



# Aged Care Financial Performance Survey

## Aged Care Sector Report



Celebrating  
**80 YEARS**  
1939 to 2019

The StewartBrown December 2019 *Aged Care Financial Performance Survey* incorporates detailed financial and supporting data from 1,125 aged care homes and 36,529 home care packages across Australia. The quarterly survey is the largest benchmark in the aged care sector and provides invaluable insight into the trends and drivers of financial performance at the sector level and at the aged care home or programme level.

For the six months ended 31 December 2019

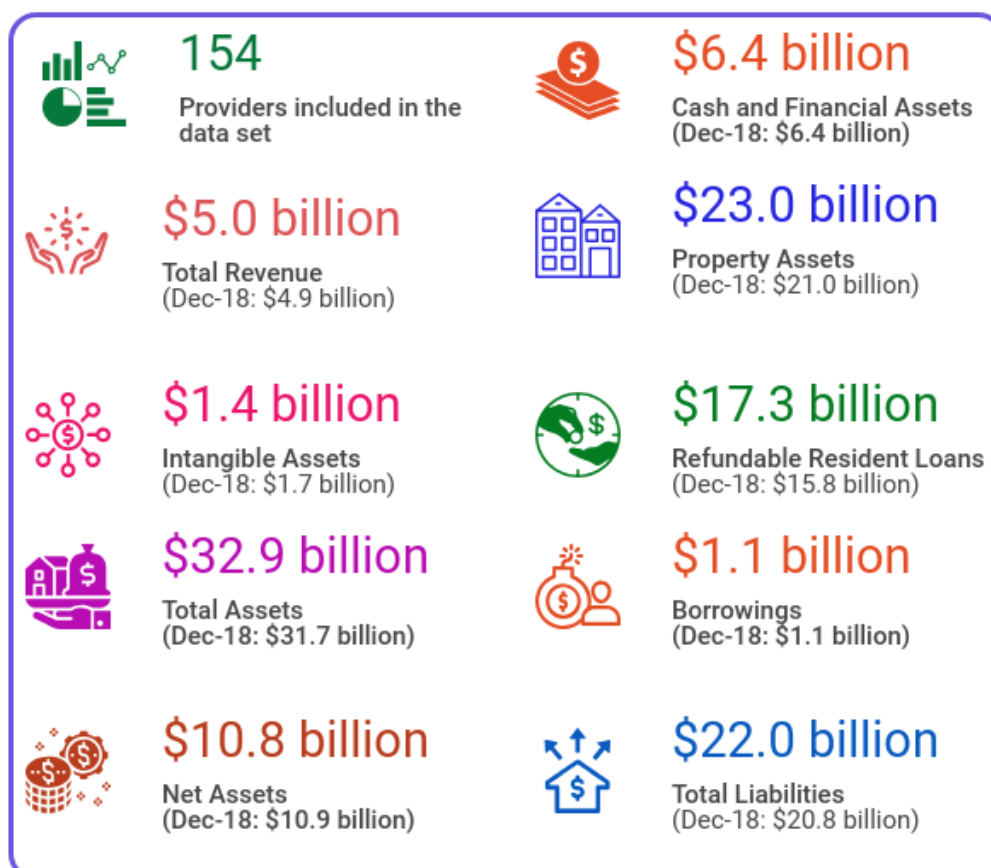
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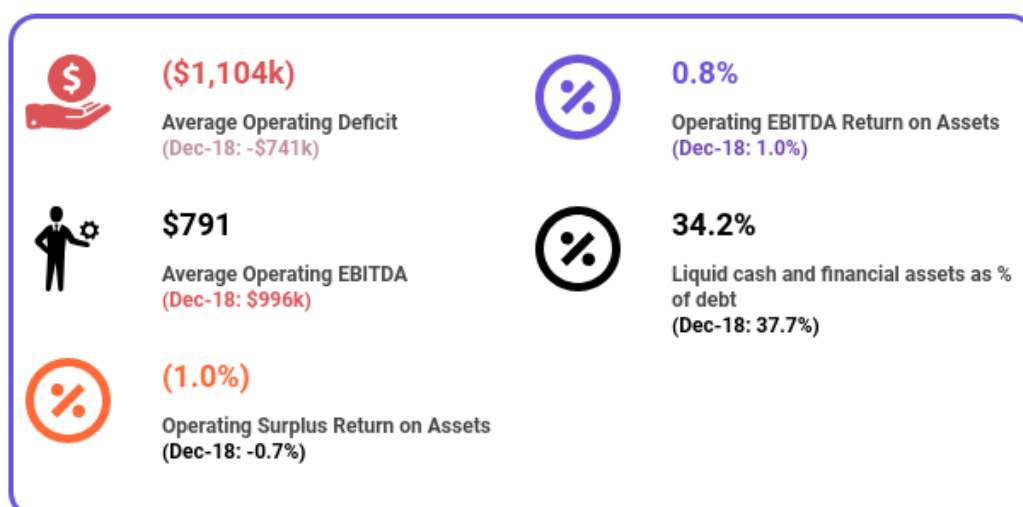
# 1. HIGHLIGHTS

## Key Results from Dec-19 Survey

### Approved Provider Aggregated Balance Sheet



### Approved Provider Results



## Residential Aged Care



**(\$6.43)**

Aged Care Home (ACH) Result  
per bed day for *Survey Average*  
(Dec-18: \$3.20)



**\$23.35**

ACH Result per bed day for  
*First 25%*  
(Dec-18: \$32.40)



**\$4,245**

ACH EBITDAR per bed per annum for  
*Survey Average*  
(Dec-18: 7,391)



**\$14,366**

ACH EBITDAR per bed per annum for *First 25%*  
(Dec-18: \$17,279)



**29.3%**

Proportion of facilities with negative ACH  
EBITDAR  
(Dec-18: 19.5%)



**56.1%**

Proportion of facilities with negative ACH  
Result  
(Dec-18: 42.3%)

## Home Care



**\$4.73**

NPBT per client day for *Survey Average*  
(Dec-18: \$3.33)



**\$15.81**

NPBT per client day for *First 25%*  
(Dec-18: \$18.04)



**\$1,887**

EBITDA per client per annum for *Survey Average*  
(Dec-18: \$1,373)



**\$5,945**

EBITDA per client per annum for *First 25%*  
(Dec-18: \$6,763)



**\$7,904**

*Survey Average* for unspent funds  
(Dec-18: \$6,827)



**85.4%**

*Survey Average* revenue utilisation  
(Dec-18: 88.9%)



**10.2%**

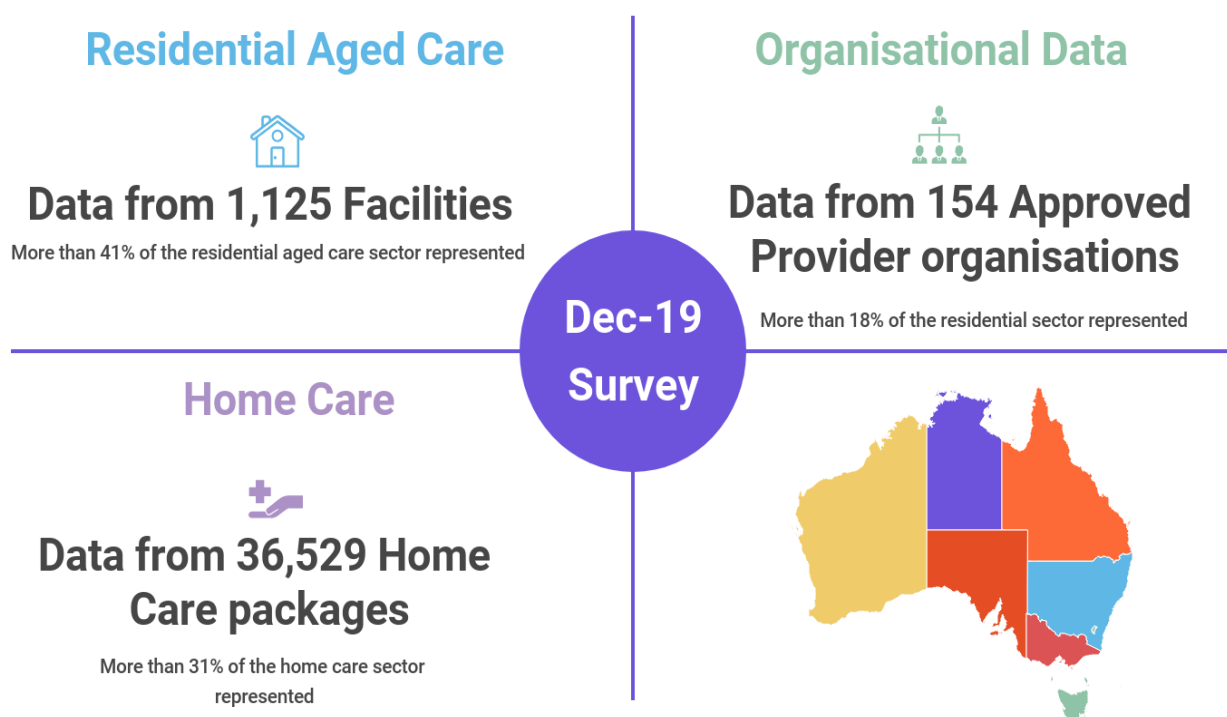
Case management costs as % of income  
(Dec-18: 9.9%)



**23.6%**

Administration costs as % of income  
(Dec-18: 24.2%)

## Survey Analytics



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

The Survey includes organisation (approved provider) level, residential care and home care packages. This Sector Report contains StewartBrown's analysis of the operating income and expenses of participants for the six month period ending 31 December 2019.

The Survey included the detailed responses of:-

- ◆ 154 approved providers included in the organisation analysis
- ◆ 193 approved providers in total operating in either or both residential and home care sectors
- ◆ 1,125 aged care homes (*65 aged care homes were excluded due to their operational circumstances*)
- ◆ 36,529 home care packages (*2,190 packages excluded*)

In respect of residential care, participants to the Survey represent approximately 44.5% of non-government aged care homes within Australia. The profile of the residential care participants based on the geographical spread is included in the following table.

*Table 1: Residential Care Survey Metrics*

Number of aged care homes / ABS Remoteness	Major City	Inner Regional	Rural & Remote	Total
<i>StewartBrown Residential Care Survey</i>				
<b>Total Survey aged care homes</b>	<b>723</b>	<b>282</b>	<b>120</b>	<b>1,125</b>
Aged care homes included	699	266	95	1,060
Aged care homes excluded	24	9	10	43
State/local government	0	7	15	22
<b>Survey less state/local government (A)</b>	<b>723</b>	<b>275</b>	<b>105</b>	<b>1,103</b>
<i>GEN Aged Care Data Service Listing (30 June 2019)</i>				
<b>Total</b>	<b>1,697</b>	<b>656</b>	<b>365</b>	<b>2,718</b>
State/local government	34	114	90	238
<b>Service Listing less state/local government (B)</b>	<b>1,663</b>	<b>542</b>	<b>275</b>	<b>2,480</b>
<b>Coverage % = (A)/(B)</b>	<b>43.48%</b>	<b>50.74%</b>	<b>38.18%</b>	<b>44.48%</b>

## 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 Participants Reports (quarterly)
- Aged Care Sector Report (quarterly)
- Provider Organisation Report (bi-annual)
- Listed Provider Analysis Report (bi-annual)
- Corporate Administration Report (annual)
- Managing Prudential Risk in Residential Aged Care (*submission to Department of Health*)

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



## 2. EXECUTIVE SUMMARY

### Abstract

***StewartBrown acknowledges the tragic impact of the COVID-19 virus pandemic that has caused health, personal and financial hardship which is affecting all levels of our society, and particularly the many vulnerable persons.***

***The aged care sector has again shown outstanding compassion, expertise, resilience and professionalism at all levels in responding to, and maintaining the care for all elderly and ensuring their wellbeing.***

This Sector Report gives an overview of the financial performance of the aged care sector in Australia. It is based on the results of the StewartBrown *Aged Care Financial Performance Survey* (Survey) for the six months ended 31 December 2019.

In addition to this report, every participant in the Survey also receives supplementary reports on their respective Residential and Home Care results - these contain finer granularity of analysis from a benchmarking viewpoint. Individual participant organisations also receive specific comparative data relevant to their location, size and the specific aged care homes within their organisation. They also have access to StewartBrown's interactive analysis website.

The Survey data undergoes an intensive cleansing and quality checking procedure, with each individual aged care home (residential) and program (home care) being cross checked to previous results by each revenue and expense line item, and to all similar sized and regionally located comparators, and then all material variances are subjected to explanatory confirmation from the respective participant before acceptance.

The trend analyses contained in this Sector Report are a subset of the data received from participants. It needs to be noted that the primary purpose of the Survey is for participant organisations to obtain a granular comparison for each residential care home or home care program for their internal analysis using a range of Key Performance Indicators. StewartBrown advocates that the most effective uses of the benchmark comparisons are target setting into the future, forecasting and strategic decision-making.

The Royal Commission into Aged Care Quality and Safety is continuing its important role in ultimately providing recommendations for the advancement of the sector following lengthy submissions, testimony, analysis and meetings with all stakeholders. Their focus will now turn to the financial viability and sustainability of the sector, and StewartBrown will be making the appropriate detailed submissions in this regard.

The staffing hours as included in this Survey and all previous Surveys are not in any way reflective of what hours may be required from a clinical or care perspective. The hours are exactly as reported by providers, and we can confirm that there is not a material statistical variance between respective providers in this respect.

*StewartBrown, through this Survey and other related publications or presentations is not an advocate for any stakeholder in the sector and we have professional relationships with the Department, Aged Care Financing Authority, peak bodies, provider organisations, aged care staff and aged care residents and clients.*

*Our primary agenda is that all financial policy and related public commentary should be evidenced based and objective and supported by accurate data.*

## Dec-19 Survey Results Summary

Following is a summary of the key financial performance results and indicators by segment from participants in the Dec-19 *Aged Care Financial Performance Survey*. Comparisons are generally year-on-year (from Dec-18) with some analysis against the FY19 results.

### Approved Provider - Aggregate Results

- Operating surplus\* reduced to an average deficit of \$1,104k for the six months, a decrease of \$363k
- Operating EBITDA (cash flow from operations surplus) reduced by \$205k to \$791k surplus
- Operating surplus expressed as a return on assets employed has further reduced to negative 1.03%
- Operating EBITDA return on assets has reduced to 0.74% (Dec-18: 0.97%)
- Liquid cash and financial assets as a percentage of debt (refundable loans, borrowings and CDC liability) has reduced by 3.5% to 34.2% (Dec-18: 37.7%). The listed entity ratio was 2.05% (after dividend)

\*Operating surplus/deficit excludes non-recurrent revenues and expenses – grants/revaluations/donations/impairment

### Residential Care

- 56% of aged care homes recorded an operating loss for the December six month period
- 29% of aged care homes recorded an EBITDAR loss (operating cash loss) for the December period
- Average ACFI per bed day (pbd) for Survey participants increased by \$2.63 pbd to \$180.30 pbd (1.4% pa)
- ACFI direct care services costs increased to \$154.48 pbd (6.8% pa)
- Occupancy levels for survey participants decreased to 93.9% average occupancy (94.9% Dec-18)
- Total care hours per resident per day increased by 0.09 hours to 3.25 hours (Dec-18: 3.16 hours)
- Costs for providing everyday living services exceeded revenue by \$8.13 pbd (*excluding administration*)
- Average Net Profit Before Tax (NPBT) for aged care homes (the overall Operating Result) reduced by \$3,319 per bed per annum (pbpa) to a loss of \$2,120 pbpa (*year-on-year comparison*)
- Average EBITDAR for aged care homes reduced by \$3,146 pbpa to \$4,245 pbpa (*year-on-year comparison*)
- Supported ratio remained constant at 46.9%
- Average full RADs taken in the December six months increased to \$424,209 (nationally) an increase of \$31,017 in the year from Dec-18

### Home Care Packages

#### Survey Average (all) (Year-on-Year)

- Revenue per client per day (pcpd) average for Survey participants decreased by 6.1% (being \$4.66 pcpd)
- The average operating profit per client day increased by \$1.40 pcpd to \$4.73 pcpd (\$3.33 Dec-18; \$3.65 FY19)
- Direct service costs decreased by \$4.29 pcpd (59.04% of total revenue)
- Revenue utilisation has declined by 3.5% to 85.4%
- The average unspent funds per client has increased by \$1,078 per client (to average \$7,904 per client)
- Staff hours per client per week reduced by 0.90 hours (average 5.79 hours per week)

#### Survey First 25% (Year-on-Year)

- Revenue per client per day (pcpd) average for Survey participants decreased by 9.7% (being \$9.02 pcpd)
- The average operating profit per client day decreased by \$2.22 pcpd to \$15.81 pcpd (\$18.04 Dec-18; \$18.28 FY19)
- Direct service costs increased by \$6.60 pcpd (50.76% of total revenue)
- Revenue utilisation has declined by 1.9% to 87.7%
- The average unspent funds per client has increased by \$1,596 per client (to average \$7,606 per client)
- Staff hours per client per week reduced by 0.44 hours (average 6.52 hours per week)



## Commentary

The Survey for the six month period ending December 2019 shows a significant decline in the financial performance and sustainability of the residential aged care sector. The average operating results for homes in all geographic sectors was a loss. Additional specific targeted funding and structural reform around RADs needs to be implemented to avoid increasing closures of aged care homes.

Whilst home care operating results were at a slightly improved level, revenue per client day has reduced and, importantly, average staff hours per client have reduced to potentially unsustainable levels. The mix between appropriate staffing and revenue will dictate the ongoing financial performance of the home care sector.

*The financial impact of COVID-19 has not impacted on the December 2019 results, but will heavily influence the results for the March and subsequent quarters until the virus has stabilised and the economy returned to some normality. The Government has recently announced additional funding to primarily ensure staff retention, however the additional operational and regulatory burden to ensure that aged care homes and community care recipients are protected as far as possible from the impacts of the virus may not be sufficiently covered by this additional funding.*

*As noted above, the residential sector, in particular, requires significant funding reform in addition to the COVID-19 emergency funding.*

[Residential Care](#) is a significant and urgent concern in relation to financial viability and ongoing sustainability. The December six months showed a decrease in occupancy levels, the first overall decline over a period of time for at least five years. As noted in previous reports, occupancy and financial result are significantly inter-related, and accordingly any decline in occupancy directly affects the operating performance.

The ACFI revenue increase of just under 1.5% pa is primarily as a result of the COPE inflation increase and indicates that the average acuity of residents has plateaued to a large extent. However, the costs of providing direct care has increased by 6.8% pa and this differential is not supportable under the current funding envelope.

Direct care staff costs represented 80.9% of the ACFI (direct care) subsidy, and the ongoing disparity between the subsidy COPE increase and staff cost increases continues to cause considerable concern.

