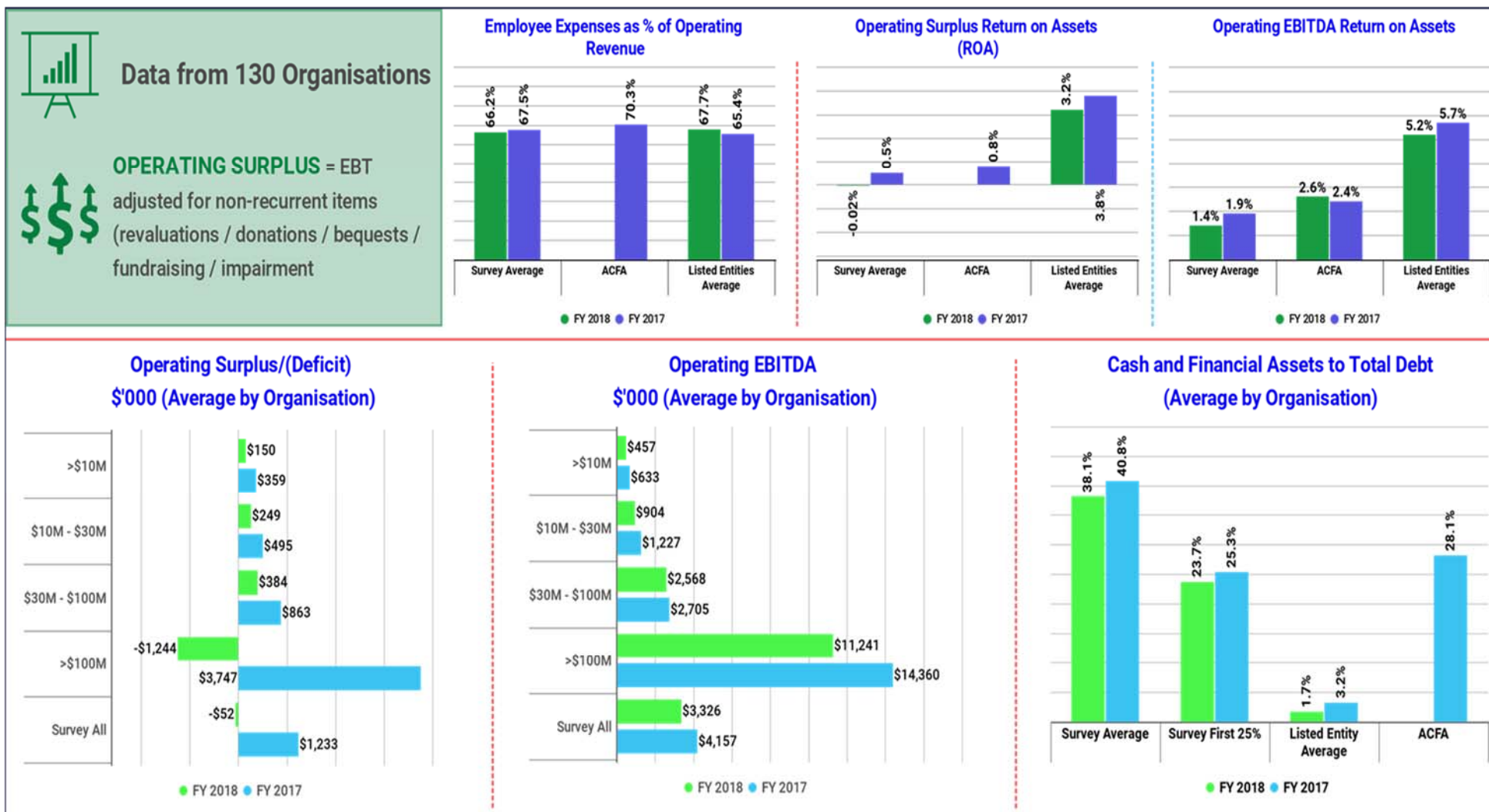
- Net assets and net tangible assets has increased for the Survey organisations but decreased for the listed entities (Estia/Japara/Regis)
- ACFA net assets for the residential care segment has increased in FY17 due to significant bed licence (intangible assets) acquisitions by the for-profit sector. The majority of not-for-profit organisations do not include bed licences as an intangible asset
- 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	28	27	130
%	21.5%	36.2%	21.5%	20.8%	100.0%
Number of residential care facilities	26	95	151	515	787
%	3.3%	12.1%	19.2%	65.4%	100.0%
Number of residential operating places	1,931	7,893	13,477	41,038	64,339
%	3.0%	12.3%	20.9%	63.8%	100.0%
Number of Home Care (HCP) clients	409	1,215	4,604	23,485	29,713
%	1.4%	4.1%	15.5%	79.0%	100.0%

Snapshot



4. RESIDENTIAL CARE ANALYSIS

Overview

The residential care sector has experienced a significant decline in Facility Result (EBT) mainly due to expenses increasing at a much higher rate (4.7%) than revenue (1.7%). The Facility Result as shown to the right has decreased from \$9.39 per bed day (pbd) in FY17 to \$2.37 pbd in FY18.

EBT per bed day



Revenue

- Increase in ACFI revenue by \$0.49 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 marginally from \$172.08 to \$172.89
- Increase in Every Day Living revenue by \$1.30 pbd mostly due to CPI increase in the Basic Daily Fee
- Increase in Accommodation revenue by \$2.41 pbd due to:
 - Resident - \$0.63 pbd (due to increase in DAPs ratio as compared to RADs)
 - Subsidy - \$1.77 pbd (due to increase in Significant Refurbishment subsidy)

Expenses

- Increase in total care labour costs of \$5.64 pbd and increase of roughly 9 minutes per resident per day in total care hours (total direct care hours - 3.06 per resident per day)
- Increase in hotel services \$0.96 pbd
- Increase in utilities of \$0.59 pbd (mostly due to increase in electricity \$0.42 pbd)
- Increase in administration of \$2.25 pbd mostly due to increase in corporate recharges
- Increase in accommodation expenditure by \$1.20 pbd due to higher depreciation charge

Additional Trends

- Occupancy - slight decrease from 94.6% to 94.3%
- Increase in supported resident ratio
- Increase in average Refundable Accommodation Deposit held and received during the year
- Increasing preference for DAPs over RADs - split is now 31% RAD, 45% DAP and 24% Combination

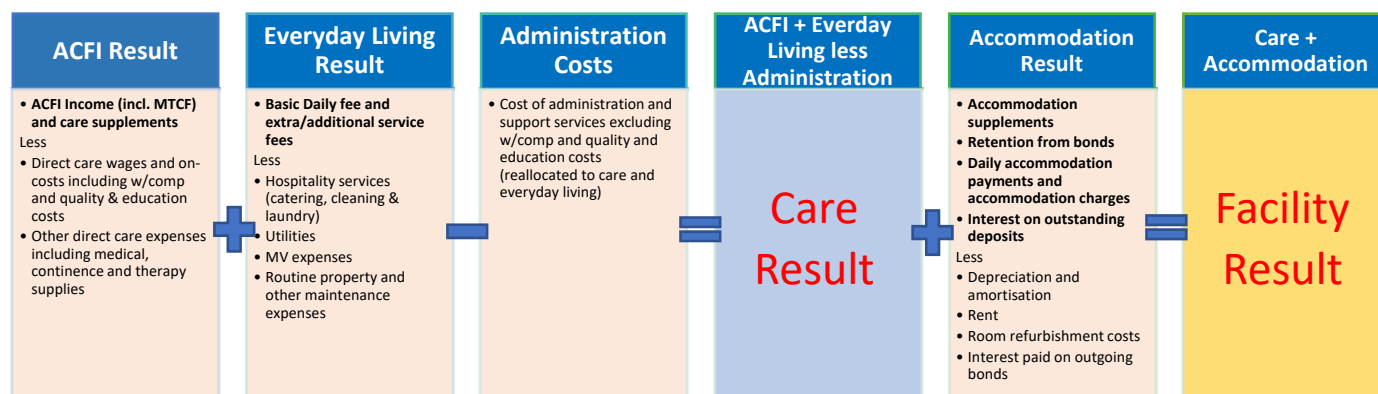
Table 5: Summary Results for FY18 Survey

	FY18 974 Facilities	FY17 957 Facilities		Difference
Facility Result (EBT) \$ per bed day	\$2.37	\$9.39	↓	(\$7.02)
Facility EBT \$ per bed per annum (pbpa)	\$816	\$3,236	↓	(\$2,420)
Facility EBITDAR \$pbpa	\$6,760	\$8,821	↓	(\$2,061)
Average Occupancy	94.3%	94.6%	↓	(0.4%)
Average ACFI per bed day	\$172.57	\$172.08	↑	\$0.49
Direct care hours per resident per day	3.06	2.91	↑	0.15
Care labour costs as % of ACFI	80.7%	77.5%	↑	3.2%
Supported ratio	45.5%	45.4%	↑	0.1%
Average Bond/RAD held	\$295,209	\$279,513	↑	\$15,696
Average RAD taken during period	\$321,350	\$320,220	↑	\$1,130

Definitions

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.

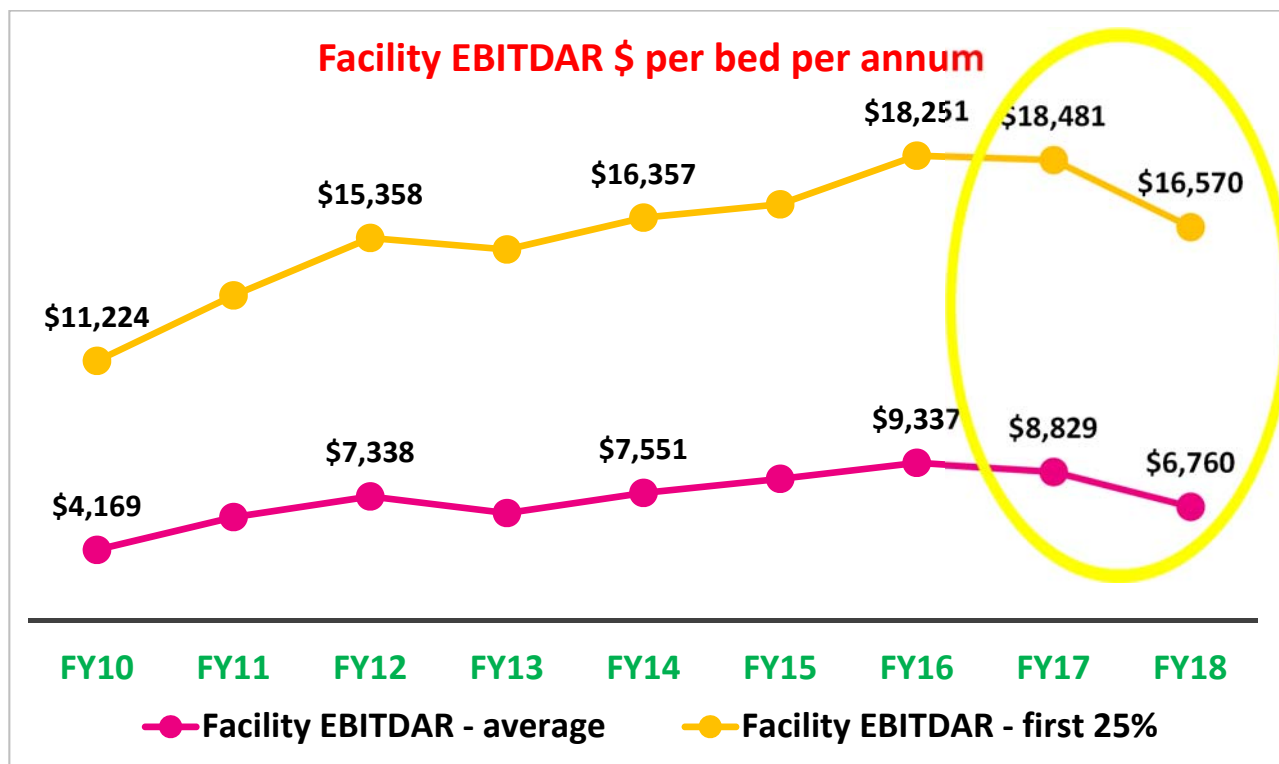
Figure 1: Facility Result Definition



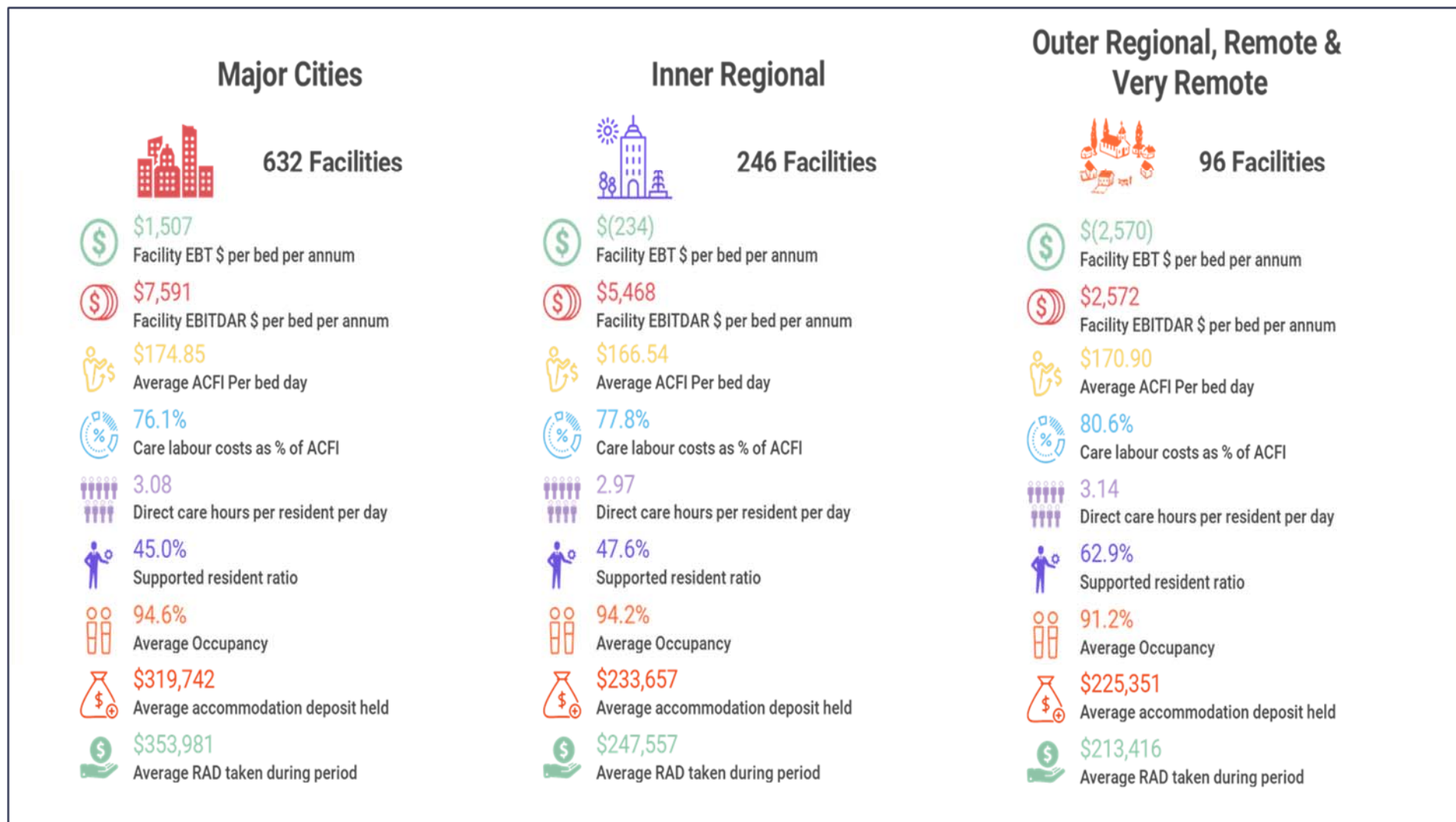
Facility Result Trend

The below graph shows the Facility EBITDAR (Earnings Before Interest, Taxation, Depreciation, Amortisation and Rent) trend from FY10 to FY18. At the *Average* facility level it is becoming increasingly difficult to remain financially sustainable.

Figure 2: Facility EBITDA trend



Snapshot - FY18 Facility Results By ABS Region



Impact of FY18 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 EBITDAR loss (Earnings Before Interest, Taxation, Depreciation, Amortisation and Rent) has increased by 7.0%, from 14.0% to 21.0% of 974 facilities participating in the Survey. In addition to this a further 28 facilities were excluded due to being outside the acceptable range.

The total percentage of facilities making an EBT loss has increased by 11.2%, from 33.9% to 45.1%.

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

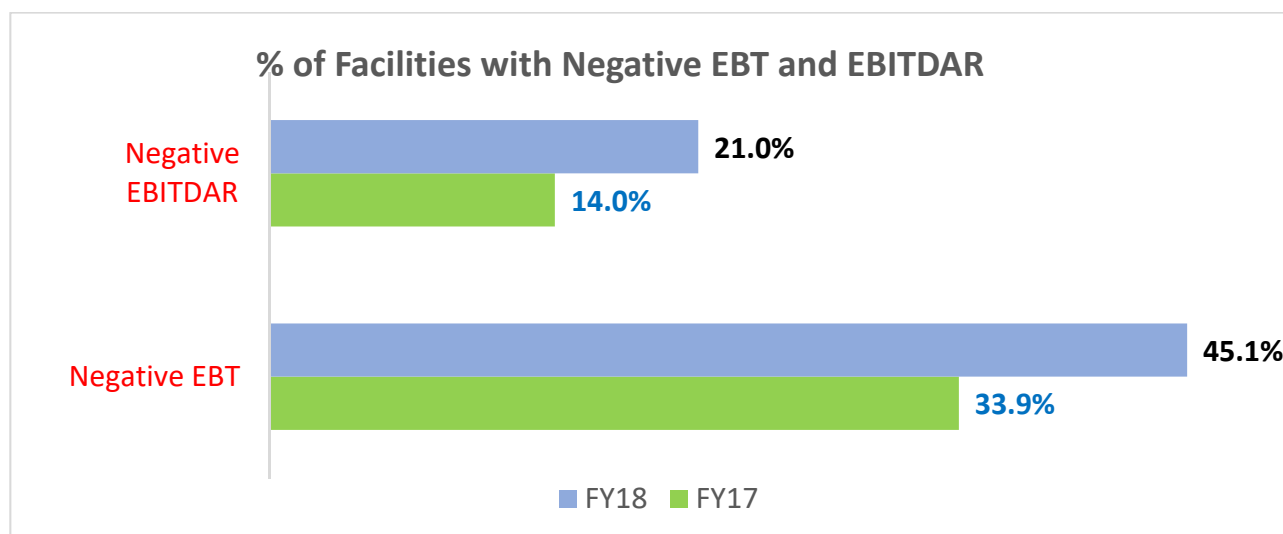


Figure 4: Analysis of Facilities making EBT losses (by remoteness) in total Survey