We have retained Administration costs as a separate cost centre as providers prefer to monitor and benchmark their total administration costs. However for this Survey and going forward, we will also allocate the administration costs to the respective revenue cost centres (ACFI, Everyday Living and Accommodation) to determine the overall result for each of these cost centres. Refer to page 34 "Operating Result after Administration Cost Allocation".

A significant issue in relation to residential care is the unsustainable loss in providing everyday living (indirect care) services. The cost of providing these essential services exceeds the revenue (largely the Basic Daily Fee) by an average of \$8.13 per resident per day without any allowance for the administration costs. If the administration costs specifically related to these services was included, the deficit is **\$20.93 per resident per day**. This has a direct consequence in the ability to utilise the ACFI subsidy for providing direct care services.

Outer regional, rural and remote homes continue to deteriorate in their financial performance and viability. These homes have an average operating loss of \$4,719 per bed per annum (\$14.06 loss per resident per day).

This has resulted in 71% of these homes having an operating loss and 44% having a cash operating deficit. These percentages will further deteriorate over the next six months.

We have highlighted that the *major cause for the financial concern* in relation to the residential aged care sector is the operating results for the *Bottom 75%* of aged care homes included in the Survey. This is a very large cohort and the average result is an **operating loss of \$15.94 per resident per day**. Given the number of homes this represents, this confirms that there is an urgent requirement for additional funding and a sustainable funding model going forward.

Investment in the residential aged care sector, be it new builds or major refurbishment and improvements to existing homes, has seen a significant downturn. Much of this is due to the regulatory uncertainty and the poor financial performance of the sector which is a major disincentive to investment confidence.

In-home Care (Home Care Packages) has experienced an improved operating performance for the Dec-19 six months, with an overall increase of \$1.40 per client per day in comparison to the Dec-18 six months. A possible concerning point is that the improved performance was not as a result of increased revenue, but due to reduced costs, and particularly staff costs (and resultant staffing hours). Whether this is sustainable is open to conjecture.

The biggest single issue in relation to Home Care Packages remains in relation to the level of Unspent Funds. This level has kept rising each quarter, and now averages \$7,904 per client (care recipient). In aggregate, this represents in excess of \$800 million of funding that is not being utilised.

This continued growth in Unspent Funds, and many probable instances of their use for capital-related expenditure for care recipients (probably for a short-term benefit in many instances) is not sustainable. The recently announce changes to the subsidy payment arrangements (being in arrears rather than in advance) and the potential further reforms for providers to be reimbursed for actual services provided rather than for the funding package by care recipient will largely address the unspent funds concerns in this regard.

The cash flow implications to providers of the proposed reforms need to be considered and monitored. We understand that it is proposed that the current unspent funds will only be remitted back to the Government over a reasonable time period, and this should ease much of the initial cash flow concerns.

In Conclusion: the overall funding arrangements for aged care must require considerable additional funding and an substantial realignment. Residential care is clearly and critically under-funded, both from a government and consumer perspective. The financial concerns in relation to residential care cannot be overstated.

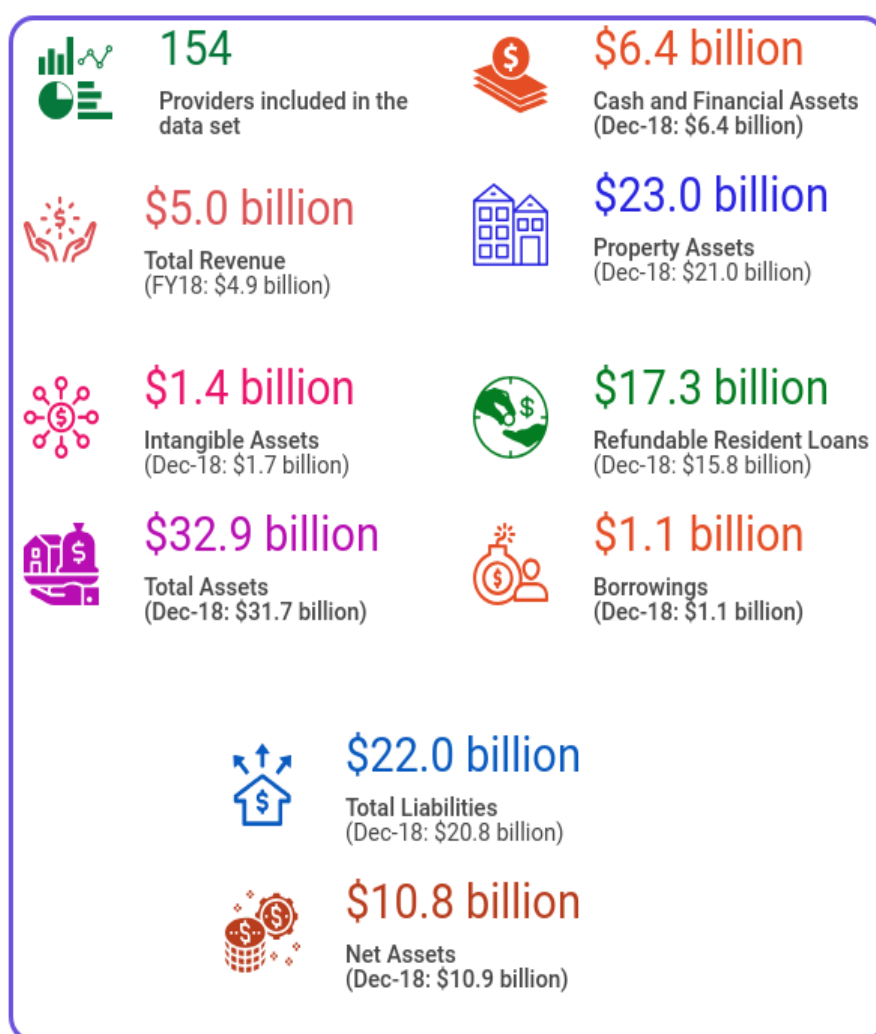
In-home care requires the redistribution of unused funds which are not being fully utilised in addition to the ongoing issue of more funding packages to meet consumer need. Service revenue must improve (driven by unit price increases) to ensure that staffing hours per care recipient also increase to meet the ongoing care needs.

### 3. APPROVED PROVIDER ANALYSIS

This section provides a summary of the Dec-19 six months financial performance of aged care providers at an approved provider level rather than at individual segment or aged care home level. For the purposes of this analysis, we have included the detailed information provided by 154 approved providers who are representative of all states and demographics.

The same approved providers were used in the analysis of their financial position and operating performance at Dec-19 and Dec-18.

#### Approved Provider Aggregated Balance Sheet



#### Operating Results for six months ended 31 December 2019

The following table represents the Survey summary revenue and expenses average by approved provider for the six months ended Dec-18 to Dec-19. The amounts expressed are the average of the 154 approved providers for ease of comparison.

Table 2: Summary of key Approved Provider results

### Key Results

	Survey Average \$'000s	1st Quartile \$'000s	Bottom Quartile \$'000s
<b>Operating Surplus / (Deficit)</b>	(\$1,104)	\$445	(\$1,632)
<b>Average NPBT</b>	(\$626)	\$802	(\$1,224)
<b>Operating EBITDA</b>	\$791	\$1,845	(\$1,467)
<b>EBITDA</b>	\$1,269	\$2,203	(\$1,058)
<b>NPBT Return on Assets</b>	(0.59%)	1.15%	(1.80%)
<b>Operating Surplus Return on Assets</b>	(1.05%)	0.64%	(2.40%)
<b>Cash &amp; Financial Assets % of Debt</b>	34.21%	33.79%	42.08%

Table 3: Income & Expenditure Comparison (average by approved provider)

	Survey Dec-19 (6 months) (Average)	Survey Dec-18 (6 months) (Average)	Survey Dec-17 (6 months) (Average)	Survey Jun-19 (12 months) (Average)
	\$'000	\$'000	\$'000	\$'000
<b>Income &amp; Expenditure</b>				
<b>Revenue</b>				
Service revenue	31,138	30,613	27,639	60,794
Investment revenue	746	693	669	1,539
<b>Total operating revenue</b>	<b>31,884</b>	<b>31,306</b>	<b>28,308</b>	<b>62,333</b>
<b>Expenses</b>				
Employee expenses	22,124	21,323	19,215	42,115
Depreciation and amortisation	2,408	2,228	1,902	4,446
Finance costs	233	202	182	411
Other expenses	8,222	8,295	7,138	16,759
<b>Total operating expenses</b>	<b>32,988</b>	<b>32,047</b>	<b>28,437</b>	<b>63,731</b>
<b>Operating surplus (deficit)</b>	<b>(1,104)</b>	<b>(741)</b>	<b>(129)</b>	<b>(1,398)</b>
Non-recurrent income and expenses	478	450	583	1,220
<b>Total surplus (deficit) (NPBT)</b>	<b>(626)</b>	<b>(291)</b>	<b>454</b>	<b>(178)</b>
<b>Operating EBITDA</b>	<b>791</b>	<b>996</b>	<b>1,286</b>	<b>1,920</b>
<b>Ratios</b>				
Operating surplus return on assets (ROA)	(1.0%)	(0.7%)	(0.1%)	(0.7%)
Operating EBITDA return on assets	0.7%	1.0%	1.4%	0.9%
Operating surplus % of operating revenue	(3.5%)	(2.4%)	(0.5%)	(2.2%)
Employee expenses % of operating revenue	69.4%	68.1%	67.9%	67.6%
Depreciation as % of property assets	3.2%	3.3%	3.1%	3.0%

### Brief Commentary

- The operating surplus/ (deficit) 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 surplus has declined each year since 2016 and was an average deficit by approved provider of \$1,104k for the Dec-19 six months
- The operating surplus excluding investment income and finance costs was a deficit by approved provider of \$1,617k for Dec-19 six months (deficit of \$1,232k for Dec-18 six months)
- Operating EBITDA was a surplus of \$791k for the Dec-19 six months (\$996k for Dec-18 six months)

### Balance Sheet Summary as at 31 December 2019

A summary of the balance sheet (average by provider average) for the Dec-18 to Dec-19 financial periods is included in the table below.

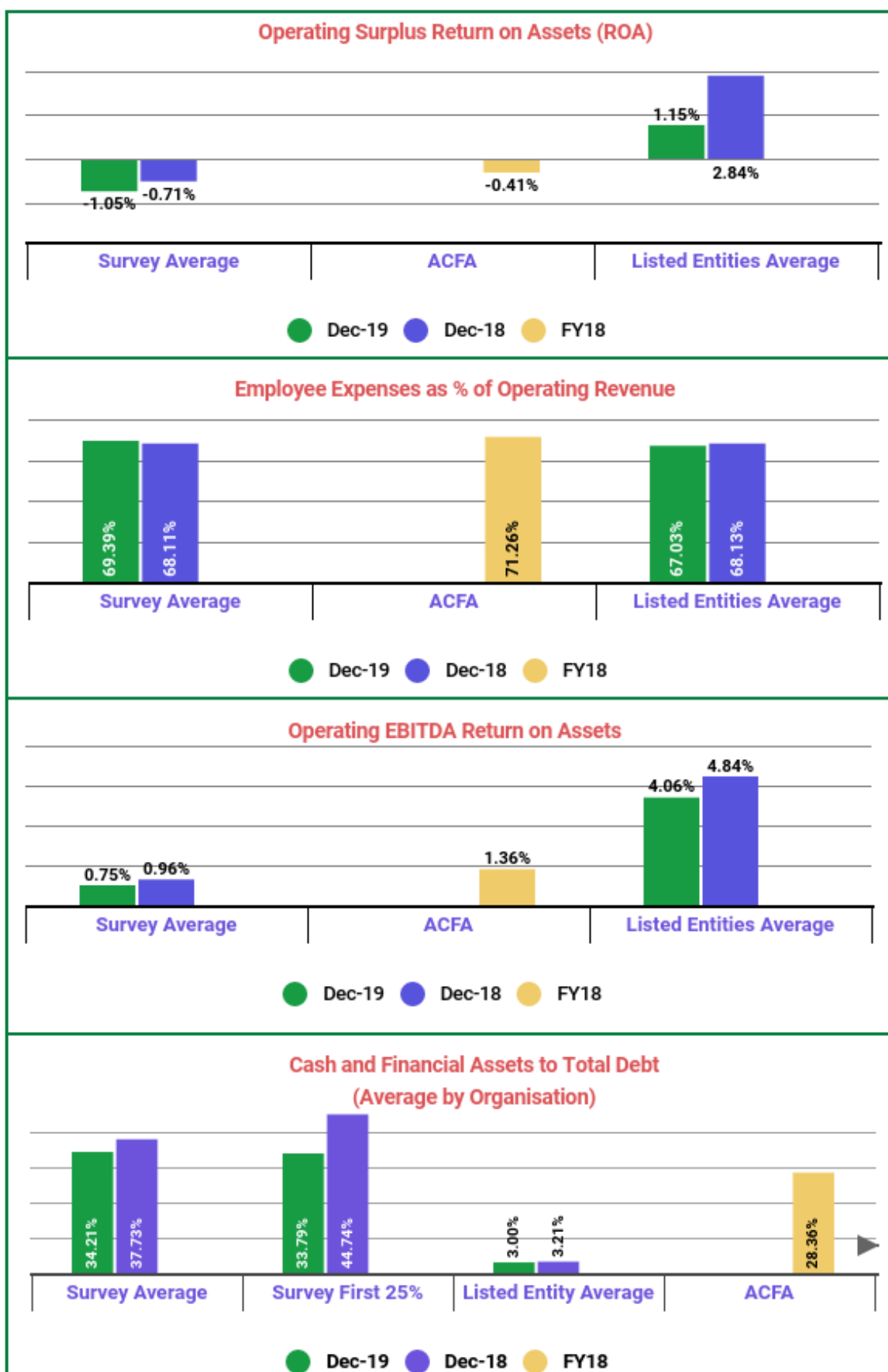
Table 4: Summary Balance Sheet Comparison (average by approved provider)

	Survey Dec-19 (Average)	Survey Dec-18 (Average)	Survey Dec-17 (Average)	Survey Jun-19 (Average)
	\$'000	\$'000	\$'000	\$'000
<b>Balance Sheet</b>				
<b>Assets</b>				
Cash and financial assets	41,390	41,877	53,966	44,330
Operating assets	13,359	16,759	3,512	9,791
Property assets	149,504	136,518	122,018	150,055
Intangibles	9,149	10,916	7,057	9,117
<i>Total assets</i>	<b>213,401</b>	<b>206,069</b>	<b>186,553</b>	<b>213,293</b>
<b>Liabilities</b>				
Refundable loans	112,120	102,674	100,380	116,135
HCP unspent funds liability	1,517	1,079	702	1,256
Borrowings	7,339	7,243	6,562	6,998
Other liabilities	22,081	24,247	14,641	17,309
<i>Total liabilities</i>	<b>143,057</b>	<b>135,242</b>	<b>122,285</b>	<b>141,698</b>
<b>Net assets</b>	<b>70,344</b>	<b>70,827</b>	<b>64,268</b>	<b>71,595</b>
<b>Net tangible assets</b>	<b>61,195</b>	<b>59,911</b>	<b>57,211</b>	<b>62,478</b>
<b>Ratios</b>				
<i>Net assets proportion % total assets</i>	33.0%	34.4%	34.5%	33.6%
<i>Property assets proportion % total assets</i>	70.1%	66.2%	65.4%	70.4%
<i>Cash + financial assets % debt</i>	34.2%	37.7%	50.1%	35.6%

### Brief Commentary

- Net assets slightly decreased, however net tangible assets has increased for the Survey due to a further writeback of bed licences as an intangible asset
- Liquid cash assets to debt ratio has declined to be 34.2% and a significant decline when compared to Dec-17 (50.1%) which indicates the financial losses having a substantial effect
- The results for the sector indicate that the operating surplus expressed as a return on assets employed by approved providers continues to not be financially sustainable

## Organisational Results





## Organisations sorted by Revenue Bands

	Revenue >\$75M \$'000s	Revenue \$20M - \$75M \$'000s	Revenue \$10M - \$20M \$'000s	Revenue <\$10M \$'000s
Operating Surplus / (Deficit)	(\$3,519)	(\$918)	(\$159)	(\$31)
Average NPBT	(\$2,048)	(\$623)	(\$4)	\$33
Operating EBITDA	\$2,985	\$92	\$76	\$123
EBITDA	\$4,456	\$387	\$231	\$186
NPBT Return on Assets	(0.65%)	(0.82%)	(0.01%)	0.25%
Operating Surplus Return on Assets	(1.11%)	(1.20%)	(0.48%)	(0.24%)
Cash & Financial Assets % of Debt	28.80%	41.68%	52.88%	67.08%

## Organisations sorted by Total Assets

	Total Assets >\$150M \$'000s	Total Assets \$50M - \$150M \$'000s	Total Assets \$25M - \$50M \$'000s	Total Assets <\$25M \$'000s
Operating Surplus / (Deficit)	(\$2,879)	(\$294)	(\$138)	(\$119)
Average NPBT	(\$1,701)	(\$131)	(\$65)	(\$9)
Operating EBITDA	\$2,210	\$113	\$57	\$12
EBITDA	\$3,388	\$276	\$131	\$122
NPBT Return on Assets	(0.65%)	(0.32%)	(0.36%)	(0.11%)
Operating Surplus Return on Assets	(1.10%)	(0.71%)	(0.76%)	(1.45%)
Cash & Financial Assets % of Debt	29.10%	57.43%	67.40%	73.52%

## Approved Provider Profile

*Table 5: Profile of Survey approved providers by total assets bands*

Total Assets	<\$25M	\$25M - \$50M	\$50M-\$150M	> \$150M	Total
<b>Number of Approved providers</b>	28	31	43	52	154
%	18.18%	20.13%	27.92%	33.77%	100.00%
<b>Number of residential care aged care homes</b>	30	38	81	663	812
%	3.69%	4.68%	9.98%	81.65%	100.00%
<b>Number of residential operating places</b>	1,687	3,241	7,321	53,139	65,388
%	2.58%	4.96%	11.20%	81.27%	100.00%
<b>Number of Home Care (HCP) clients</b>	1,303	2,057	1,581	27,817	32,758
%	3.98%	6.28%	4.83%	84.92%	100.00%

*Table 6: Profile of Survey approved providers by revenue bands*

Operating revenue range (\$million per annum)	<\$10M	\$10M - \$20M	\$20M-\$75M	> \$75M	Total
<b>Number of Approved providers</b>	42	40	35	37	154
%	27.27%	25.97%	22.73%	24.03%	100.00%
<b>Number of residential care aged care homes</b>	41	66	110	595	812
%	5.05%	8.13%	13.55%	73.28%	100.00%
<b>Number of residential operating places</b>	2,580	5,462	10,112	47,234	65,388
%	3.95%	8.35%	15.46%	72.24%	100.00%
<b>Number of Home Care (HCP) clients</b>	827	781	3536	27614	32,758
%	2.52%	2.38%	10.79%	84.30%	100.00%

## 4. RESIDENTIAL CARE ANALYSIS

### Operating Result

The residential care sector has experienced a further significant decline in the Operating (Facility) Result mainly due to care expenses increasing at a much higher rate (6.8%) than care revenue (1.48). The Operating Result as shown below has decreased from a surplus of \$3.20 per bed day (pbd) in the Dec-18 six months to a deficit of \$6.43 pbd for the Dec-19 six month period.

The majority of the comparisons and trend analysis in this sector report are year-on-year (YoY) as it reflects a better perspective on the movements in financial performance for a similar period (ie 6 months).

Table 7: Summary Profit & Loss Results for Dec-19 and Dec-18 periods

	Survey Average		Survey First 25%	
	Dec-19	Dec-18	Dec-19	Dec-18
	1,060 Homes	965 Homes	265 Homes	241 Homes
<b>ACFI</b>				
Revenue	180.30	177.68	184.37	183.33
Expenditure				
Labour costs	145.90	136.59	129.64	122.14
Other direct costs	8.57	8.10	7.21	6.86
ACFI expenditure	154.48	144.69	136.85	129.00
<b>ACFI RESULT</b>	<b>\$25.83</b>	<b>\$32.99</b>	<b>\$47.53</b>	<b>\$54.33</b>
<b>EVERYDAY LIVING</b>				
Revenue	53.29	51.95	54.22	52.90
Expenditure				
Catering	30.76	29.42	29.15	28.33
Cleaning	8.48	8.16	7.59	7.68
Laundry	4.02	3.88	3.47	3.53
Overhead allocation (w/comp & education)	0.65	0.66	0.48	0.62
Utilities	7.02	7.04	6.42	6.59
Routine maintenance & motor vehicle	10.48	10.17	9.24	9.35
Everyday living expenditure	61.42	59.33	56.35	56.09
<b>EVERYDAY LIVING RESULT</b>	<b>(\$8.13)</b>	<b>(\$7.38)</b>	<b>(\$2.13)</b>	<b>(\$3.19)</b>
<b>ACCOMMODATION</b>				
Revenue				
Residents	13.63	13.20	13.16	12.68
Government	18.88	17.91	17.87	17.02
Accommodation revenue	32.51	31.12	31.03	29.70
Expenditure				
Depreciation	18.11	16.90	17.17	16.21
Property rental	0.67	1.23	0.45	0.55
Other	1.30	1.49	1.29	1.38
Accommodation expenditure	20.07	19.62	18.92	18.14
<b>ACCOMMODATION RESULT</b>	<b>\$12.44</b>	<b>\$11.50</b>	<b>\$12.11</b>	<b>\$11.56</b>
<b>ADMINISTRATION COST</b>	<b>(\$36.56)</b>	<b>(\$33.91)</b>	<b>(\$34.16)</b>	<b>(\$30.30)</b>
<b>ACH OPERATING RESULT (\$pbd)</b>	<b>(\$6.43)</b>	<b>\$3.20</b>	<b>\$23.35</b>	<b>\$32.40</b>
<b>ACH OPERATING RESULT (\$pbpa)</b>	<b>(\$2,210)</b>	<b>\$1,109</b>	<b>\$8,186</b>	<b>\$11,388</b>
<b>ACH EBITDAR (\$pbpa)</b>	<b>\$4,245</b>	<b>\$7,391</b>	<b>\$14,366</b>	<b>\$17,279</b>

## Summary of Results (year-on-year)

### Revenue

- Increase in ACFI and supplements revenue by \$2.63 pbd. There has been a contraction in the movement of aged care homes from low-care bands to high-care bands - average ACFI subsidy per bed day marginally increased from \$177.68 to \$180.30 mostly as a result of the COPE (inflation) subsidy rate increases
- Increase in Everyday Living revenue by \$1.34 pbd with only a minor increase in additional services revenue (average \$0.03 pbd)
- Increase in Accommodation revenue by \$1.40 pbd

### Expenses

- Increase in total direct care costs of \$9.79 pbd and increase of approximately 5.4 minutes per resident per day in total care hours (total direct care hours - 3.25 per resident per day)
- Increase in hotel services \$1.82 pbd (4.4%)
- Decrease in utilities of \$0.02 pbd (the continued benefit of solar energy)
- Increase in administration of \$2.65 pbd (included an increase in corporate costs of \$1.08 pbd)
- Increase in accommodation expenditure by \$0.45 pbd (depreciation increase was \$1.21 pbd)

### Operating Results

- ACFI result declined by \$7.11 pbd (21.7%)
- Everyday Living result declined by \$0.76 pbd (10.3%)
- Accommodation result improved by \$0.94 pbd to an average of \$12.44 pbd
- Operating (ACH) result was a deficit of \$6.43 pbd (Dec-18 surplus \$3.20 pbd)
- Operating (ACH) EBITDAR decreased by \$3,146 per bed per annum to \$4,245 pbpa

### Additional Trends

- Occupancy - significant decrease from 94.92% to 93.93%
- Increase in supported resident ratio remained constant at 46.9%
- Increase in average Refundable Accommodation Deposit received by \$31,013

Table 8: Summary KPI Results for Dec-19 Survey

Residential Aged Care Homes - Summary Results	Jun-19 1,045 homes	Dec-19 1,060 homes	Dec-18 965 homes		Difference (YoY)
Operating (NPBT) Result (\$pbd)	(\$2.62)	(\$6.43)	\$3.20	↓	(\$9.63)
Operating Result (\$pbpa)	(\$904)	(\$2,210)	\$1,109	↓	(\$3,319)
Operating EBITDAR (\$pbpa)	\$5,531	\$4,245	\$7,391	↓	(\$3,146)
Average Occupancy	94.4%	93.9%	94.9%	↓	(1.0%)
Average ACFI (\$pbd)	\$177.79	\$180.30	\$177.68	↑	\$2.63
Direct care hours per resident per day	3.13	3.25	3.16	↑	0.09
ACFI services costs as a % of ACFI	83.8%	85.7%	81.4%	↑	4.2%
Supported ratio	47.6%	46.9%	46.9%	↑	0.0%
Average Full bond/RAD held	\$362,312	\$380,066	\$349,329	↑	\$30,737
Average Full RAD taken during period	\$402,384	\$424,209	\$393,192	↑	\$31,017

## Trend Analysis

The following graphs highlight the trends for the six month periods Dec-12 to Dec-19 respectively for the Survey Average (all aged care homes) and by geographical remoteness (based on the Australian Bureau of Statistics (ABS) ARIA definitions).

This analysis indicates that the financial performance has declined in all geographic segments, with the rural & remote located homes being particularly vulnerable.

Figure 1: Operating Result for each geographic area and Average result trend line (expressed as \$ per resident bed day)

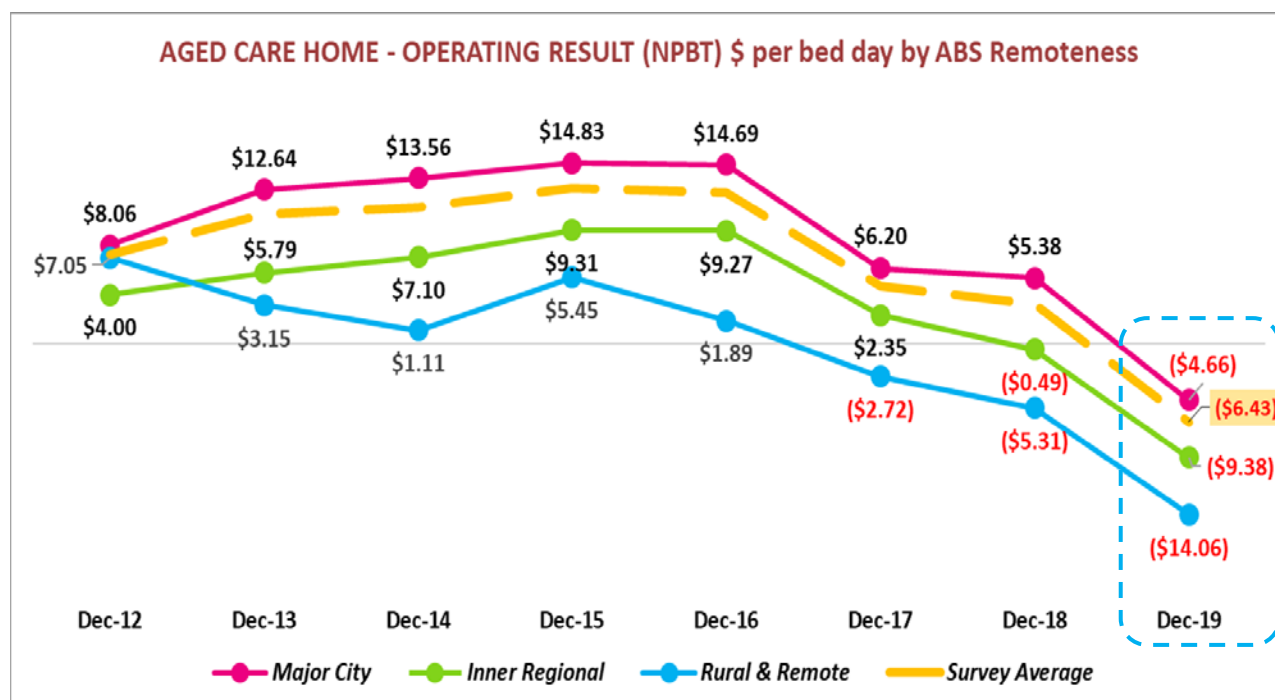
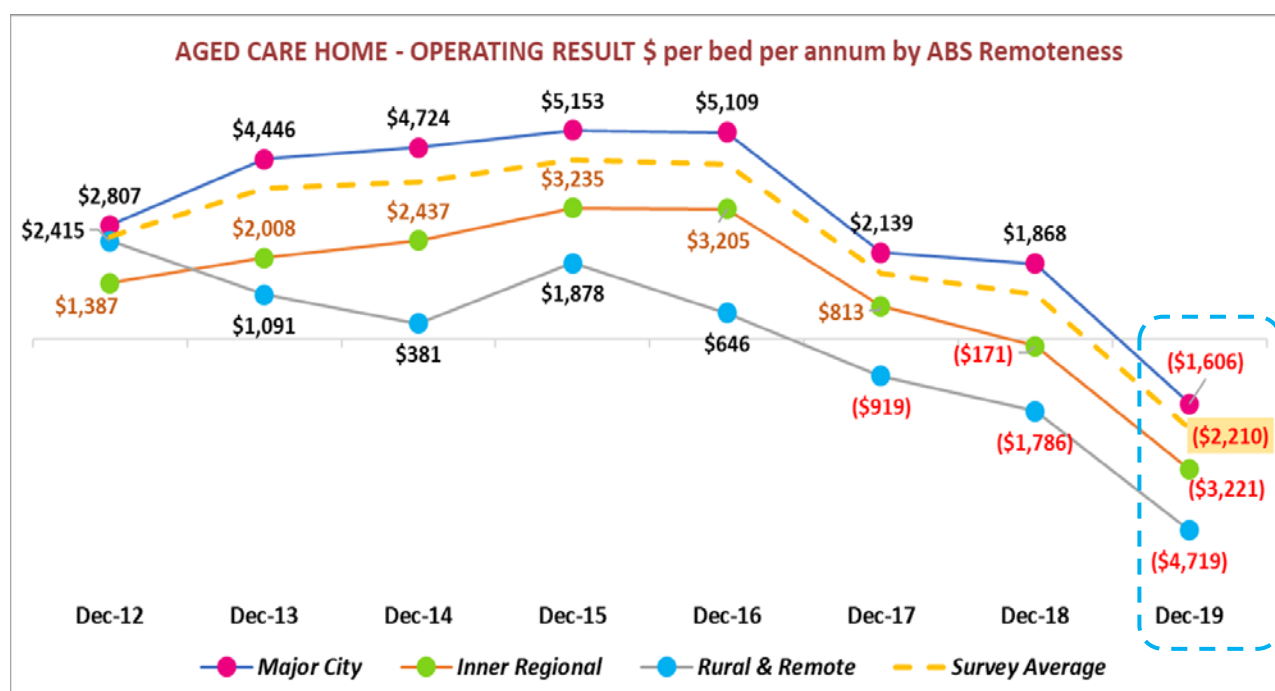


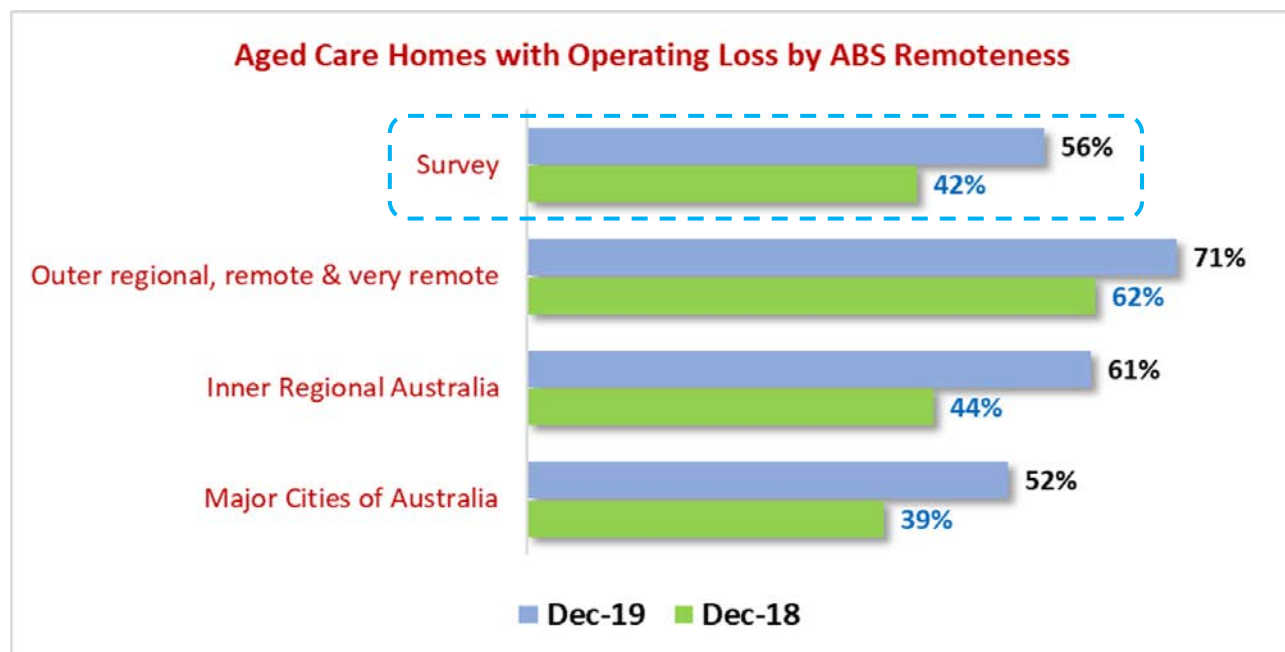
Figure 2: Operating Result for each geographic area and Average result trend line (expressed as \$ per bed per annum)



### Number of Aged Care Homes making an Operating Loss

The following graph highlights the percentage of aged care homes nationally that are operating at a loss. Under the current funding arrangements it is highly likely that the percentage number will further increase in the ensuing period(s).

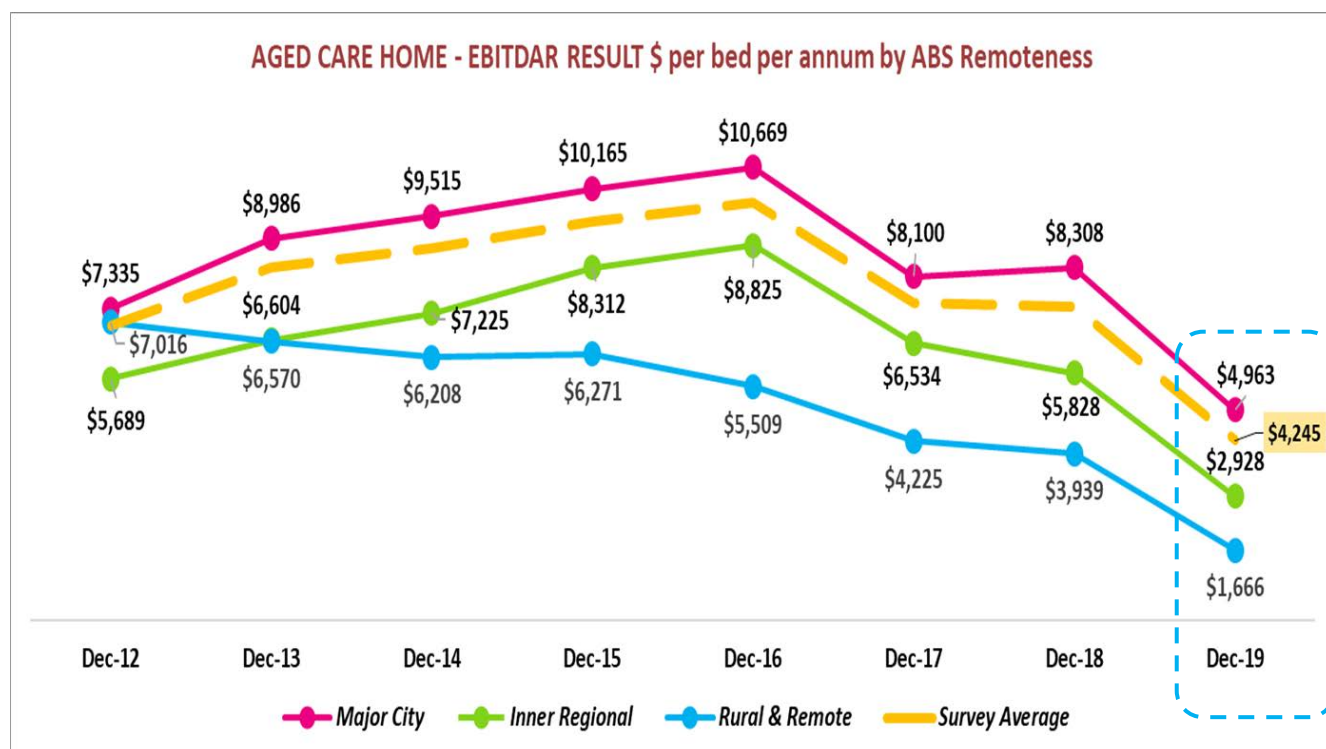
Figure 3: Analysis of aged care homes making an operating loss by ABS remoteness in total Survey



### EBITDAR Result

The below graph shows the ACH EBITDAR (Earnings Before Interest, Taxation, Depreciation, Amortisation and Rent) trend for the Dec-12 to Dec-19.