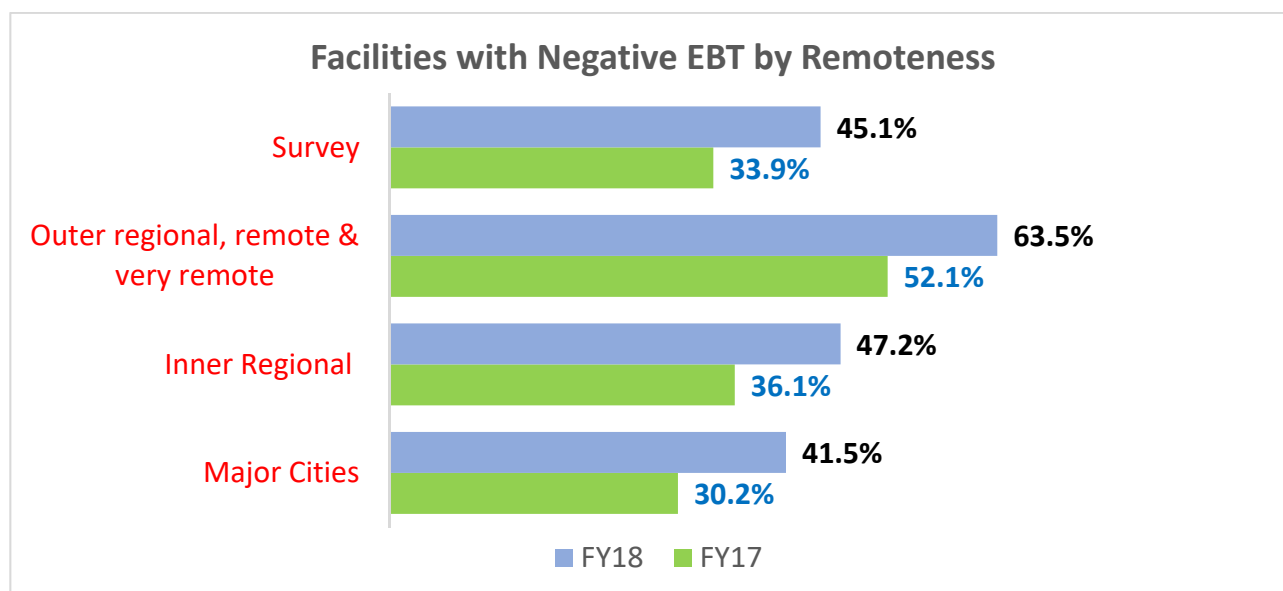
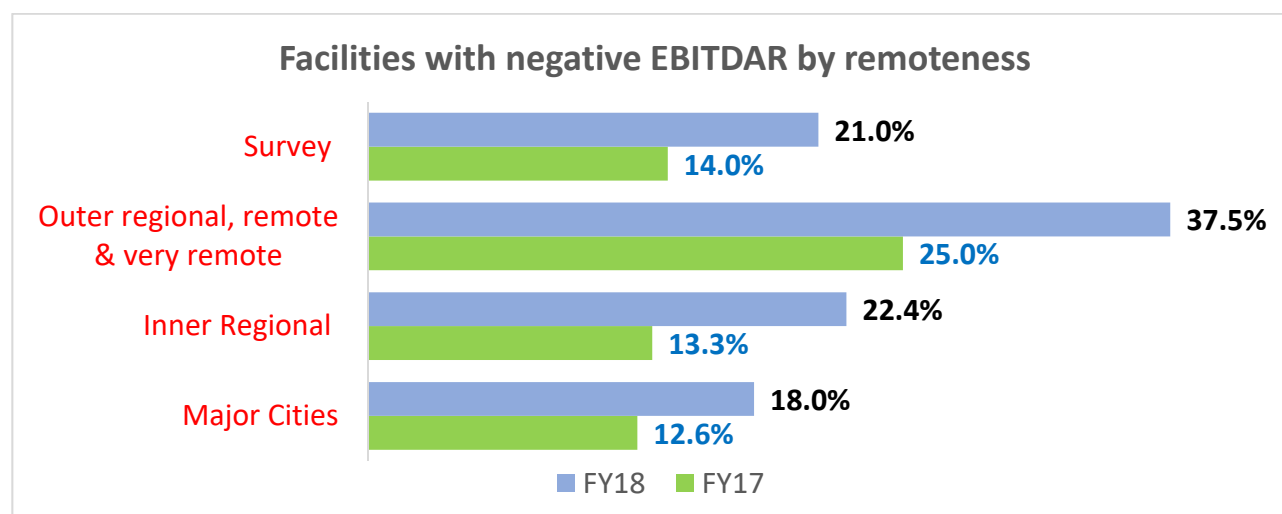


Figure 5: Analysis of Facilities making EBITDAR losses (by remoteness) in total Survey



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 FY18 is significant, as follows:-

- ◆ Outer regional/remote/very remote facilities - 63.5% of facilities in this geographic area made an EBT loss and 37.5% made an EBITDAR loss
- ◆ Inner regional facilities - 47.2% made an EBT loss and 22.4% made an EBITDAR loss
- ◆ Similarly, of the facilities located in major cities, some 41.5% made an EBT loss and 18.0% 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%		
	FY18	FY17		FY18	FY17	
Hours by Staff Category - hours worked per resident per day						
Care management	0.12	0.12	-	0.11	0.10	↑
Registered nurses	0.37	0.37	-	0.31	0.29	↑
Enrolled & licensed nurses	0.30	0.26	↑	0.24	0.22	↑
Other unlicensed nurses & personal care staff	2.10	2.02	↑	1.93	1.82	↑
Allied health & lifestyle	0.15	0.12	↑	0.15	0.11	↑
Imputed agency care hours implied	0.02	0.02	-	0.02	0.02	-
Total Care Hours	3.06	2.91	↑	2.76	2.56	↑

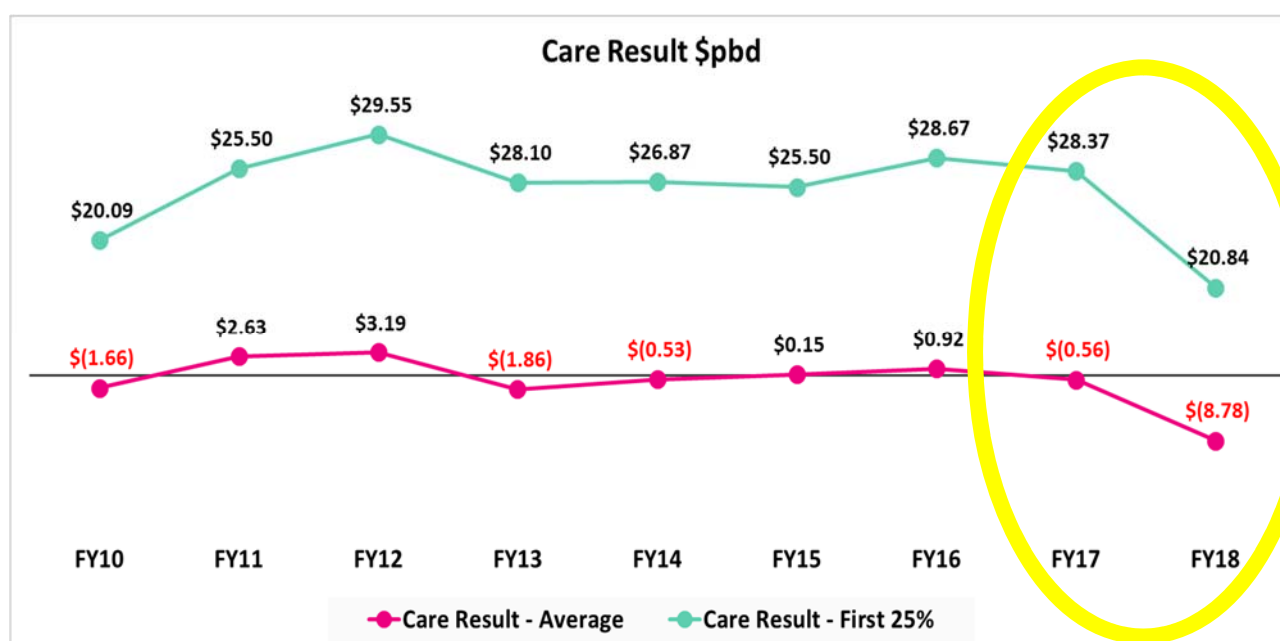
Brief commentary

- ◆ 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 5.2% and 7.6% respectively, and are now at 3.06 hours and 2.76 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 FY18 Facility Care result is a deficit of \$8.78 per bed day (FY17 \$0.56 pbd deficit). This represents an unsustainable operating performance unless additional revenue (subsidy and resident) is achieved.

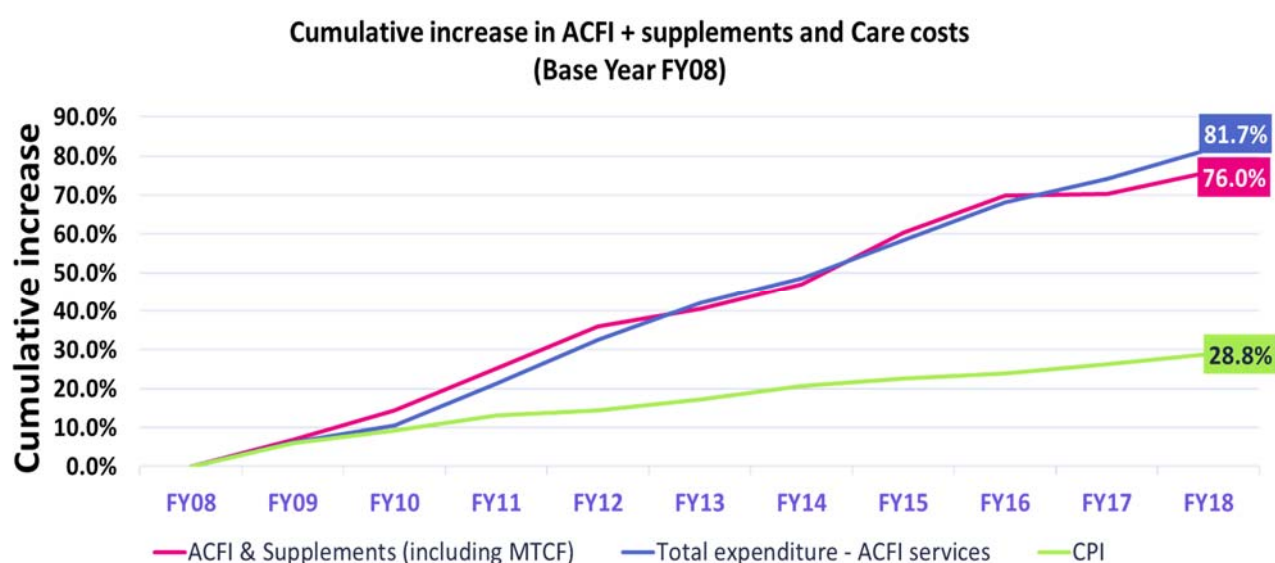
Figure 6: Care Result Trend for Survey Average and Survey First 25%



ACFI Revenue and Direct Care Costs Trend

The relationship between ACFI subsidy received (based on resident assessed acuity) and direct care costs is important in 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 FY18).

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



Everyday Living Result

The recoupment of everyday living costs is again highlighted as 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).

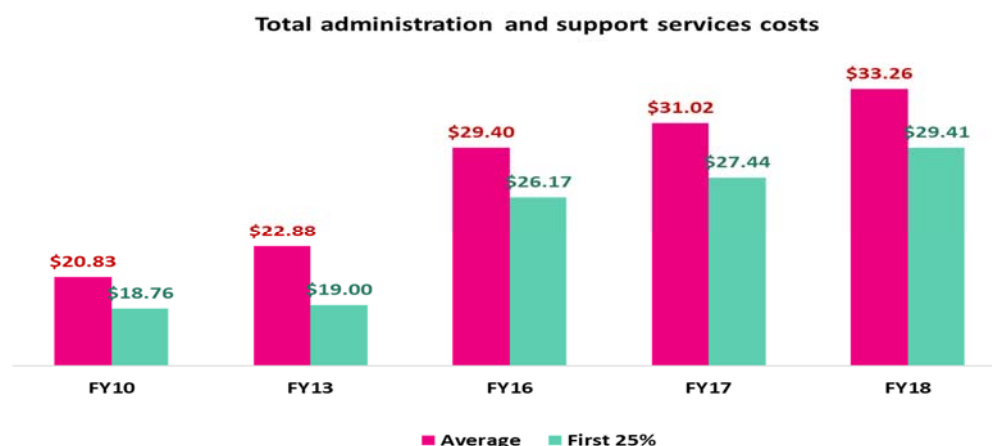
Many providers are also very conscious to not introduce a tiered system whereby some residents are able to access additional services based on their ability to pay whilst others do not receive such additional services due to the inability to pay a higher charge.

For FY18 the costs of providing everyday living services exceeded the revenue by \$7.85 pbd (FY17 \$7.16 pbd). Refer to the Everyday Living snapshot (next page) for a summary of the various components.

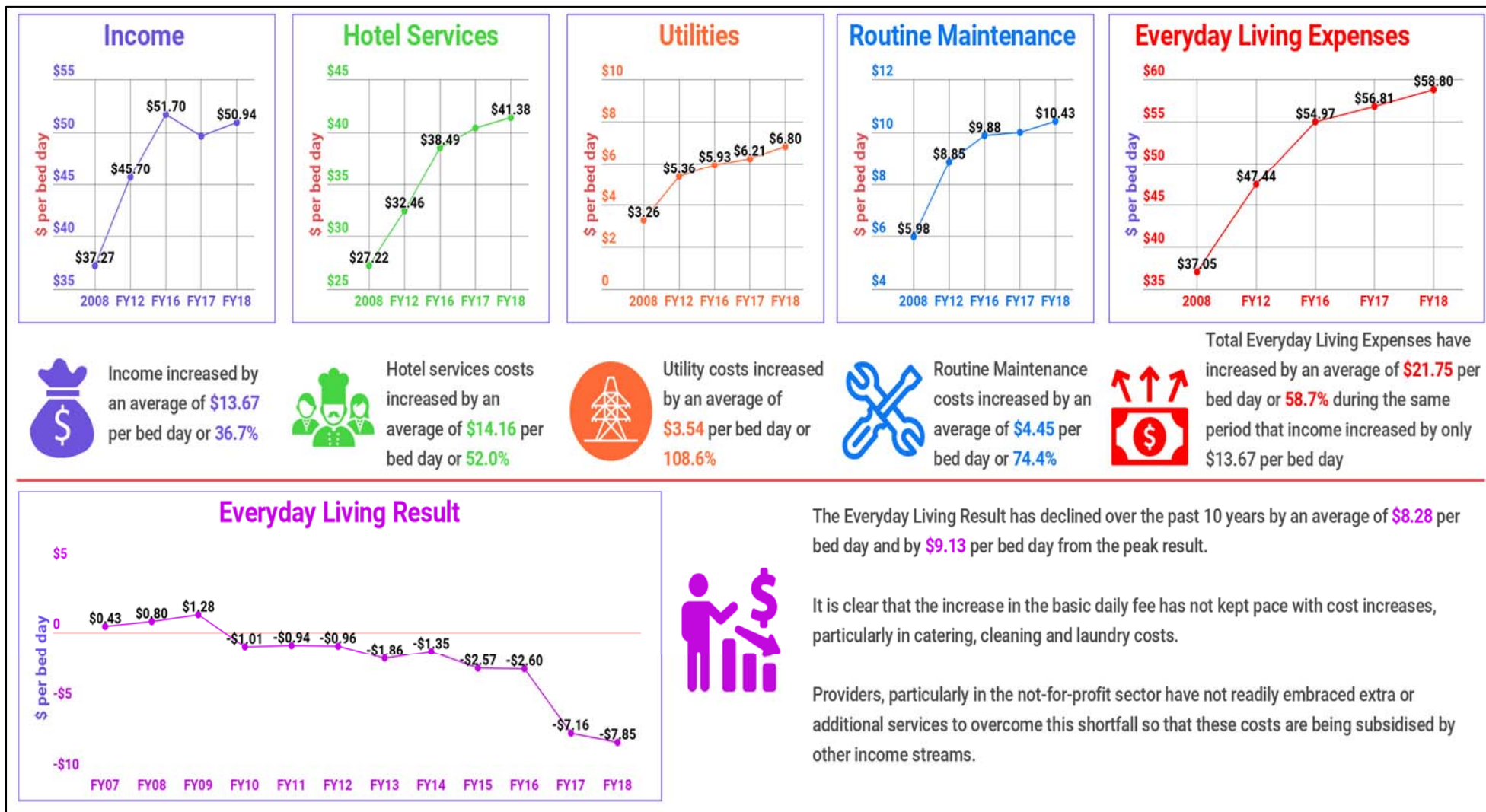
Administration Costs

Administration costs have continued to increase at a rate higher than CPI. One of the main drivers for this is the increasing compliance requirements.

Figure 8: Administration Costs FY18 and FY17 (\$ per bed day)



Snapshot - Everyday Living Metrics



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 FY18 was \$11.15 per bed day (FY17 \$9.95 pbd) which represents \$3,837 per room per annum. This result is achieved after an average depreciation expense of \$5,566 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 FY18 the Care Result was a deficit of \$8.78 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 7: Residential Care Accommodation Result

	Survey Average		Survey First 25%	
	FY18	FY17	FY18	FY17
	\$ pbd	\$ pbd	\$ pbd	\$ pbd
Accommodation Revenue	29.85	27.45	27.91	25.42
Depreciation	16.18	14.94	16.51	14.55
Refurbishment	1.10	1.23	0.44	0.72
Other accommodation costs	1.42	1.33	1.54	1.33
Accommodation Expense	18.70	17.50	18.49	16.60
Accommodation Result	\$11.15	\$9.95	\$9.42	\$8.82
Accommodation Result \$pbpa	\$3,837	\$3,436	\$3,306	\$3,096
Depreciation charge \$pbpa	\$5,566	\$5,161	\$5,795	\$5,111