Figure 4: EBITDAR Result for each geographic area and Average result trend line (expressed as \$ per bed per annum)



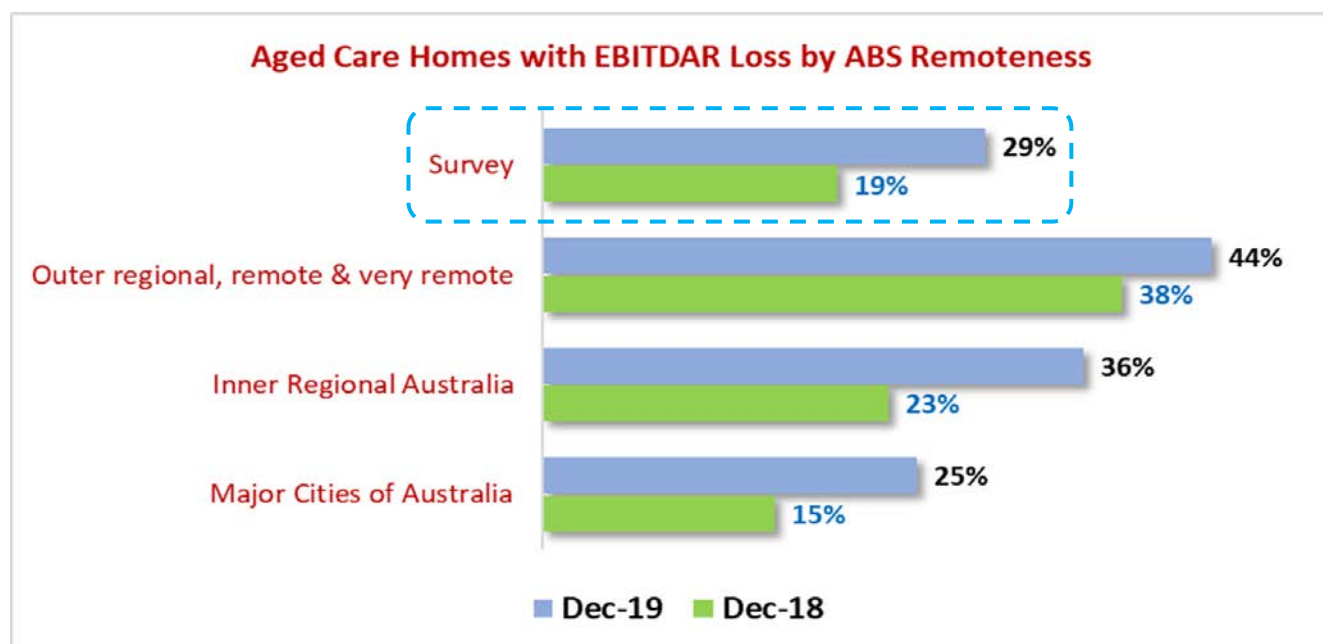


### Number of Aged Care Homes making an EBITDAR Loss

The following graph highlights the percentage of aged care homes nationally that are operating at an EBITDAR loss. This is significant in that an EBITDAR loss represents an effective cash operating loss which is very unsustainable for any mid-term length of time.

The resultant effect is that those homes with a continual EBITDAR loss will need to be cross subsidised by other activities by the approved provider which may be difficult or, in the case of small providers, unlikely to be possible.

Figure 5: Analysis of aged care homes making an EBITDAR loss by ABS remoteness in total Survey



### Results by Geographic Location

At a regional level the financial performance results deteriorate further where the average operating loss for regional aged care homes averaged \$14.06 per bed day (\$4,719 per bed per annum). These results are unsustainable. The following graphs highlight the financial issues that these homes currently face.


























There are several factors influencing the financial performance of homes in regional areas: staff shortages, higher costs of goods and services (including labour), lower accommodation prices and lower occupancy rates.

#### **FUNDING REFORM CONSIDERATION**

Regional aged care homes to be fully funded for ACFI based on 100% occupancy (*subject to financial viability analysis for vulnerable homes*)

(*Estimated additional annual subsidy - \$140 m*)

Figure 6: Operating result comparison by ABS remoteness geographic regions

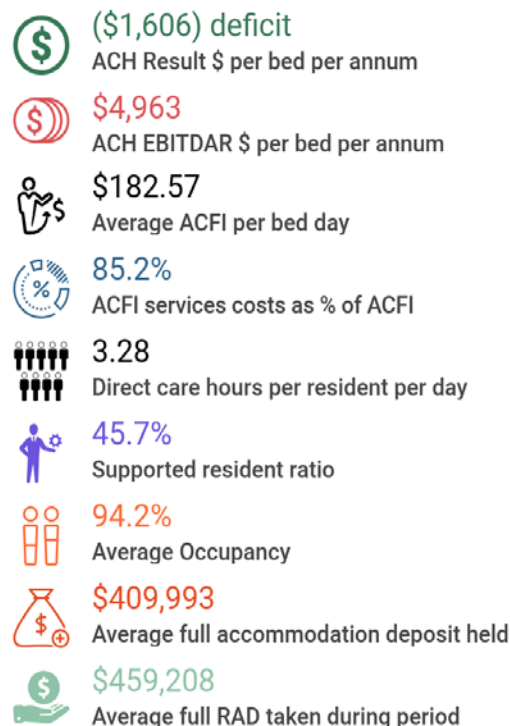
	Survey Average	Major Cities	Inner Regional	Rural & Remote
ACFI Result 	\$25.83	\$27.04	\$22.96	\$23.65
				
Every Day Living Result 	(\$8.13)	(\$6.84)	(\$9.62)	(\$16.09)
				
Administration Costs 	\$36.56	\$36.83	\$35.72	\$36.78
				
Accommodation Result 	\$12.44	\$11.97	\$13.00	\$15.17
				
Aged Care Home Result 	(\$6.43)	(\$4.66)	(\$9.38)	(\$14.06)

## Snapshot: Dec-19 Results by Geographic Location

### Major Cities



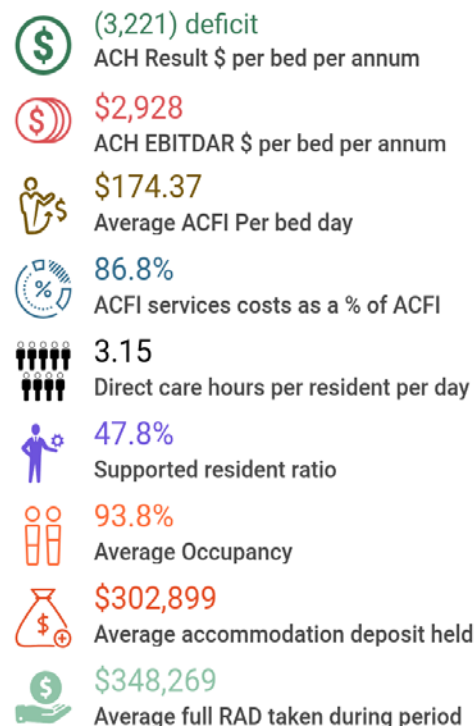
**699 Aged Care Homes**  
(ACHs)



### Inner Regional



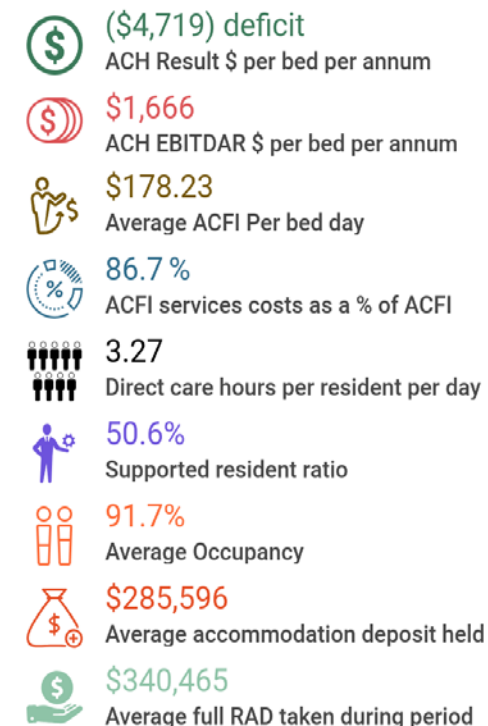
**266 Aged Care Homes**



### Rural & Remote



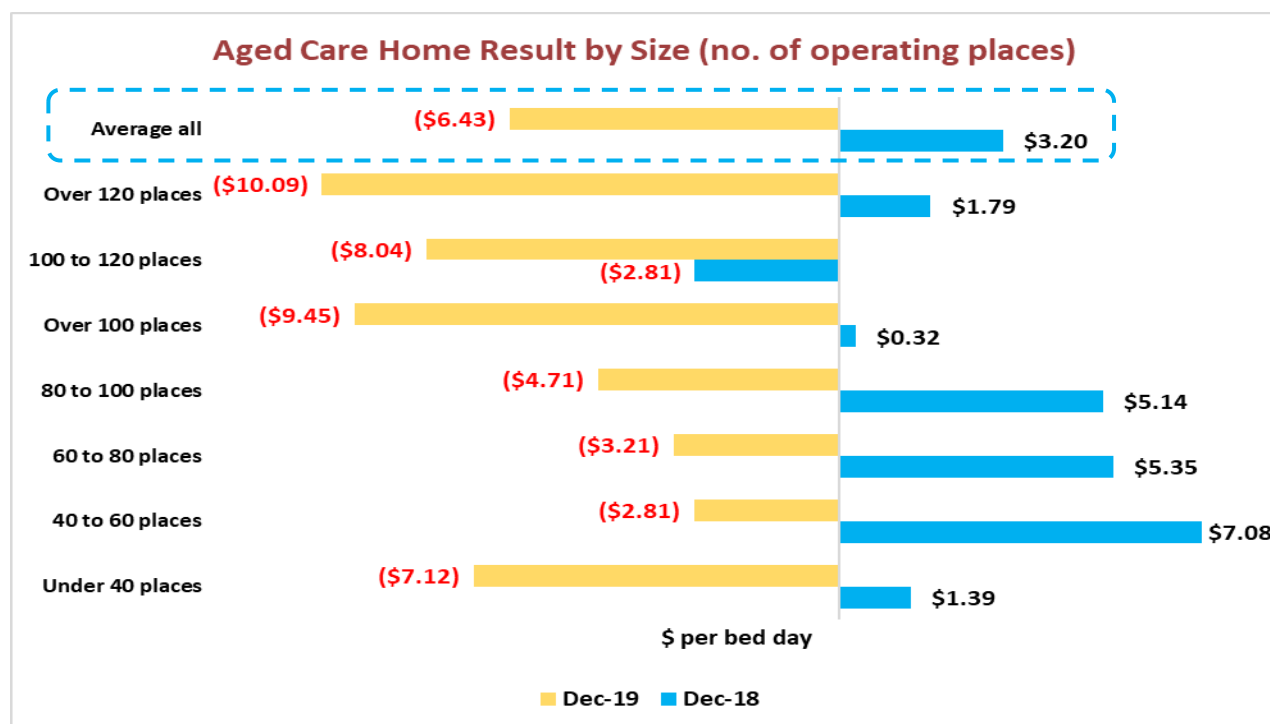
**95 Aged Care Homes**



## Analysis of Results by Size of Aged Care Home

The following graph indicates a changing shift in the operating performance of aged care home based on the size (available beds) in an aged care home whereas mid-range sizes perform better.

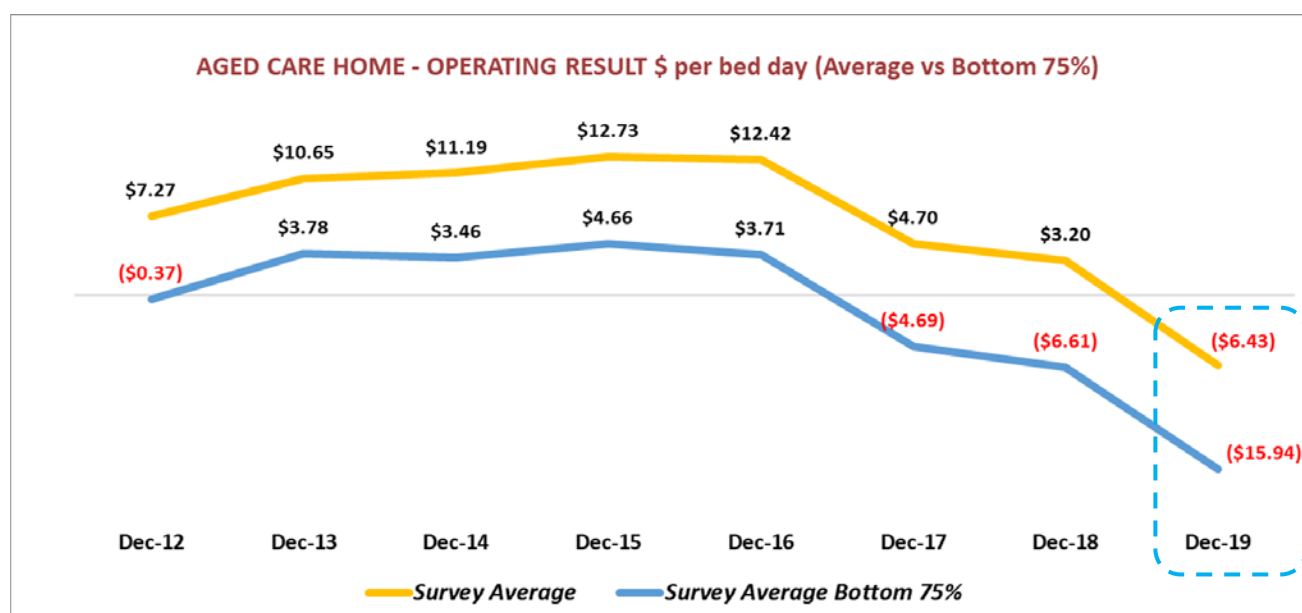
Figure 7: Operating result comparison by size of aged care home (expressed as \$ per resident bed day)



## Major Cause of Financial Concern - Bottom 75%

The operating results of the *Bottom 75%* of aged care homes continue to decline to now record an average loss of \$15.94 per bed day (a further decline of \$9.33 per bed day compared to the Dec-18 six months). The *Bottom 75%* represent a very large cohort of aged care homes.

Figure 8: Operating result comparison by size of aged care home (expressed as \$ per resident bed day)



## ACFI (Direct Care) Result

ACFI subsidy funding is determined by each residents assessed care needs. The higher the acuity results in higher ACFI (direct care) subsidy which is primarily directed to the costs of providing the direct care to the resident.

ACFI revenue comprises subsidy funding paid by the Government (including care related supplements) plus the means-tested care fee which is the resident contribution to direct care services (as an offset to ACFI) as calculated following an income and assets assessment.

The following graph illustrates how the ACFI result is determined.

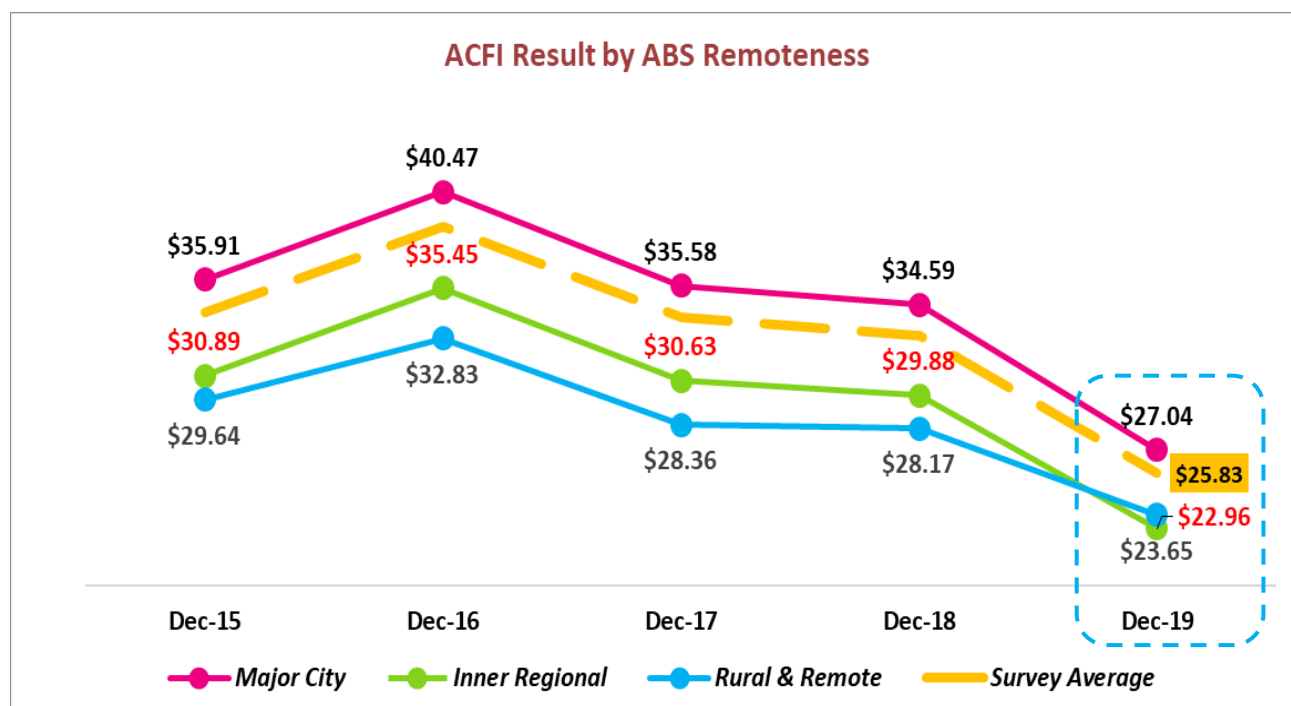
Figure 9: Components of the ACFI (direct care) result



The ACFI result (surplus) continues to decline in all geographic sectors, with a significant reduction occurring in the Dec-19 six months. Direct care costs increased by \$9.79 per bed day as compared to the Dec-18 period.

Direct care staffing costs average \$145.90 per day and represents 80.9% of ACFI revenue (76.9% Dec-18).