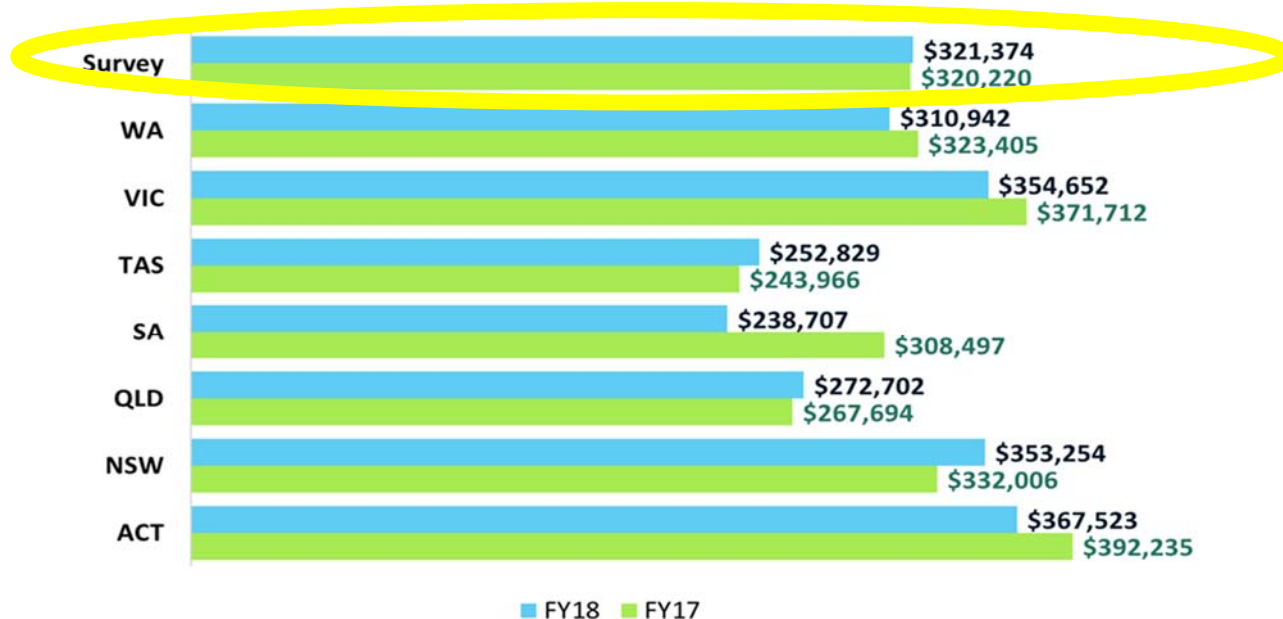
Depreciation charge \$pbpa for WDV of \$200,000 per bed at 4%	\$8,000
Depreciation charge \$pbpa for new build of \$325,000 per bed at 4%	\$13,000

Accommodation Pricing

There has been a marginal increase in accommodation pricing for FY18. The amount of Refundable Accommodation Deposits (RADs) received during the period increased by a national average of \$1,130 (0.35%). The increase in the percentage of new residents paying a Daily Accommodation Payment (DAP) rather than a RAD has been a contributing factor.

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 9 : Average Refundable Accommodation Deposits Received for FY18 and FY17

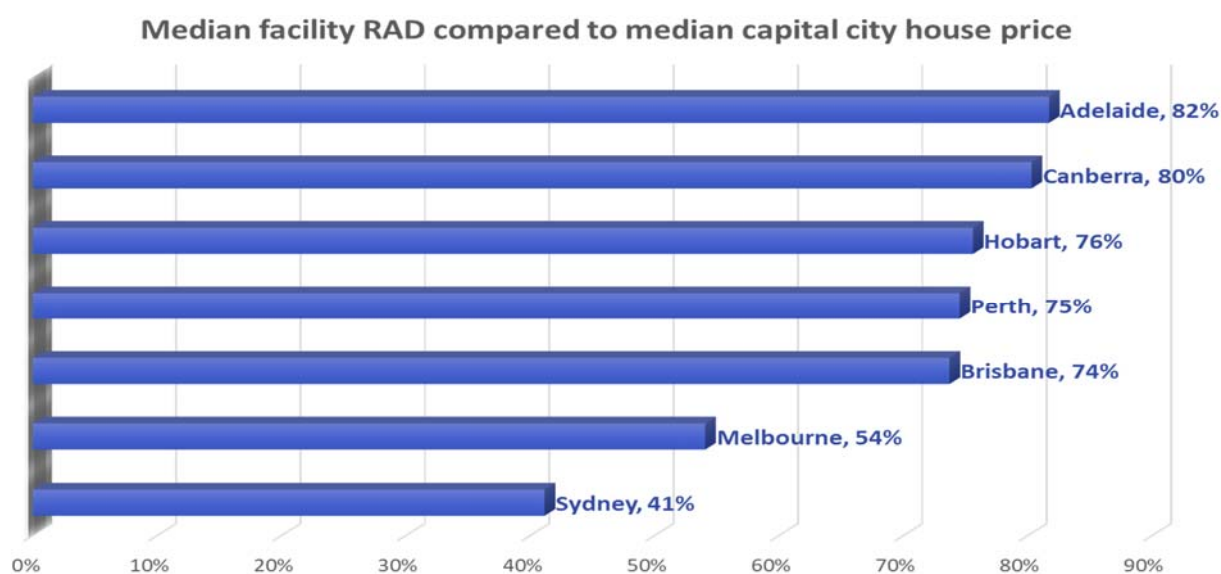


It seems likely that there is still confusion from a consumer perspective in relation to accommodation pricing and this has resulted in providers not having an effective accommodation pricing strategy. The acuity (care needs) of a resident is directly related to the ACFI funding and expenditure. Everyday 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 table below indicates that there is a disparity in this relationship, particularly in Sydney and Melbourne.

Figure 10: Median Advertised RAD compared to Median House Price

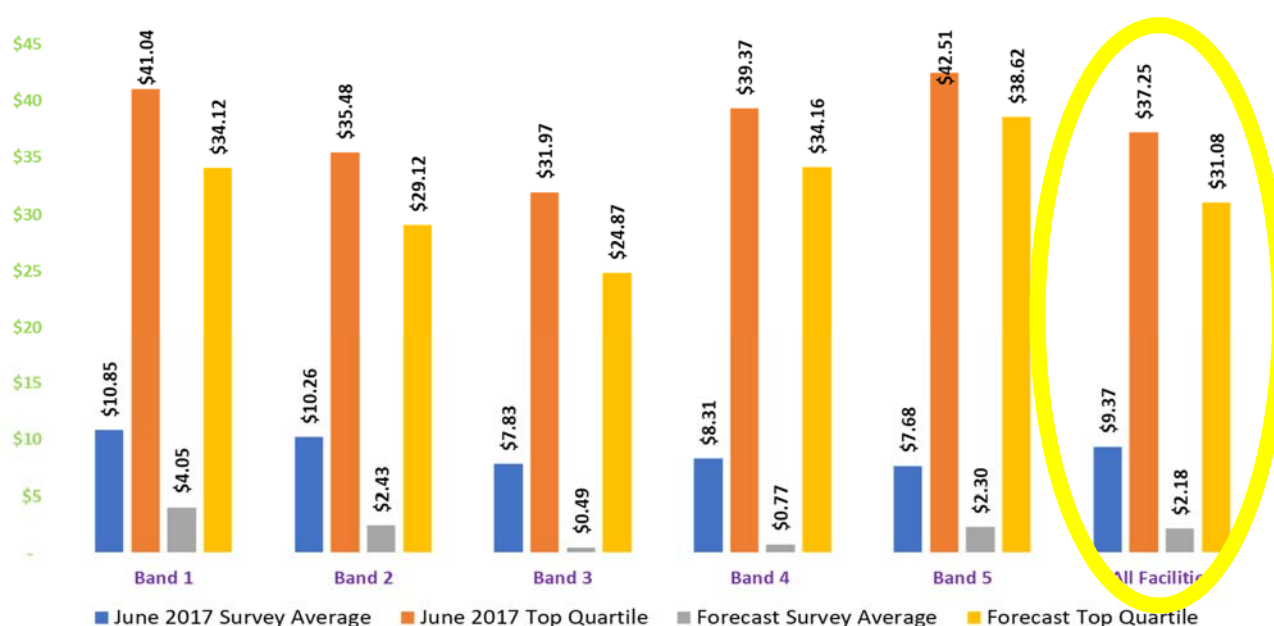


5. RESIDENT CARE - FINANCIAL SUSTAINABILITY

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. An extract from the FY18 forecast is below:-

Figure 11: FY18 Residential Care Forecast (Facility Result)



Commentary

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

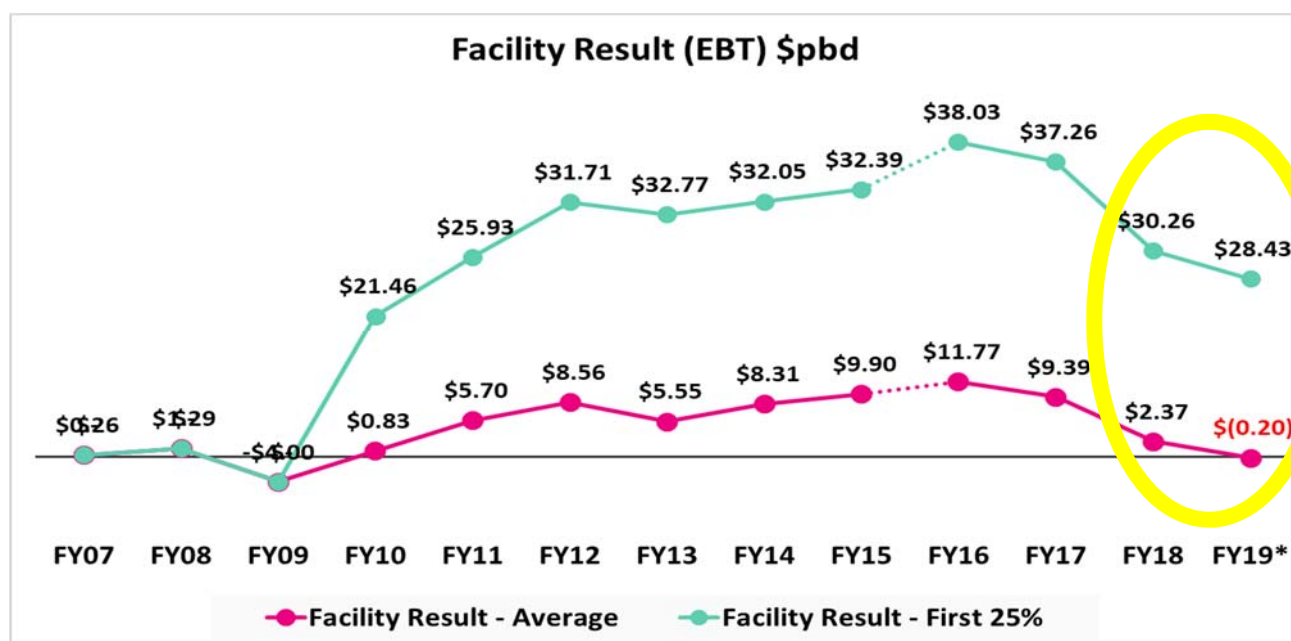
FY19 Residential Care Forecast

Forecast Assumptions

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

- ✓ Based on FY18 actual Facility Results
- ✓ Adjusted for ACFI inflation of 1.17% on average (1.4% ADL; 1.4% BEH and 0.7% CHC)
- ✓ Adjusted for increase of \$0.35 per bed day (average) for additional optional services
- ✓ Adjusted for other revenue increases in line with pension/ CPI increase
- ✓ Adjusted for Wage increases of 3.0%
- ✓ Depreciation assumed to remain stable
- ✓ Adjusted for other expenditure increases at CPI of 2.1%

Figure 12: FY19 Residential Care Forecast (Facility Result)



Commentary

As at FY18 the EBITDAR pbpa for the Survey *Average* was \$6,760, therefore, the impact of a facility operating deficit of \$0.20 per bed day (keeping all else constant) is:-

- A reduction of Facility EBT per bed per annum from \$816 to a deficit of \$69 per bed per annum and;
- A reduction of Facility EBITDAR from \$6,760 per bed per annum to \$5,491 per bed per annum

If the above FY19 projections become a reality, then the financial viability of a considerable number of residential care facilities will come under scrutiny. This may necessitate the review of the effective life of assets resulting in asset impairment charges and/or higher depreciation charges in the financial statements of organisations with the effect of reducing the carrying value of the asset base thus increasing losses.

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 8: FY19 Projection Number of Facilities with EBT and EBITDAR deficits

	FY17 %	FY18 %	FY19* %		FY17 No.	FY18 No.	FY19* No.
% of facilities with negative facility EBT by remoteness							
Major Cities	30.2%	41.5%	45.3%		187	262	286
Inner Regional	36.1%	47.2%	52.8%		87	116	130
Outer regional, remote & very remote	52.1%	63.5%	65.6%		50	61	63
Survey	33.9%	45.1%	49.2%		324	439	479
% of facilities with negative facility EBITDAR by remoteness							
Major Cities	12.6%	18.0%	21.8%		78	114	138
Inner Regional	13.3%	22.4%	28.0%		32	55	69
Outer regional, remote & very remote	25.0%	37.5%	42.7%		24	36	41
Survey	14.0%	21.0%	25.5%		134	205	248

Future Financial Sustainability

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.

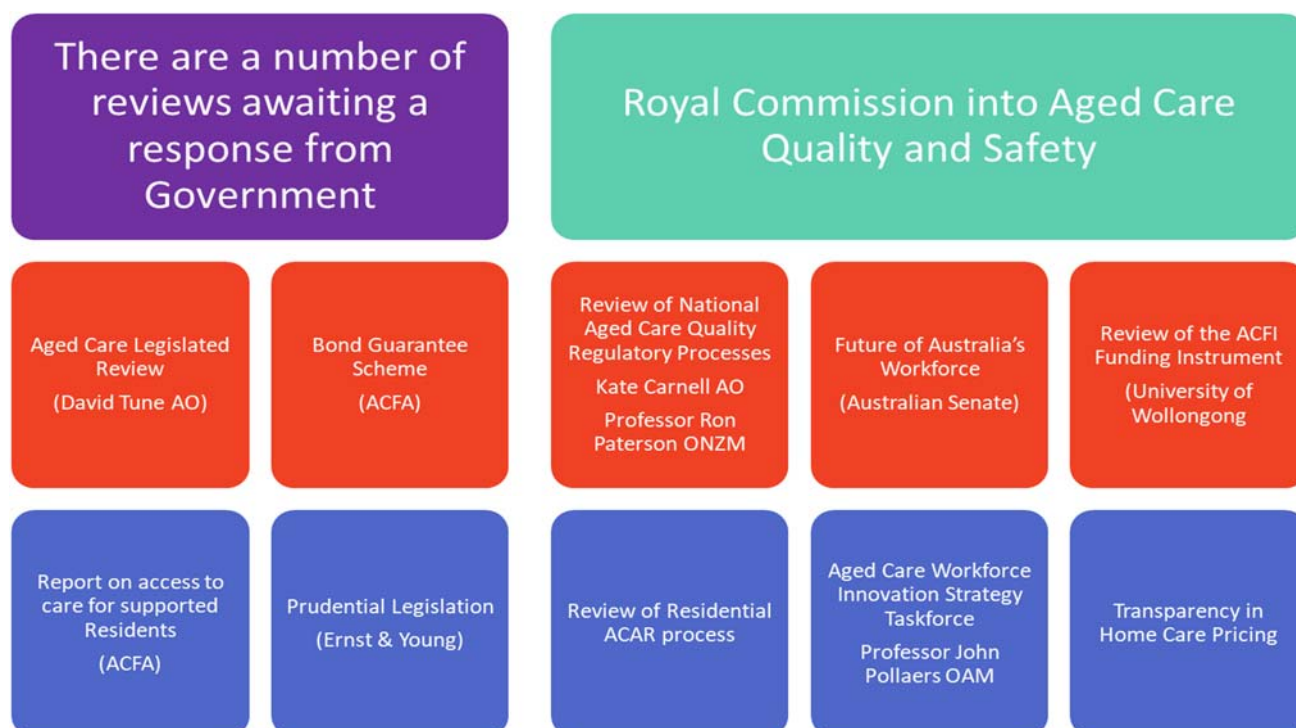
For the purpose of this brief analysis we are making specific comment on the Residential Care and HCP segments.

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 13: 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 require a range of specific funding initiatives and support
- ◆ Workforce strategies, including retention, career development, staffing levels, remuneration and conditions
- ◆ Additional and Optional Service Fees - clearer regulatory guidance, move toward the deregulation of Basic Daily Fee and targeted funding for supported residents
- ◆ 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 - funding initiatives to reduce the size of the prioritisation queue and reduce the length of time from consumer funding approval to the funding being provided
- ◆ Pricing Transparency - ensure that it does not disadvantage providers or consumers and allows for care and business model innovation
- ◆ Pricing and Service Delivery - more clarity and flexibility in relation to provision of service guidelines
- ◆ Quality Audits - enhanced monitoring and appropriate responses to non-conformance
- ◆ Unspent Funds - clearer definition around use of unspent funds and possible redistribution of underutilised 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
- ◆ Integration of CHSP and HCP programs (as appropriate)

General

- ◆ Better targeted consumer education on the journey through the aged care system from seniors housing, through funded services
- ◆ Greater level of congruence between State regulatory environment for Retirement Villages and to provide an easier transition from senior's housing to residential care
- ◆ Education and guidance on Governance for aged care providers

6. HOME CARE ANALYSIS

Overview

The home care packages (HCP) sector has also experienced a significant decline in profitability 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.

The overall *Survey Average* EBT result was a surplus of \$3.77 per client day (FY17 \$5.37 pcd) with Band 4 (highest acuity mix) have the greatest decline from \$12.51 pcd to \$8.29 pcd. The *Survey First 25%* also had a reduction in surplus to \$17.17 pcd (FY17: \$25.03 pcd).

Revenue

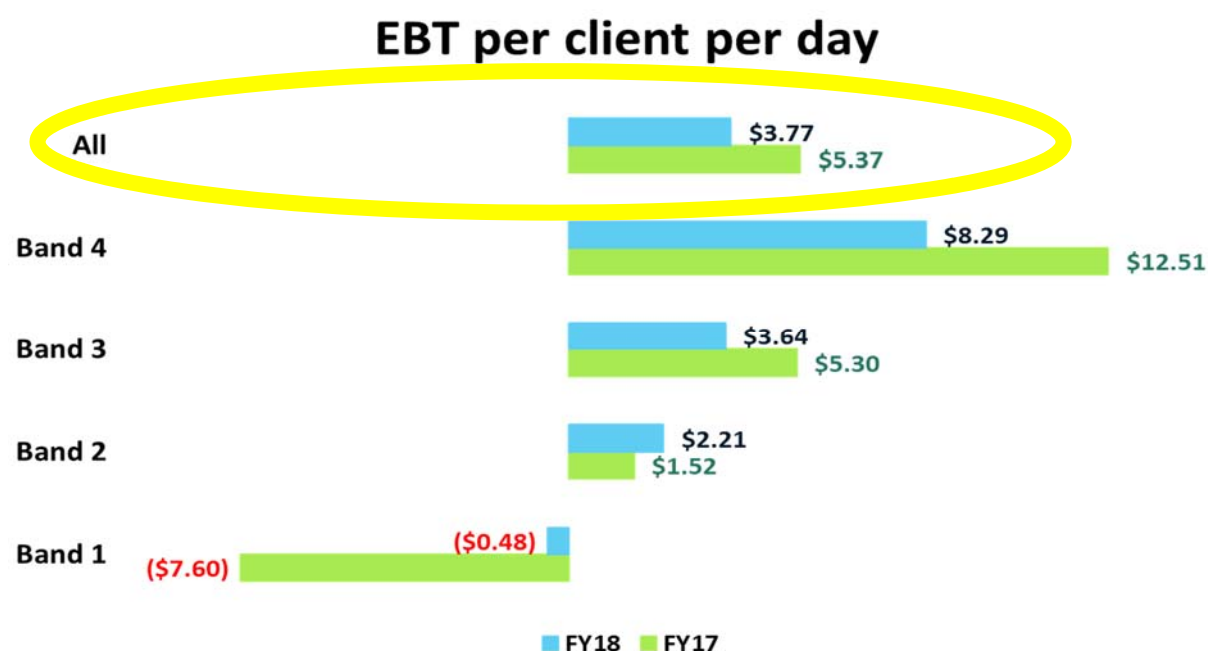
- Decreased by 6.1%
- Pricing pressure due to increased competition
- Lower revenue utilisation
- Higher unspent funds