Figure 10: ACFI (direct care) result for Survey average and by ABS remoteness (expressed as \$ per resident bed day)

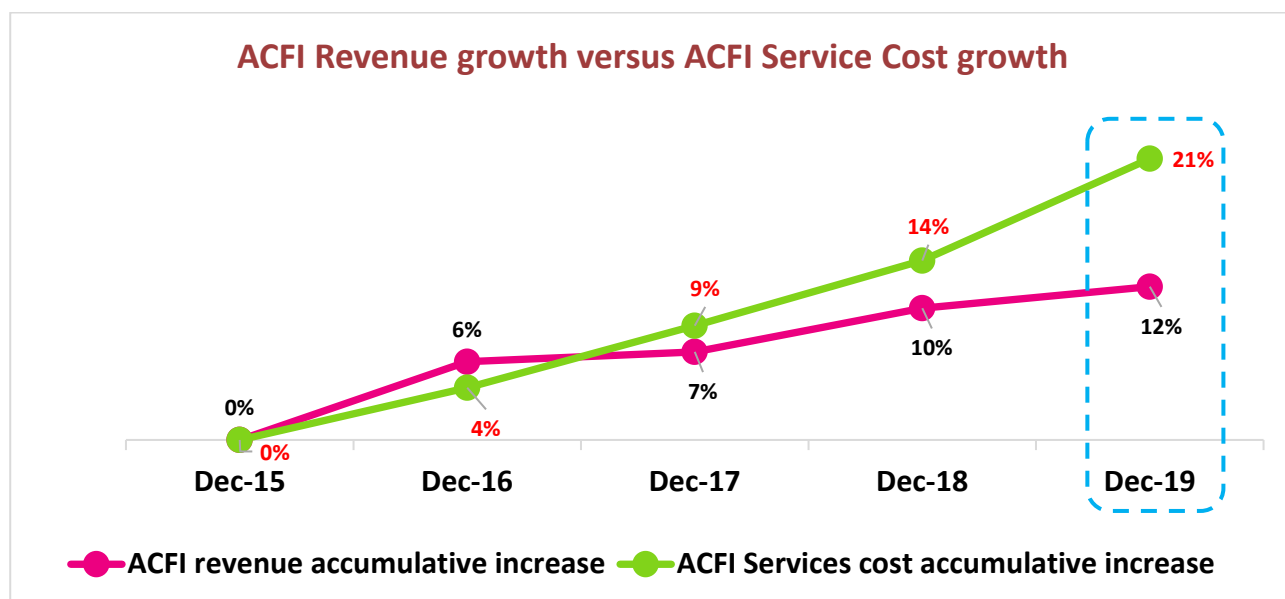


### ACFI Revenue and Direct Care Costs Trend

The relationship between ACFI subsidy received (based on resident assessed acuity) and direct care costs is important in maintaining a sustainable care operating financial model. The following graph indicates that the direct care costs are now rising at a greater rate than the corresponding ACFI subsidy: this gap is likely to increase as staff cost increases (average of 3.0% annually) are greater than ACFI COPE (inflation) increases (1.4% for FY19).

The cumulative effect is that the direct care costs are increasing at a much greater percentage (and actual amount is real terms) which is the reason for the declining ACFI result. Since the 2017 financial year this differential continues to increase exponentially and will have a significant impact on the ability of providers to ensure that staffing levels are appropriate to meet resident care requirements.

Figure 11: Cumulative increases in ACFI subsidy, Direct Care costs as compared to CPI



### FUNDING REFORM CONSIDERATION

COPE (inflation) subsidy to be calculated based on annual ABS Wage Price Index plus 1% (additional 1% to allow for award/EA increases for aged care workers) (*staff cost represent over 80% of ACFI revenue*)

*(Estimated additional annual subsidy - \$240 m)*

### Direct Care Staffing Hours

Direct Care staffing metrics include care staff costs and care staff hours. Improvement in the financial performance of an aged care home is directly related to appropriately aligning staffing hours and levels to the funding and ensuring that the design of the home 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 7: Direct Care staffing metrics for Survey Average and Survey First 25%

Survey Average				Survey First 25%		
Hours by Staff Category - hours worked per resident per day						
	Dec-19	Dec-18		Dec-19	Dec-18	
Care management	0.12	0.12	-	0.11	0.10	⬆️
Registered nurses	0.40	0.38	⬆️	0.36	0.33	⬆️
Enrolled & licensed nurses	0.29	0.34	⬆️	0.20	0.40	⬆️
Other unlicensed nurses & personal care staff	2.23	2.15	⬆️	2.08	1.84	⬆️
Allied health & lifestyle	0.18	0.17	⬆️	0.19	0.17	⬆️
Imputed agency care hours implied	0.03	0.02	⬆️	0.03	0.02	⬆️
Total Care Hours	3.25	3.16	⬆️	2.98	2.87	⬆️

### 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 care labour costs have increased for both the Survey Average and First 25% since Dec-18 by 6.8% and 6.1% respectively
- ◆ Total care hours have increased for both the Survey Average and for the First 25% by 2.8% and 3.8% respectively, and are now at 3.25 hours and 2.98 hours worked per resident per day respectively
- ◆ It is also notable that these increases are spread across the wage categories and not consigned to the staff category with the lowest cost. This helps to explain the increase in cost being greater than the increase in hours in percentage terms
- ◆ These increases in staffing hours have occurred during a time of significant financial pressures for many providers and at a time when the acuity levels of residents have not been increasing at the same rate as in recent years

The ability to provide training to direct care staff has been impacted by the declining financial performances. The aged care sector must ensure that there are appropriate career paths for all direct care staff and encourage more people to join the aged care workforce. This will require specific targeted funding.

### FUNDING REFORM CONSIDERATION

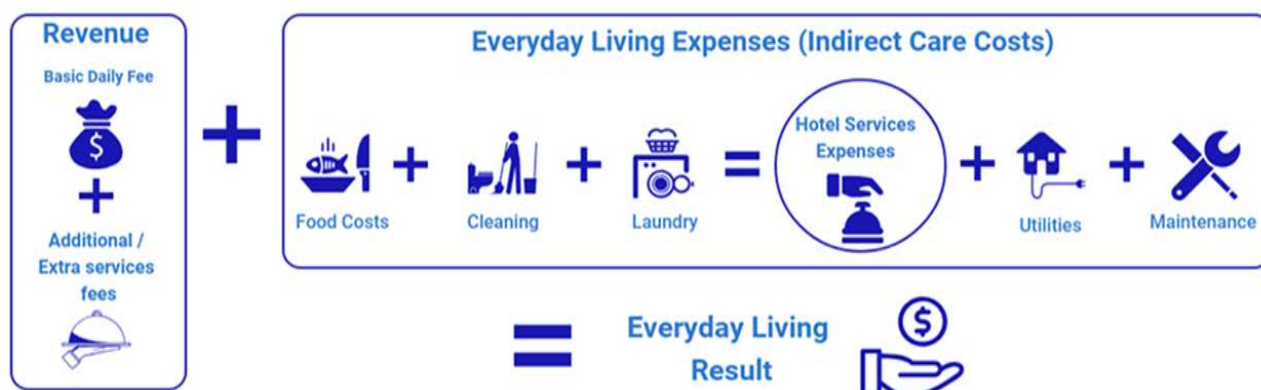
Ongoing 2.5% training subsidy (based on ACFI revenue) to finance staff skill and training (subsidy includes costs of staff to attend training). We recommend that the training subsidy be on an acquittal basis to ensure that it is properly directed to training purposes

(Estimated additional annual subsidy - \$315 m)

## Everyday Living (Indirect Care) Result

The providing of everyday living services to residents is of equal significance to providing direct care and the cost is often not appreciated when considering the overall funding model. The respective components of the Everyday Living result is illustrated in the following graphic.

Figure 12: Components of the Everyday Living (indirect care) result



The recoupment of everyday living costs is a key reason for the poor financial performance in residential care. 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).

With a supported resident ratio averaging in excess of 47.6% across all aged care homes, this will continue to be an issue for providers in addressing the introduction of additional services.

For the Dec-19 six months period the direct costs of providing everyday living services exceeded the revenue by \$8.13 pbd (Dec-18 \$7.38 pbd). However, with the inclusion of normal administration costs (including procurement, payroll, rosters, accounts, quality control, insurances, human resources and corporate costs) the deficit (loss) increases to be \$20.93 per bed day.

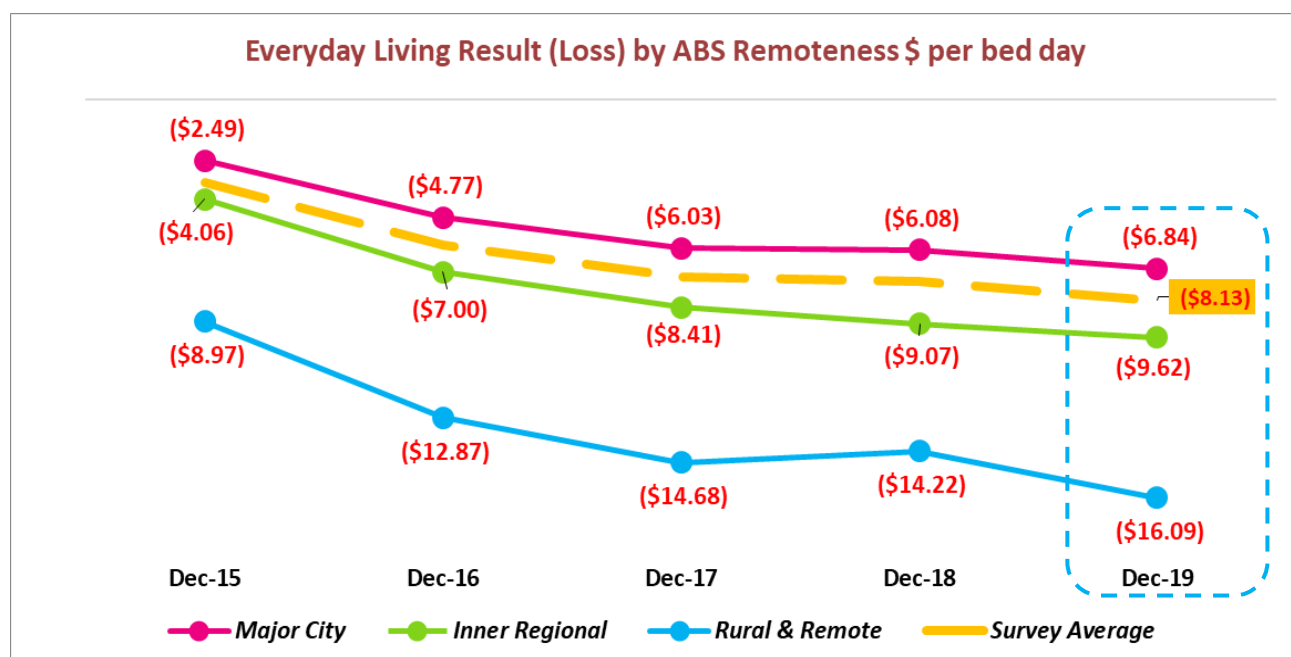
Table 8: Everyday living revenue and expense summary (expressed as \$ per resident bed day)

All Aged Care Homes (Average)	Jun-19 1045 Homes	Dec-19 1060 Homes	Dec-18 965 Homes	YoY Movement
Basic daily fee	\$50.67	\$51.41	\$50.43	↑
Other resident income	\$1.65	\$1.88	\$1.52	↑
<b>Everyday Living revenue</b>	<b>\$52.32</b>	<b>\$53.29</b>	<b>\$51.95</b>	↑
Hotel services	\$42.40	\$43.27	\$41.45	↑
Allocation of W/Comp to hotel services	\$0.45	\$0.46	\$0.48	↓
Utilities	\$7.06	\$7.02	\$7.04	↓
Maintenance costs (regular) and motor vehicles	\$10.67	\$10.48	\$10.17	↑
Quality and education allocation to everyday living	\$0.19	\$0.20	\$0.18	↑
<b>Everyday living expenses</b>	<b>\$60.77</b>	<b>\$61.42</b>	<b>\$59.33</b>	↑
<b>Everyday Living Result</b>	<b>(\$8.45)</b>	<b>(\$8.13)</b>	<b>(\$7.38)</b>	↓

## Everyday Living Result Trend Analysis

The below graph shows the trend of Everyday Living results (revenue less expenditure).

Figure 13: Trend in the Everyday Living Result from Dec-15 to Dec-19 by Survey Average and geographic region



The Everyday Living Result has declined since Dec-13 by an average of \$4.74 per bed day. In the past 12 months, the Everyday Living Result has declined by an average of \$0.75 per bed day.

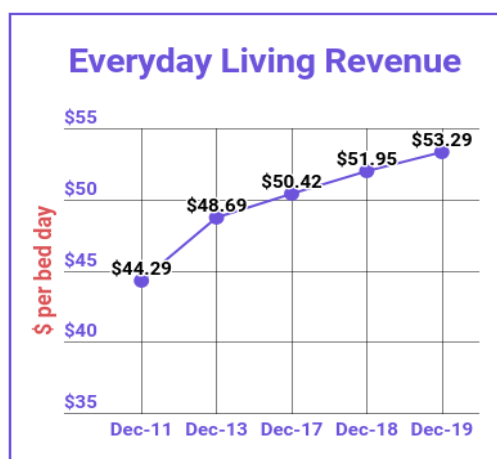
It is clear that the increase in the Basic Daily Fee has not kept pace with cost increases, particularly in catering, cleaning and laundry costs. As noted above, providers have had difficulty in introducing effective additional services to overcome this shortfall so that these costs are being subsidised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

### **FUNDING REFORM CONSIDERATION**

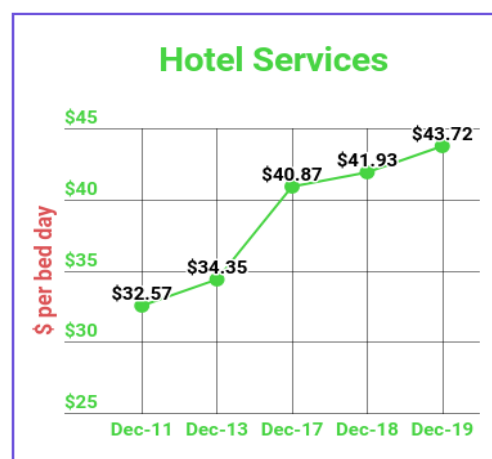
Increase the base amount for the Basic Daily Fee (which relates to Everyday Living costs) by \$10 per bed per day - government subsidy to compensate for all residents in the interim (first 2-3 years) and then progressively means-tested. We further recommend the full deregulation of the Basic Daily Fee in line with the Tune Legislative Review recommendation

*(Estimated additional annual subsidy - \$700 m)*

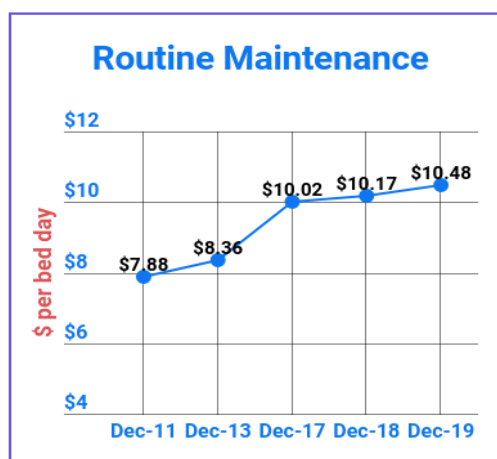
Figure 14: Trend analysis of everyday living costs by component



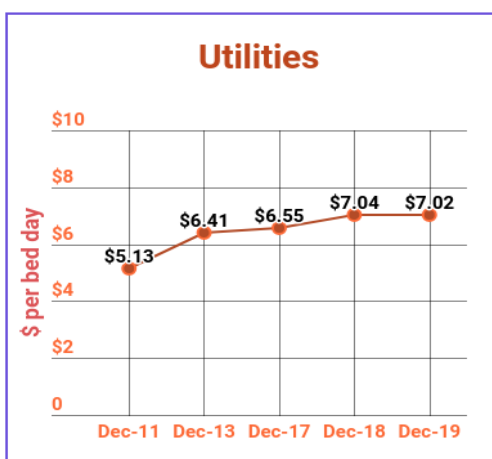
Since Dec-11 Everyday Living Revenue increased by an average of **\$9.00** per bed day or **20.3%**



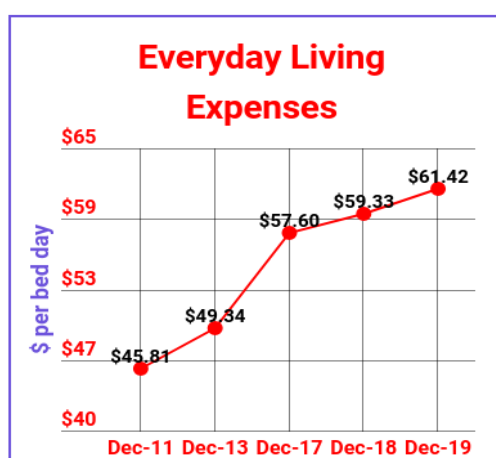
Hotel services costs increased by an average of **\$11.15** per bed day or **34.2%**



Routine Maintenance costs increased by an average of **\$2.60** per bed day or **33.0%**



Utility costs increased by an average of **\$1.89** per bed day or **36.8%**



Total Everyday Living Expenses have increased by an average of **\$15.61** per bed day or **34.1%** during the same period that revenue increased by only **\$9.00** per bed day

## Accommodation Result

StewartBrown continue to note the importance for aged care homes in achieving a surplus from the Accommodation Result, due to this result being essential for the continued refurbishment, major maintenance and upkeep of the building and surroundings in line with current and future consumer expectations.

Discussions with providers, coupled with data collected from participants, indicate that a policy of a major internal refurbishment every 8 - 10 years may be required, even for new builds.

The Accommodation Surplus for Dec-19 six month period was \$12.44 per bed day (Dec-18 \$11.50 pbd) which represents \$4,245 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 \$6,224 pa.

*The above amounts exclude the administration component and when this has been allocated, the accommodation result is a deficit of \$2.18 per bed day. This is a significant strategic concern and will not allow the required building accommodation to be maintained adequately.*

The Survey makes a clear delineation between the Care revenue and expenses (which are based on resident acuity and needs) and the Accommodation revenue and expenses which relate to the standard and quality of accommodation.