Expenses

- Decreased by 4.2%
- Direct service costs increased by \$1.39 pcd
- Cost of direct service and brokered/sub-contracted as a percentage of total income has increased to 61% from 55% (FY17)
- Decrease in case management and advisory \$1.32 pcd (reduction in staff costs)
- Decrease in administration costs of \$2.98 (mostly reduction in corporate recharge and staff costs)

For both the *Survey Average* and *First 25%* the profitability declines were in Bands 3 and 4, whilst Bands 1 and 2 had slight increases. The majority of the programs in the Survey are in Band 3 (52%).






Figure 14: Comparison of Survey Average EBT (operating surplus) FY18 and FY17



Snapshot

Profitability



-  **6.1%**
Decline in revenue
-  **86.7%**
Revenue utilisation compared to 92.3% in FY17
-  **4.2%**
Decline in Expenses
-  **\$3.77**
EBT per client per day compared to average of \$5.37 in FY17
-  **\$17.77**
EBT per client per day for First 25% down from \$25.03 in FY17






Client Profile



Average Age			Average Length of Stay		
	2018	2017		2018	2017
Level 1	81.8	73.5	Level 1	2.2	1.4
Level 2	83.5	82.8	Level 2	2.2	2.0
Level 3	82.8	82.7	Level 3	1.4	1.6
Level 4	84.0	83.0	Level 4	1.9	1.4
(Years)			(Years)		

Client Exits

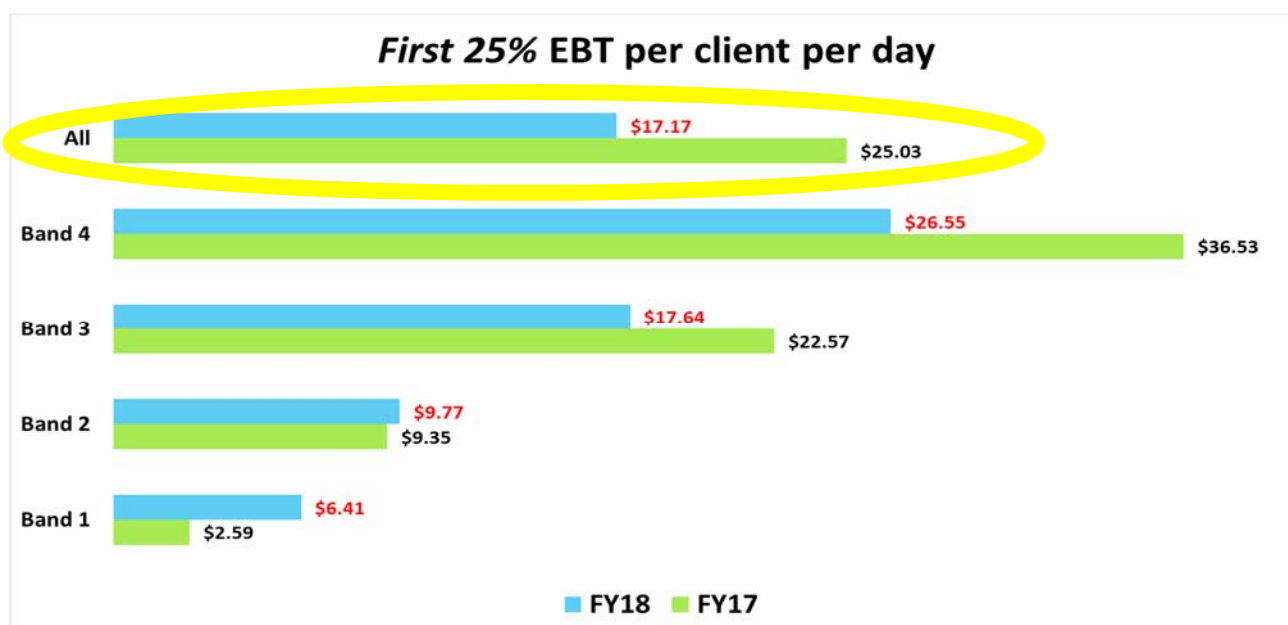


-  **225**
Data received from 225 home care programs.
-  **7,928**
Total client exits in data set
-  **45%**
Exited to residential care 30% in FY17
-  **9%**
Exited to other home care providers 4% in FY17
-  **45%**
Exited system as a result of passing or other reason 66% in FY17

EBT for Survey First 25%

The EBT performance of the Survey First 25% for FY18 declined to an even greater extent than the Survey Average with the effects of the reduced prices, revenue utilisation and increased administration costs being the predominant reasons.

Figure 15: Comparison of Survey First 25% EBT (operating surplus) FY18 and FY17



Sector Data (GEN)

- Additional 373 approved home care providers since Jun-16 (869 in total as at 30 June 2018)
- Post deregulation - growth since Mar-17 to Mar-18 is 23% (176 providers)
- Additional 20,902 consumers since Jun-16 (at Mar-18 is 84,971 consumers)
- Post deregulation - growth since Mar-17 to Mar-18 is 20% (14,392 consumers)
 - More than 7,000 home care consumers in the Dec-17 to Mar-18 quarter!
- 64,688 queued either in or assigned a lower level package and 56,750 not in or assigned a lower level package as at 30 June 2018 (121,438 in total in national prioritisation queue)

Figure 16: Number of Home Care Providers

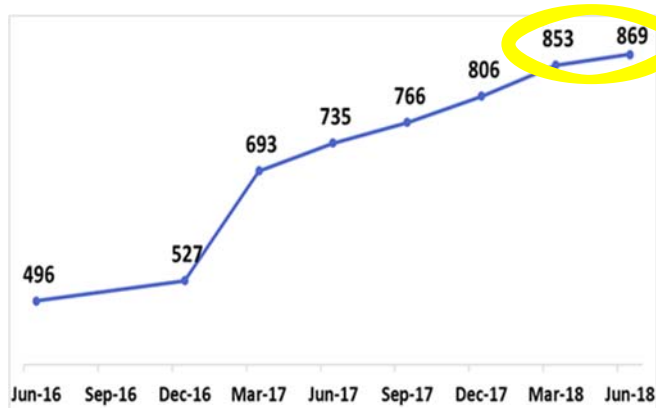
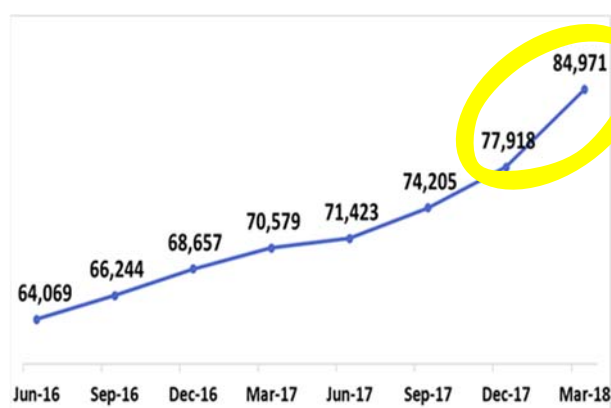


Figure 17: Number of Home Care Consumers



Revenue Utilisation

There has been a considerable decrease in revenue utilisation during the year. This has affected the profitability as the fixed costs have been spread over lower revenues and some of the variable (staff costs) are difficult to defray in a short time period. The improvement in revenue utilisation must be a major priority for FY19.

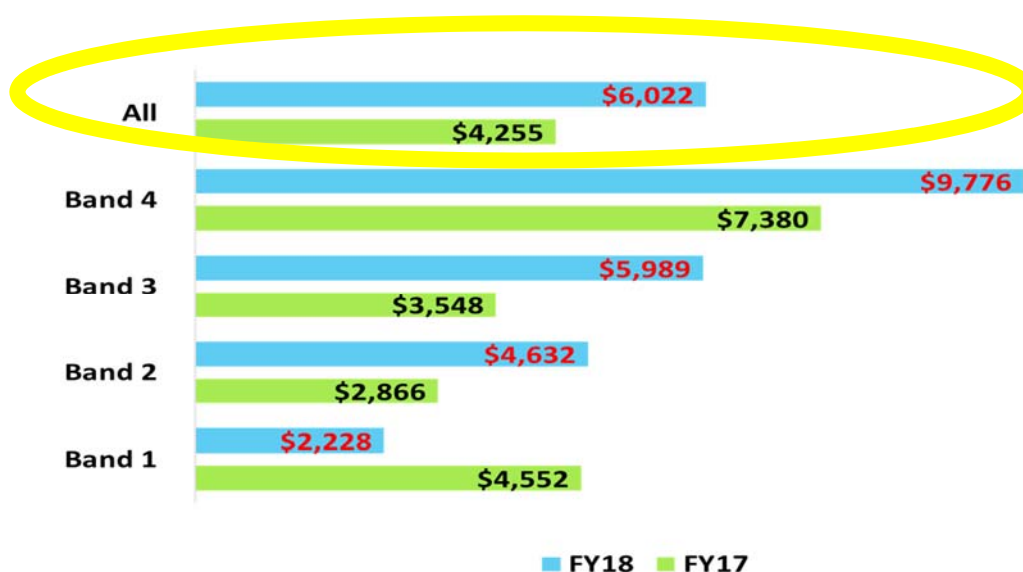
Figure 18: Revenue Utilisation comparison for FY18 and FY17



Unspent Funds

The resultant effect of decreased revenue utilisation is 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 \$400 million as at FY18 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 19: Average Unspent Funds per Client



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.

Notably, there is a decrease in administration and support service hours. Many providers are making a concerted effort to improve efficiencies in this area to reduce costs.

Table 9: Home Care Staff Hours per Client per Day

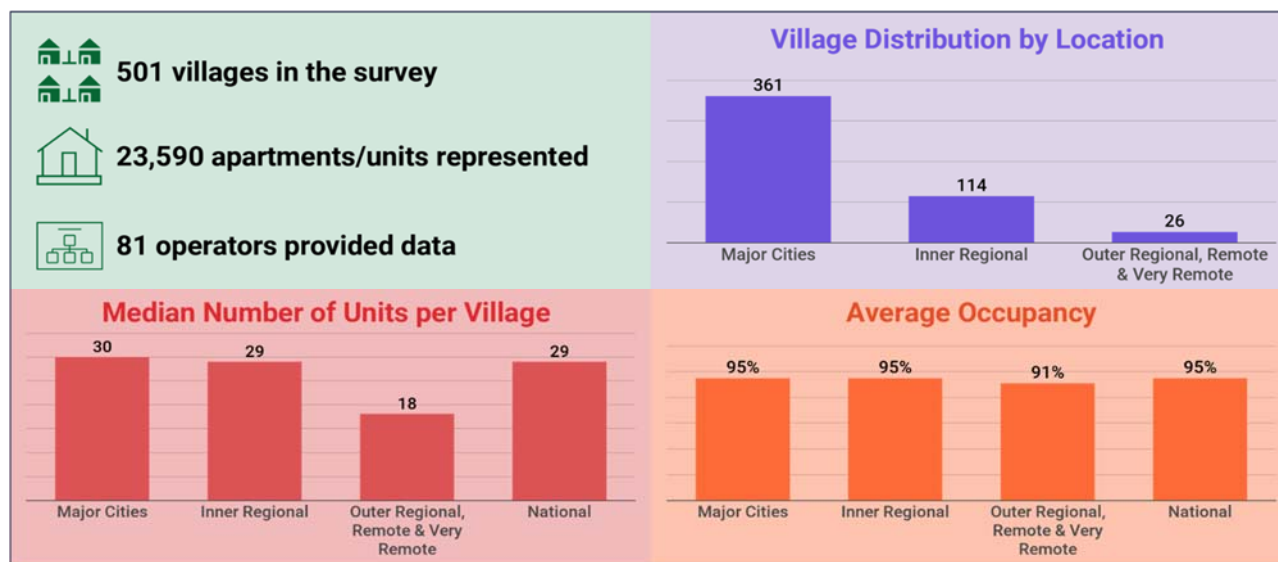
	Average			First 25%		
	FY18	FY17		FY18	FY17	
Direct service provision	5.15	5.31	↓	6.31	7.48	↓
Agency	0.22	0.44	↓	0.15	0.77	↓
Case management & advisory	0.87	0.83	↑	1.31	0.94	↑
Administration & support services (including co-ordination)	0.46	0.58	↓	0.68	0.46	↑
Total Staff Hours	6.69	7.16	↓	8.44	9.66	↓

7. RETIREMENT VILLAGES

Snapshot

The FY18 Survey was expanded to now include data collection in relation to the Retirement Village (Seniors Housing) segment. Seniors housing is merging into the aged care sector due to the average age of entry increasing and the corresponding requirement for residents to have access to domestic and care services when required.

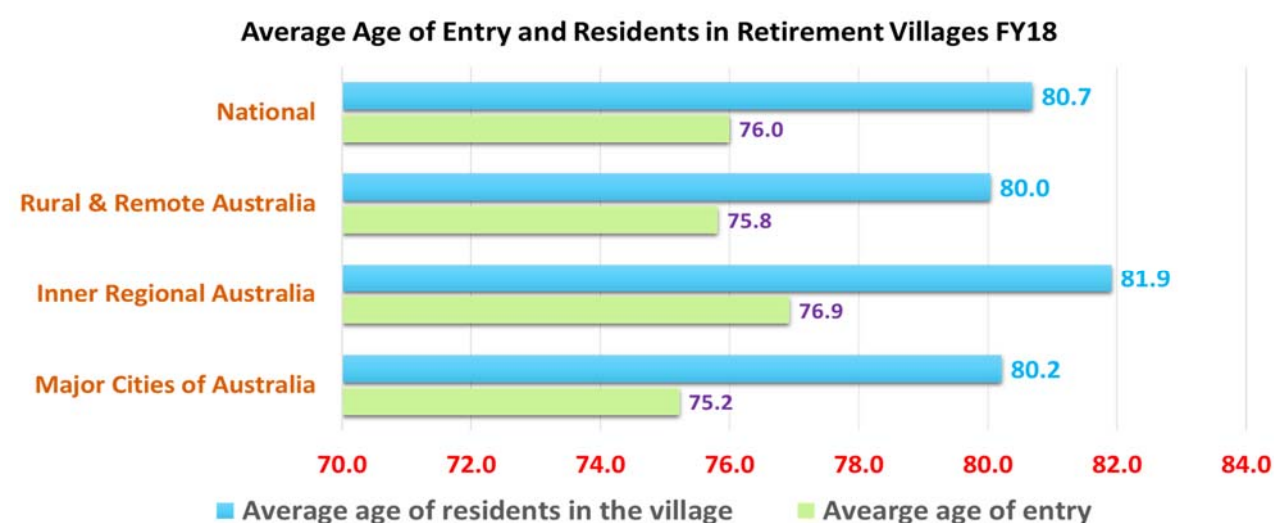
Figure 20: Retirement Village Survey Data Analytics



Average Age of Entry

Retirement villages were established as “over 55’s housing” and many providers offered “lifestyle” retirement accommodation. The average age of entry has been progressively increasing over time which has changed the service offering provided. The figure below shows the average age of entry and current residents.

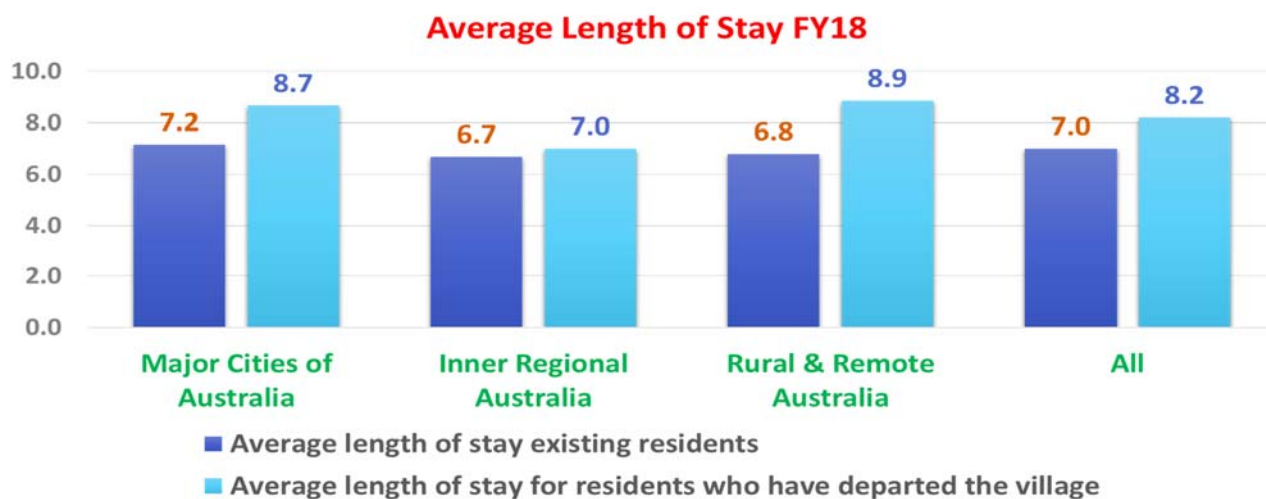
Figure 21: Average Age of Entry and Average Current Age of Retirement Village residents



Average Length of Stay

As would be expected with the increasing average age of entry, the average length of stay has decreased. The graphic below shows the average length of stay for existing and departed residents in the FY18 Survey.

Figure 22: Average Length of Stay for Existing and Departed residents



8. APPENDIX A - GLOSSARY

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.

Averages

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 *averaged* across only those facilities that provide data for that line item. All other measures are *averaged* 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.

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)

Facility Result

Combination of the Care and Accommodation Results. It excludes revenue from fundraising, investments, sundry revenue and fair value adjustments.

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*.

CONTACT DETAILS

For further analysis of the information contained in the Survey report please contact our specialist analyst team at StewartBrown.

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