Figure 15: Residential Care Accommodation Result Trend

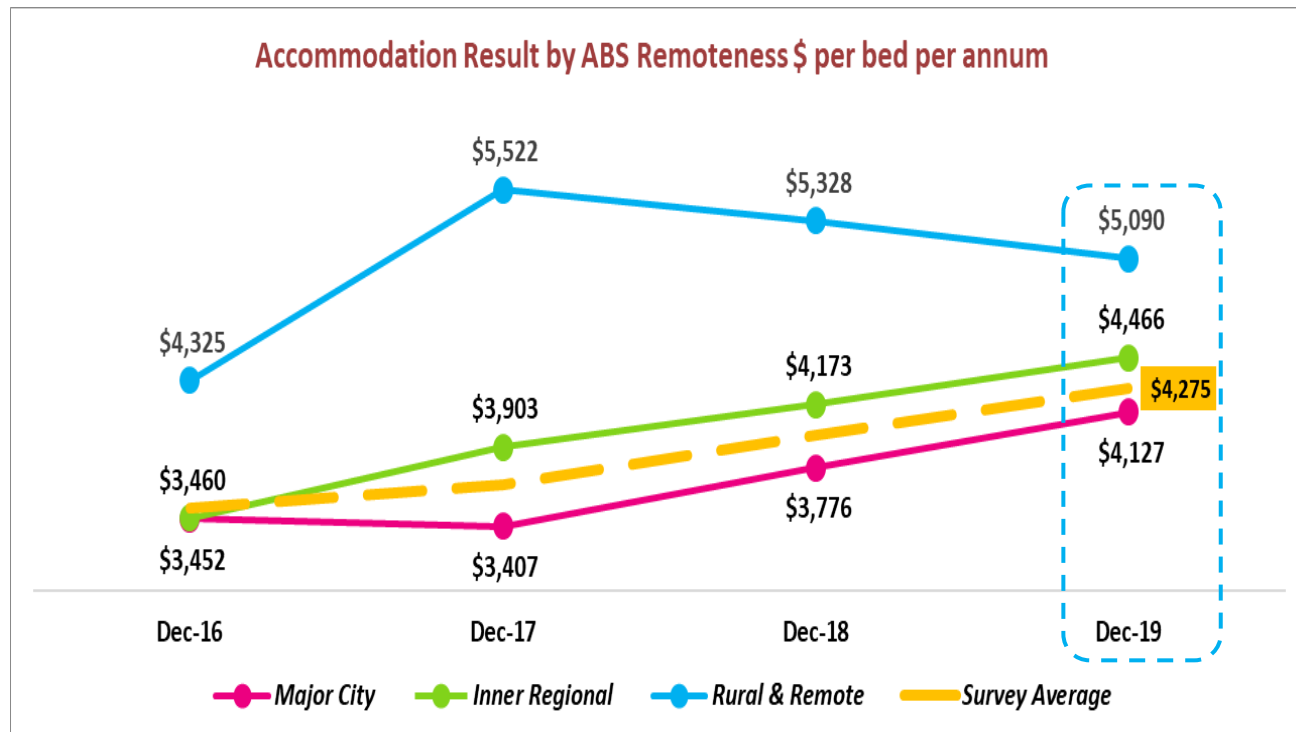
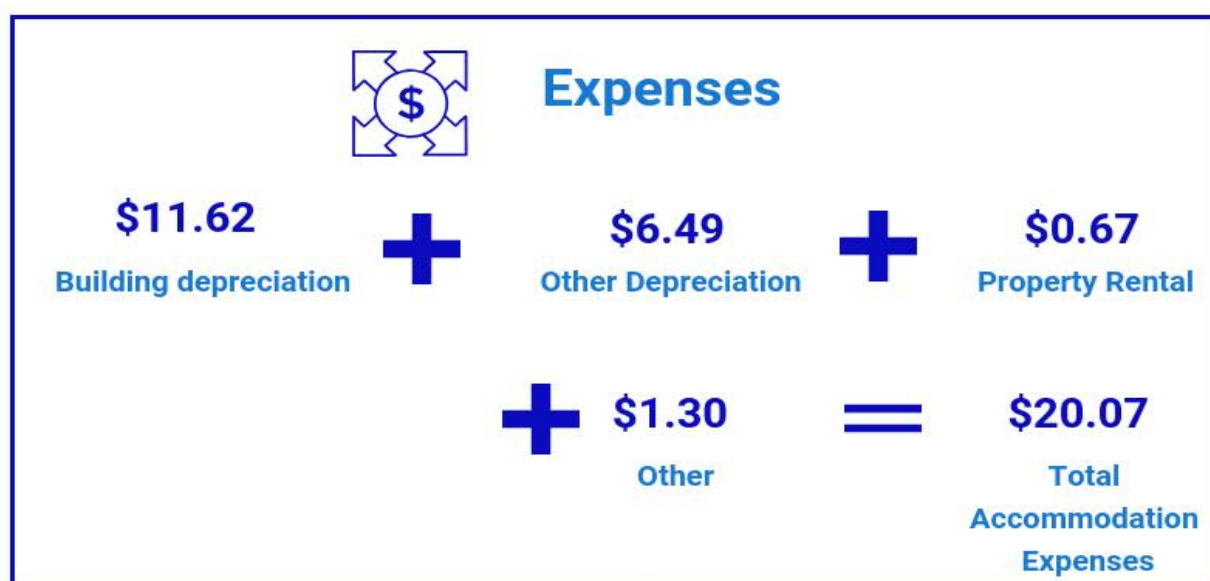


Figure 16: Accommodation Result components (excluding administration cost allocation)

## Accommodation Result Components



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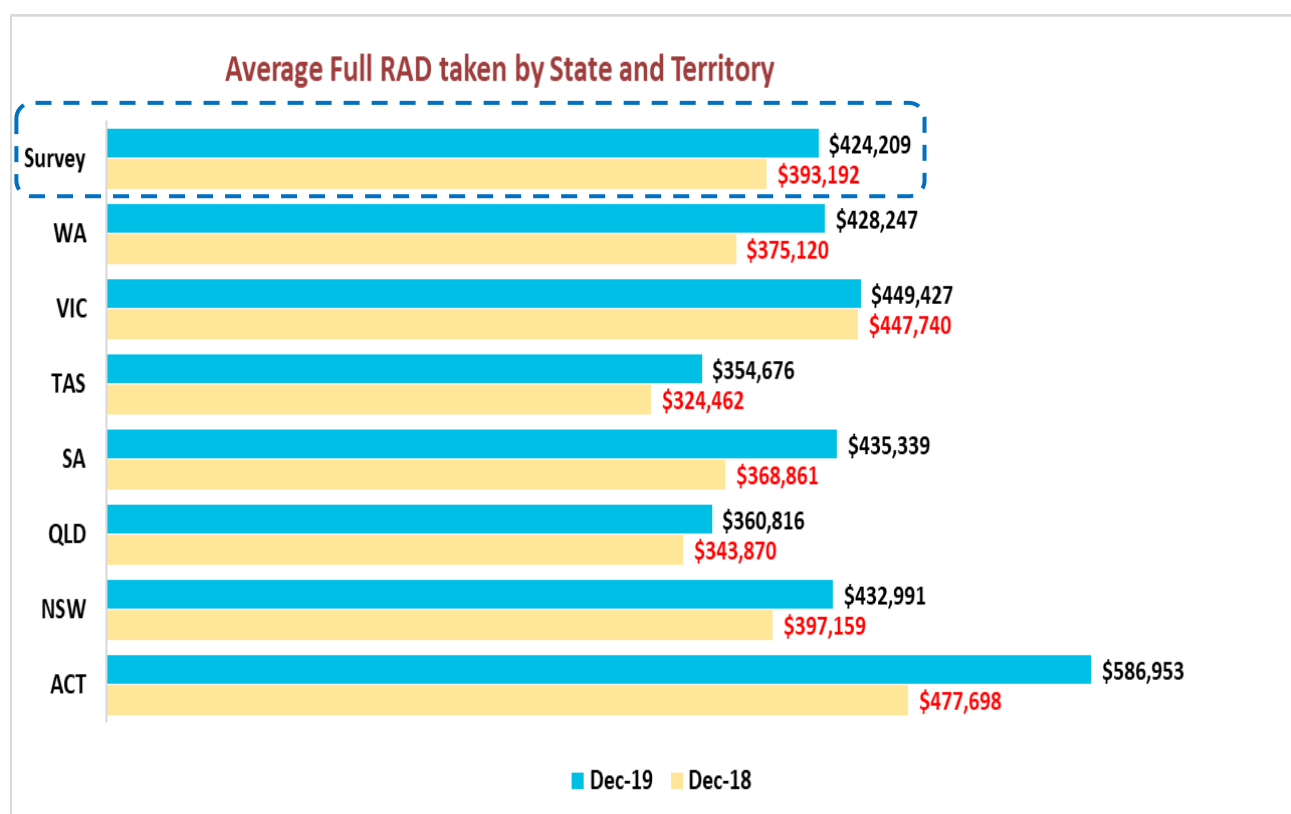




## Accommodation Pricing

We have observed a rise in the average published accommodation prices during the year-on-year period to Dec-19. This has resulted in the average amount of Refundable Accommodation Deposits (RADs) received during the period increasing in most States. Accommodation pricing is an important component for the sustainability of a residential care home. It is a revenue benefit (DAP) or a capital benefit (RAD) depending upon the equity position of the organisation.

Figure 17: Average Refundable Accommodation Deposits Received for Dec-19 and Dec-18



There remains continuing feedback from both providers and consumers which indicates that there is still a community lack of understanding about the pricing (and cost) of residential care accommodation. This has had an effect with some providers not having an effective strategy for accommodation pricing.

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 should not directly correlate to a higher standard of direct care.*

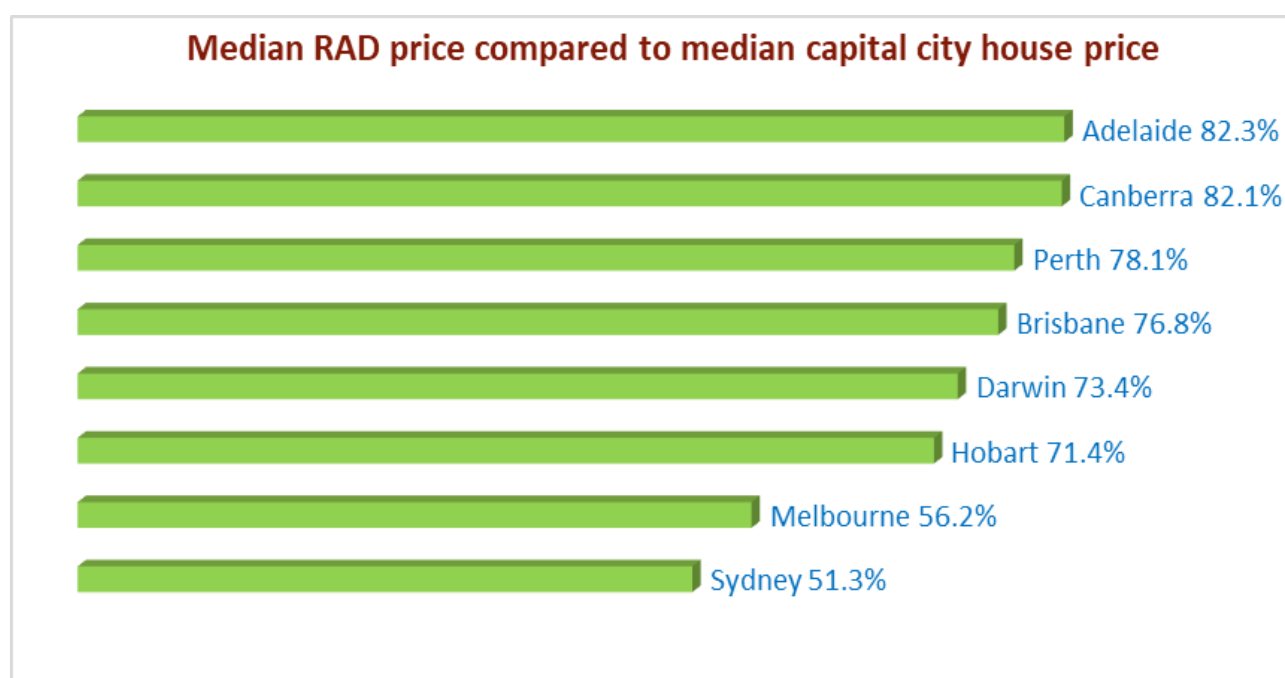
Accommodation pricing strategies need be more targeted to the appropriate return on the asset (building plus land value) and cognisant with local house or unit prices in the respective geographic area. The accommodation pricing strategy should also consider other factors such as:

- Amenity and general standard of accommodation offered
- Target market including linking standard of accommodation to prospective residents who are likely to pay for additional services
- Common areas and other facilities available to residents and their families
- Cost to build in the construction of the aged care home, and the quality of accommodation
- Level of competition in target catchment area

There still exists a gap in the accommodation pricing and the levels of housing prices. This should be a guide to increasing accommodation prices in a number of cities, notably Sydney and Melbourne, which will also have a flow-on effect to the neighbouring regional locations.

This is an opportunity to raise additional capital and increase revenues so accommodation pricing should be considered and reviewed regularly.

Figure 18: Median advertised accommodation pricing (RADs) compared to median housing price by State



## 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 and this has now been exacerbated by costs associated with fulfilling information requests, making submissions and attending hearings in relation to the Royal Commission.

It is likely that administration costs will continue increase for the remainder of this financial year due to increased compliance costs associated in relation to the new quality standards and greater scrutiny on direct care staffing costs and care service delivery by consumers and stakeholders. *The increased cost associated with the effects of the bushfires and COVID-19 virus is unable to be estimated at this time.*

Figure 19: Administration costs trend over time since Dec-14 (expressed as \$ per bed day)

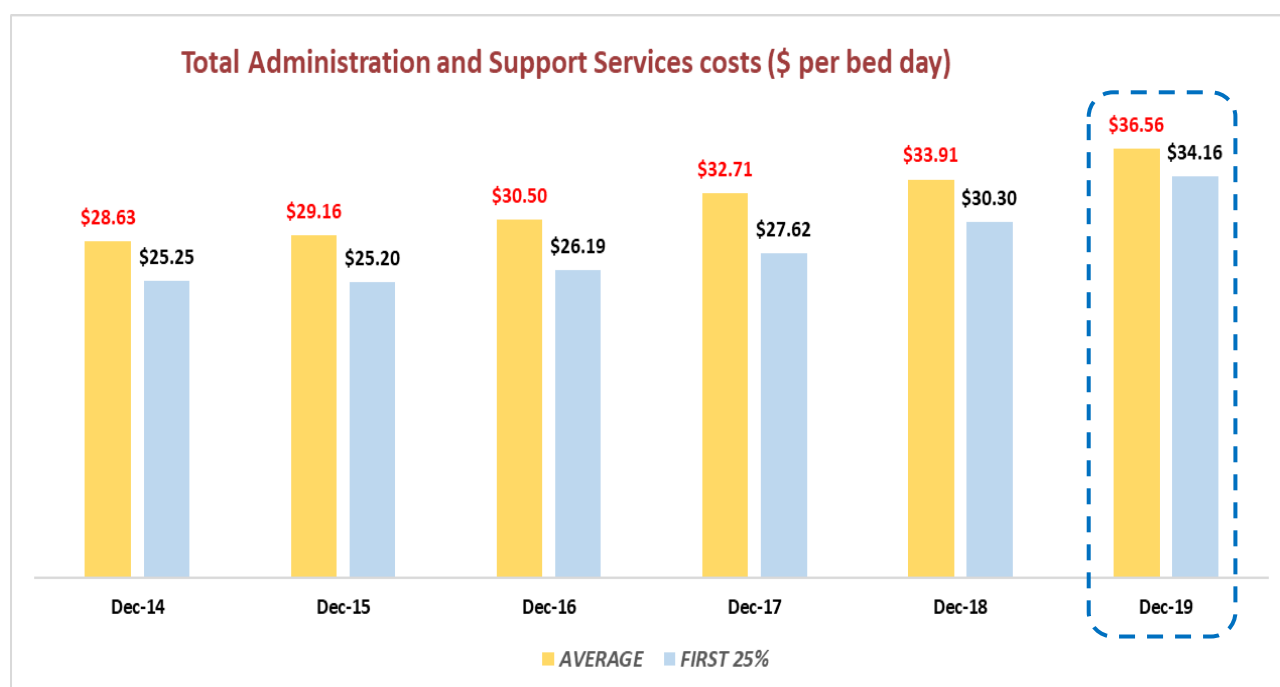


Table 10: Administration cost summary for Survey Average and Survey First 25% for Dec-19 and Dec-18 periods

	Survey Average		Survey First 25%	
	Dec-19 1,060 Homes	Dec-18 965 Homes	Dec-19 265 Homes	Dec-18 241 Homes
<b>ADMINISTRATION COST</b>				
Administration recharges	22.28	21.20	22.24	19.84
Labour costs - administration	7.14	6.70	6.10	6.00
Other administration costs	5.52	4.71	4.32	3.42
Workers' compensation - other	0.41	0.27	0.34	0.17
Quality & education - labour costs	0.04	0.04	0.03	0.03
Quality & education - other	0.02	0.02	0.01	0.02
Insurances	1.14	0.98	1.12	0.82
<b>TOTAL ADMINISTRATION COST</b>	<b>\$36.56</b>	<b>\$33.91</b>	<b>\$34.16</b>	<b>\$30.30</b>

## Operating Result after Administration Cost Allocation



### ACFI Result

Revenue	\$180.30
<b>Direct Costs</b>	
Wages	\$145.90
Other	\$8.58
<b>Total Direct Costs</b>	<b>\$154.48</b>
Administration Overhead	\$9.14
<b>Total Costs</b>	<b>\$163.62</b>
<b>Result</b>	<b>\$16.68</b>



### Everyday Living Result

Revenue	\$53.29
<b>Direct Costs</b>	
Hotel Services	\$43.72
Utilities	\$7.02
Property Maintenance	\$10.48
Quality & Education	\$0.20
<b>Total Direct Costs</b>	<b>\$61.42</b>
Administration Overhead	\$12.80
<b>Total Costs</b>	<b>\$74.22</b>
<b>Result</b>	<b>\$(20.93)</b>



**Care  
Result**  
**\$(4.25)**



### Accommodation Result

Revenue	\$32.51
<b>Direct Costs</b>	
Depreciation & Amortisation	\$18.11
Other	\$1.96
<b>Total Direct Costs</b>	<b>\$20.07</b>
Administration Overhead	\$14.62
<b>Total Costs</b>	<b>\$27.06</b>
<b>Result</b>	<b>\$(2.18)</b>



**Operating  
Result**  
**\$(6.43)**

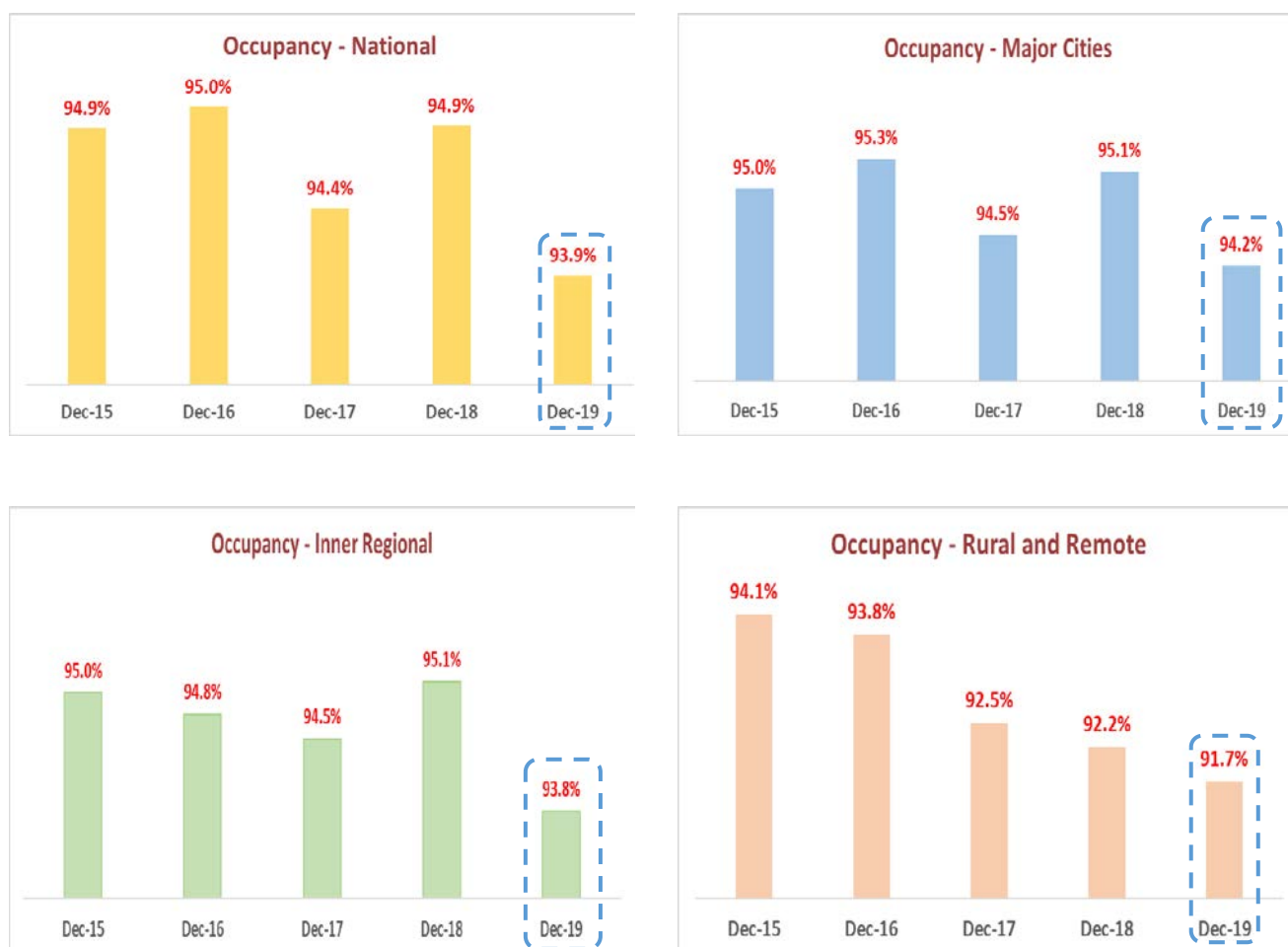
## Occupancy

The occupancy percentage has suffered a significant decline to be 93.92% nationally (94.93% at Dec-18)

*Please note that the DOH calculates occupancy on approved places (and unfilled places as advised by providers) whereas StewartBrown calculates the occupancy based on number of operational (available) places for mature homes, which excludes off-line places due to refurbishment or other strategic reasons.*

A trend analysis of occupancy levels at the national average and by geographic regions is included in the graphs below.

*Figure 20: Residential occupancy percentages for all aged care homes (national) and by geographic regions*



## 5. HOME CARE ANALYSIS

### Overview

For the Dec-19 six months period, there has been an improvement in the operating performance of Home Care Packages for the *Survey Average* (All) however there was a reduction in operating results for the *Survey First 25%* when compared to the Dec-18 comparative period.

The overall *Survey Average* operating result was a surplus of \$4.73 per client day (Dec-18 \$3.33 pcpd) whilst noting that the Sep-19 quarter had a surplus of \$6.35 pcpd, so there was an effective decline in performance for the December quarter.

The *Survey First 25%* had a decline in the surplus to \$15.81 pcpd (Dec-18: \$18.04 pcpd), and the December quarter also had a decline from the Sep-19 quarter result (\$21.38 pcpd).

### Revenue

- Total revenue decreased by 6.1% for *Survey Average* and by 9.7% for *Survey First 25%*
- Pricing pressure continues due to increased competition and pricing transparency reform
- Revenue utilisation decreased by 3.5% for *Survey Average* and 1.9% for *Survey First 25%*
- Higher average unspent funds (Dec-19 \$7,904 per client compared to Dec-18 \$6,827 per client) which would represent an aggregate in excess \$800 million nationally

### Expenses

- Total expenses decreased by 8.3% for *Survey Average* and by 9.1% for *Survey First 25%*
- Direct service staff costs decreased by \$4.58 pcpd (16.2%) for *Survey Average* and by \$3.65 pcpd (12.7%) for *Survey First 25%*
- Agency costs decreased by \$0.14 pcpd (6.6%) for *Survey Average* and by \$0.55 pcpd (34.9%) for *First 25%*
- Cost of direct service and brokered/sub-contracted as a percentage of total revenue has decreased by 2% to 59.0% for *Survey Average* and by 2.2% to 50.8% for *Survey First 25%*
- Decrease in case management and advisory \$0.21 pcpd (reduction in staff costs) for *Survey Average* and an increase of \$1.56 pcpd (27.2%) for *Survey First 25%*
- Decrease in administration costs of \$1.56 pcpd for *Survey Average* and \$1.66 pcpd for *Survey First 25%*

*Table 11: Summary KPI Results for Dec-19 Survey (all programs)*

	Jun-19 34,999 packages	Dec-19 34,339 packages	Dec-18 27,164 packages		Difference (YoY)
Total revenue \$ per client per day	\$72.22	\$71.86	\$76.52	↓	(\$4.66)
NPBT per client per day	\$3.65	\$4.73	\$3.33	↑	\$1.40
EBITDA per client per annum	\$1,474	\$1,887	\$1,373	↑	\$515
Average total staff hours per client per week	6.10	5.79	6.69	↓	(0.90)
Median growth rate	6.84%	12.00%	6.25%	↑	5.8%
Revenue utilisation rate for the period	89.3%	85.4%	88.9%	↓	(3.5%)
Average unspent funds per client	\$6,995	\$7,904	\$6,827	↑	\$1,078
Cost of direct care & brokered services as % of total revenue	61.7%	59.0%	61.0%	↓	(2.0%)
Case management & coordination costs as % of total revenue	9.2%	10.2%	9.9%	↑	0.4%
Administration & support costs as % of total revenue	23.5%	23.6%	24.2%	↓	(0.6%)
Profit Margin	5.1%	6.6%	4.3%	↑	2.2%

## Financial Performance Measures

The following figures provide an analysis of the financial performance (profitability) for the Survey Average (all packages) based on several metrics.

Figure 21: Comparison of Operating Profit for Survey Average for periods ending Dec-19 and Dec-18

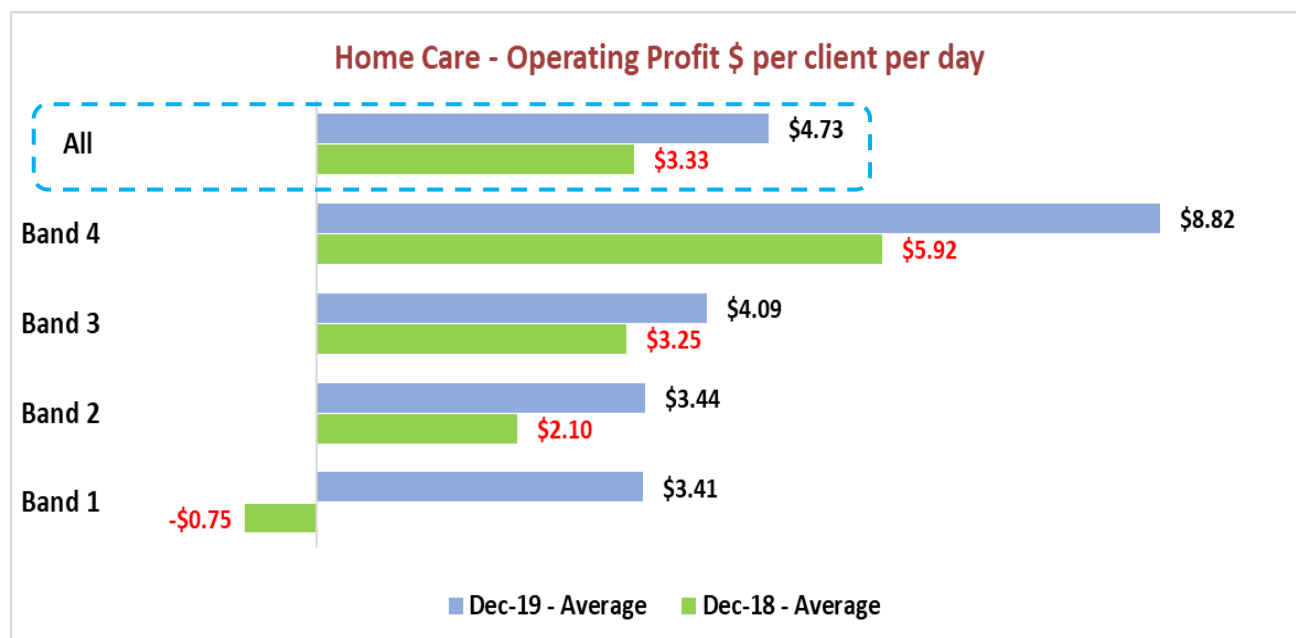


Figure 22: Comparison of EBITDA for Survey Average for periods Dec-19 and Dec-18

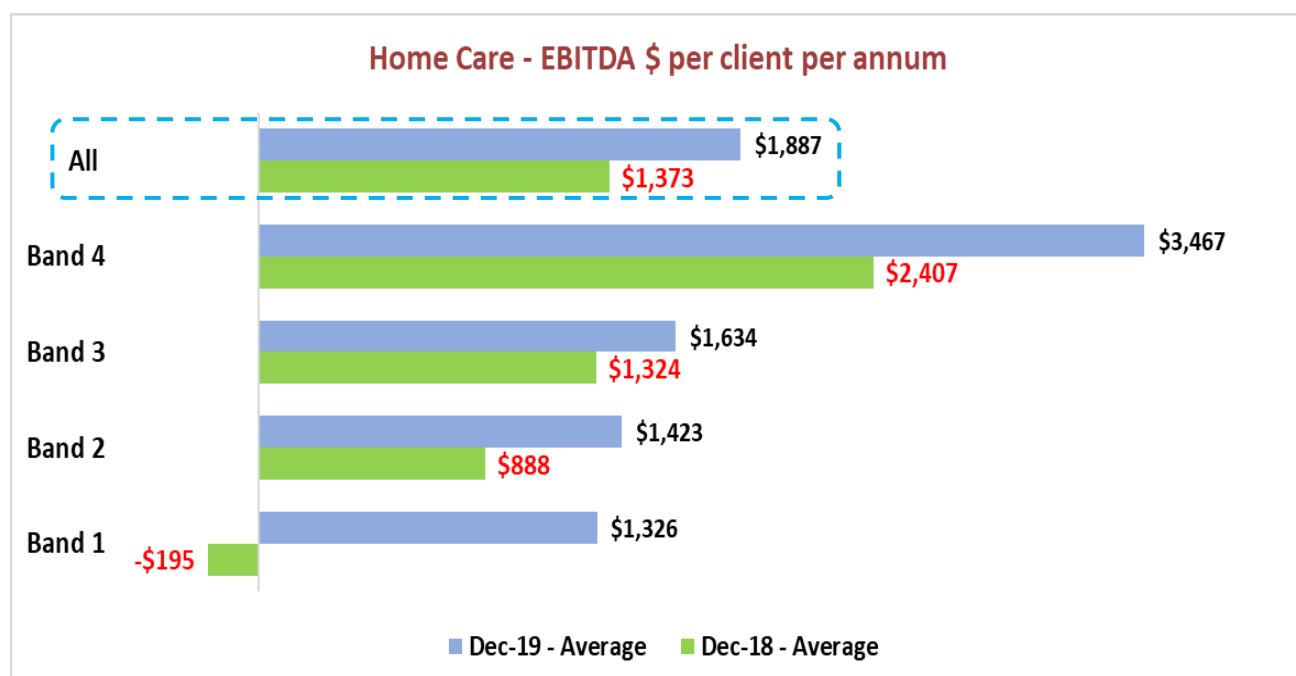
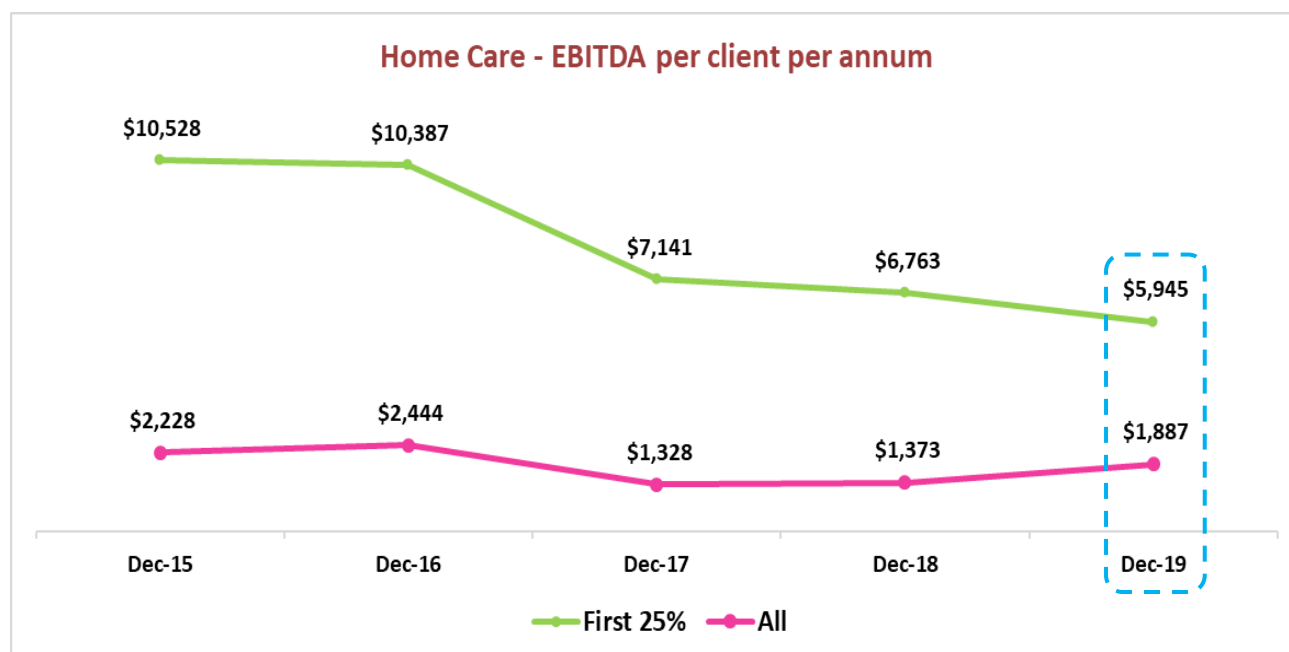




Figure 23: Comparison of Survey Average and Survey First 25% EBITDA (\$ per client per annum) trends



The trend graph above clearly shows the initial decline, then rise, in operating results since the introduction of Consumer Directed Care, both movements being more pronounced with the Survey *First 25%* than the Survey *Average*.

## Operating Results for Survey *First 25%*

Table 12: Summary KPI Results for Dec-19 Survey for First 25%

	Jun-19 5,963 packages	Dec-19 7,097 packages	Dec-18 4,719 packages	Difference (YoY)
Total revenue \$ per client per day	\$90.05	\$84.03	\$93.05	↓ (\$9.02)
NPBT per client per day	\$18.28	\$15.81	\$18.04	↓ (\$2.22)
EBITDA per client per annum	\$6,855	\$5,945	\$6,763	↓ (\$817)
Average total staff hours per client per week	6.55	6.52	6.96	↓ (0.44)
Median growth rate	7.55%	14.29%	2.92%	↑ 11.4%
Revenue utilisation rate for the period	89.9%	87.7%	89.5%	↓ (1.9%)
Average unspent funds per client	\$6,990	\$7,606	\$6,009	↑ \$1,596
Cost of direct care & brokered services as % of total revenue	51.4%	50.8%	53.0%	↓ (2.2%)
Case management & coordination costs as % of total revenue	7.3%	8.7%	6.1%	↑ 2.5%
Administration & support costs as % of total revenue	20.5%	21.2%	21.0%	↑ 0.3%
Profit Margin	20.3%	18.8%	19.4%	↓ (0.6%)

The operating performance of the Survey *First 25%* for Dec-19 period improved when compared to Dec-18, however has declined since June-19. The predominant reasons relate to reduced revenue per client day (9.7%) and revenue utilisation (1.9% reduction to 87.7%) which has resulted in increased unspent funds per client (\$1,596 increase).

Figure 24: Comparison of Operating Profit for Survey First 25% for periods ending Dec-19 and Dec-18

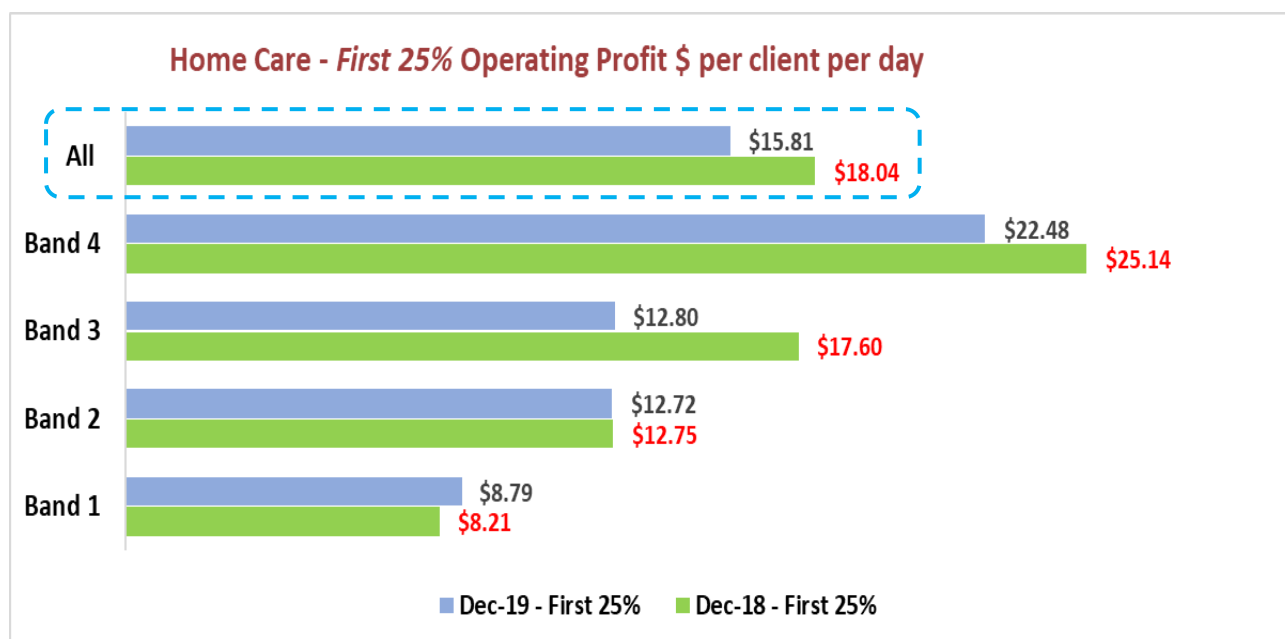
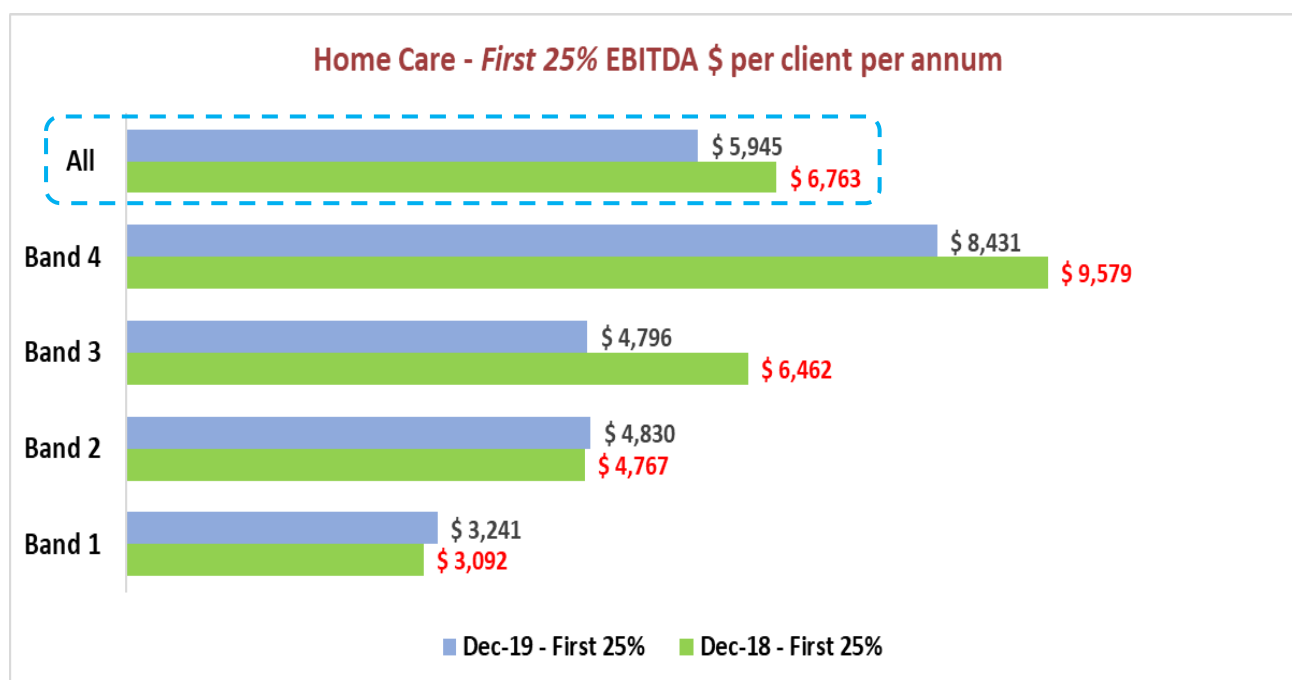


Figure 25: Comparison of EBITDA for Survey First 25% for periods ending Dec-19 and Dec-18

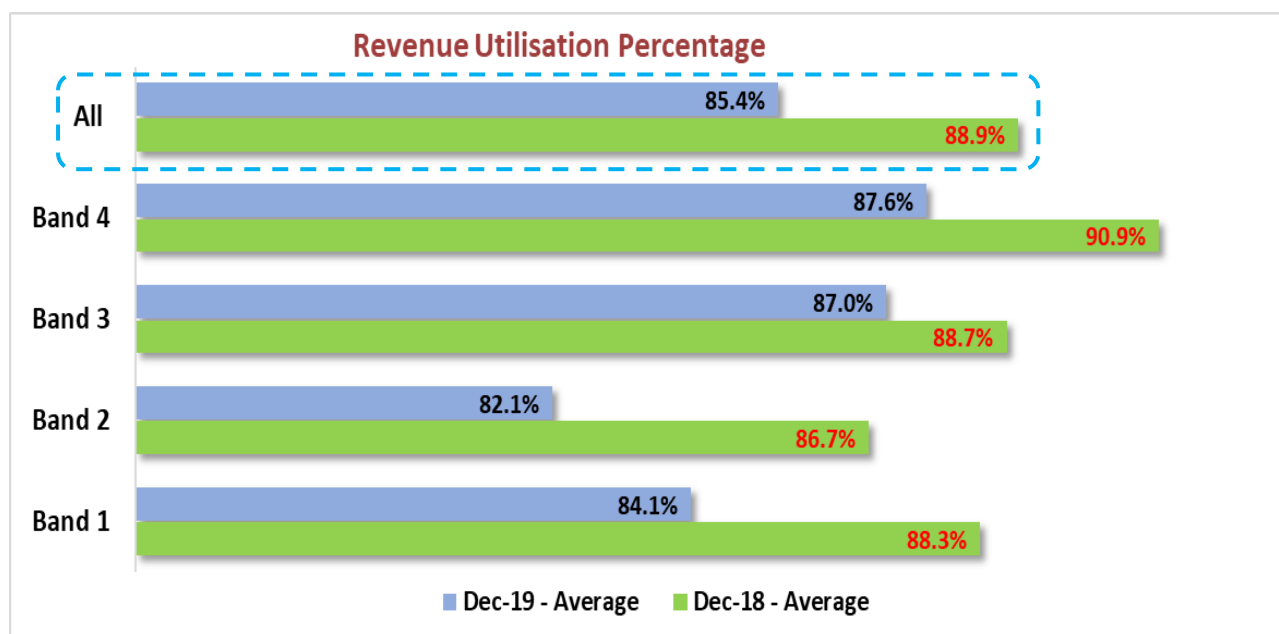


## Revenue Utilisation

Revenue utilisation has further decreased to 85.4% at Dec-19 (Survey First 25% was 87.7%). This continues to affect profitability due to the fixed overhead costs not being spread over increased revenues and variable costs remaining proportional to revenue levels.

As noted in previous reports, there requires an ongoing improvement in revenue utilisation to be a strategic priority for the remainder of FY20 and beyond, and if possible, this should be through the provision of additional services directly by providers based on the care needs and agreed services of the care recipient.

Figure 26: Revenue Utilisation comparison for Dec-19 and Dec-18



## Unspent Funds

As noted by the Government in the recent reform consultations in relation to the funding model, the continued increase in the quantum of unspent funds per client is a major issue. The average unspent funds per care recipient has risen for the Dec-19 period to \$7,904.

StewartBrown estimates the unspent funds liability at the end of the Dec-19 period to be in aggregate in excess of \$800 million and this is likely to be over \$900 million as at FY20 year-end in the current funding model. Most of this balance of unspent funds relates to home care subsidies and if these are not being utilised for direct care delivery they could be diverted toward those care recipients on the national prioritisation queue that do not yet have access to in-home care funding.

Figure 27: Survey Average Unspent Funds per client as at Dec-19 and Dec-18

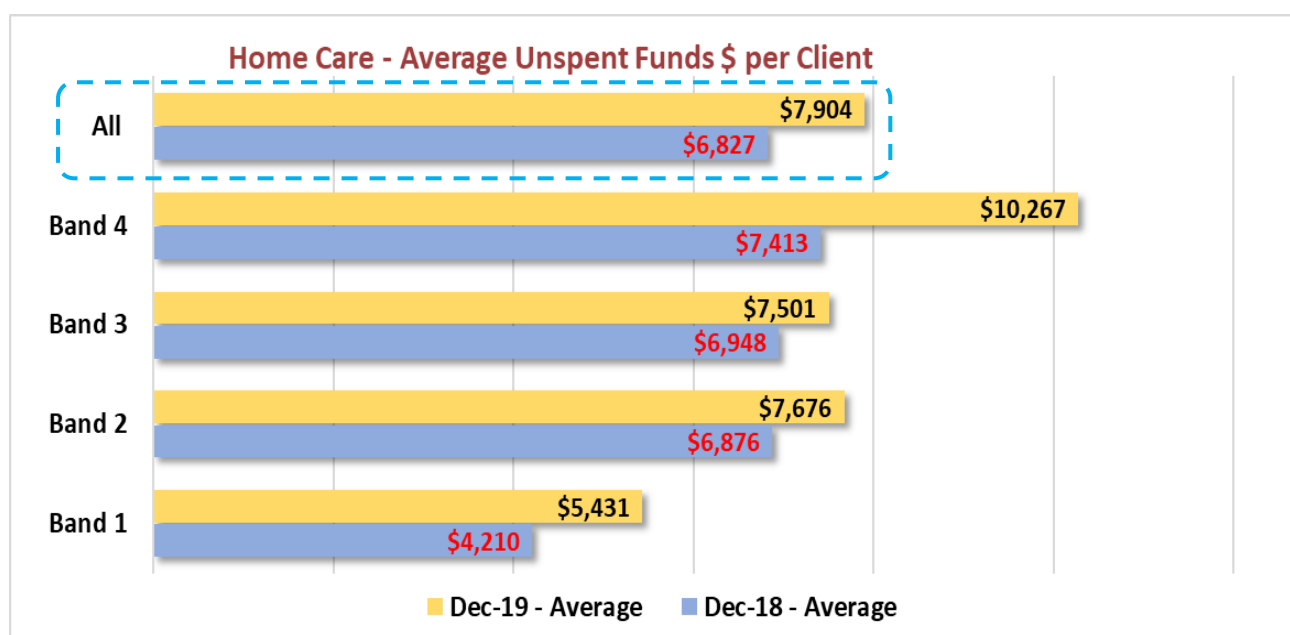
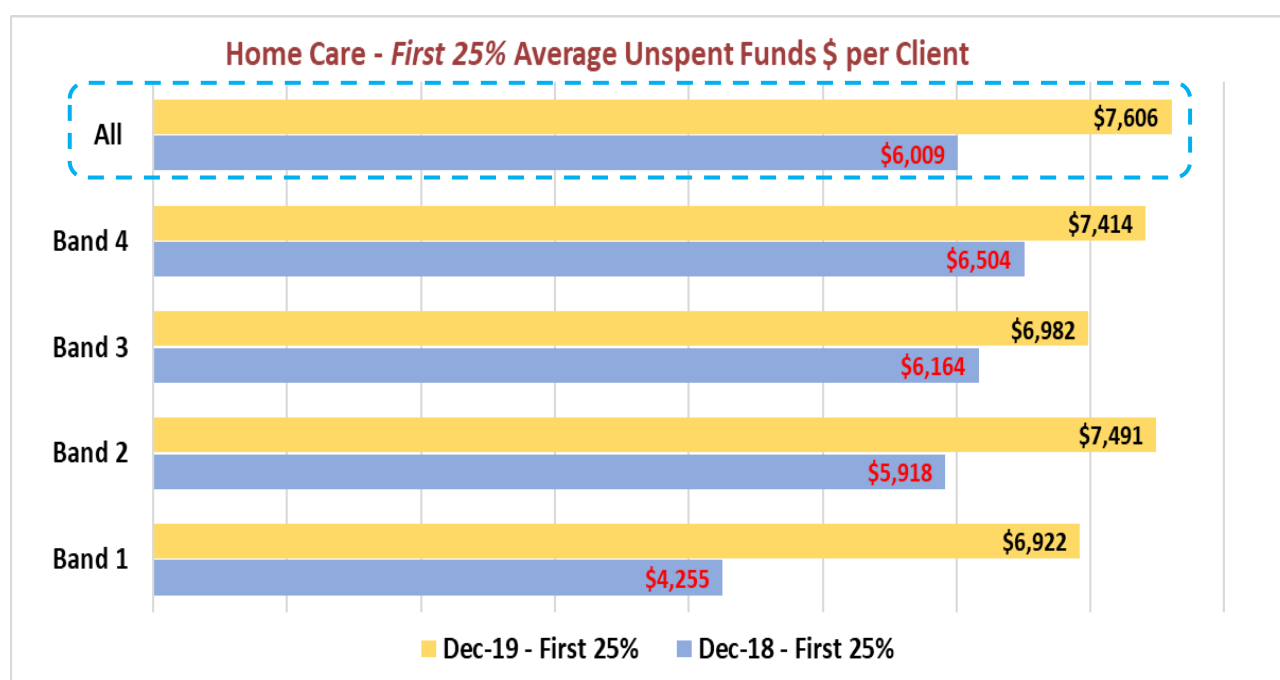


Figure 28: Survey First 25% Unspent Funds per client as at Dec-19 and Dec-18



### Comment

The aggregate and increasing level of unspent funds continue to remain the most significant issue, from both a service delivery and financial performance perspective.

From a care recipient's perspective, large unspent funds could be a result of not fully utilising the subsidy for the overall package of care and support that it is intended to provide based on the ACAT assessment. We still note that the estimate of only between 8% - 12% of unspent funds are later utilised by a care recipient. The remainder is often used for capital purchases or by majority returned to the government because the consumer moves out of in-home care.

From a provider's perspective, unspent funds has a direct effect on the profitability (and sustainability) of their home care operation. As the fixed costs for each client (care recipient) have already been absorbed then should the funds be utilised only the additional variable costs would be incurred. We estimate the additional variable costs would be in the order of 35% - 40% with the balance being margin (profit).

It is anticipated that all providers would prefer to either deliver care services commensurate to the funding or have the under-utilised funds reallocated to other new care recipients who are currently awaiting packages.

Another related issue is that due to the high level of unspent funds per care recipient, there is a reluctance by some providers to levy (and consumers to be charged) a client contribution (basic daily care fee), as it would effectively only add to the quantum of unspent funds. In some cases there have been instances where the means-tested fee also has not been levied for the same reason.

This practice distorts the overall funding model and discourages the notion of consumers "co-contributing" to their care needs.

## Staff Hours Worked per Care Recipient

Direct service hours per care recipient per week has declined to 4.33 hours (on average) for the Dec-19 quarter compared to 5.05 hours for the corresponding Dec-18 period and 4.59 hours for FY19.

A decrease in administration and support staff hours was observed across the Survey for the Dec-19 period, and there has been a further fall in hours when compared to the Dec-18 quarter.

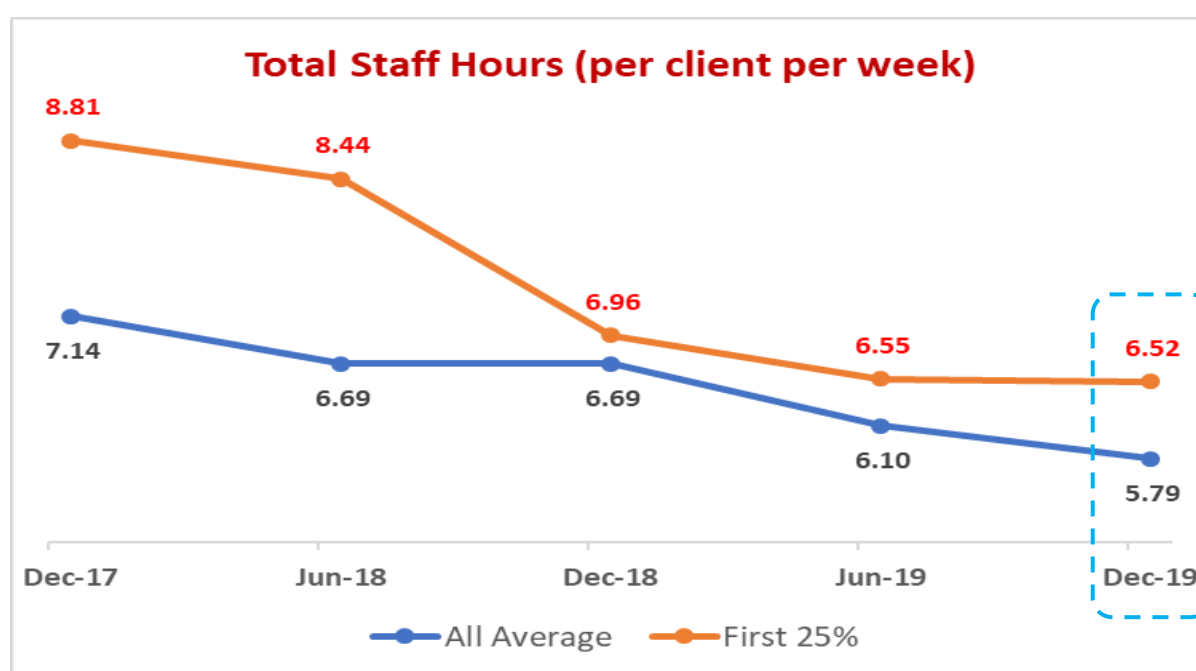
*It is important to note that the staffing hours are for direct care service delivery by providers to clients (care recipients). These hours do not include sub-contract services which may include home maintenance, cleaning, social support and allied health. Sub-contractors as well as providers perform these services.*

Table 13: Home Care Staff Hours per care recipient per week for Dec-19 and Dec-18 (Survey Average and First 25%)

Survey (Average)					
	Jun-19	Dec-19	Dec-18		Difference
Direct service provision	4.59	4.33	5.05	↓	(0.72)
Agency	0.25	0.21	0.18	↑	0.03
Case management & coordination	0.80	0.80	0.94	↓	(0.14)
Administration & support services	0.47	0.45	0.52	↓	(0.07)
<b>Total Staff Hours</b>	<b>6.10</b>	<b>5.79</b>	<b>6.69</b>	↓	<b>(0.90)</b>

Survey (First 25%)					
	Jun-19	Dec-19	Dec-18		Difference
Direct service provision	5.07	4.97	5.41	↓	(0.44)
Agency	0.18	0.14	0.10	↑	0.04
Case management & coordination	0.92	0.92	0.91	↑	0.01
Administration & support services	0.38	0.49	0.53	↓	(0.04)
<b>Total Staff Hours</b>	<b>6.55</b>	<b>6.52</b>	<b>6.96</b>	↓	<b>(0.44)</b>

Figure 29: Survey First 25% Unspent Funds per client as at Dec-19 and Dec-18



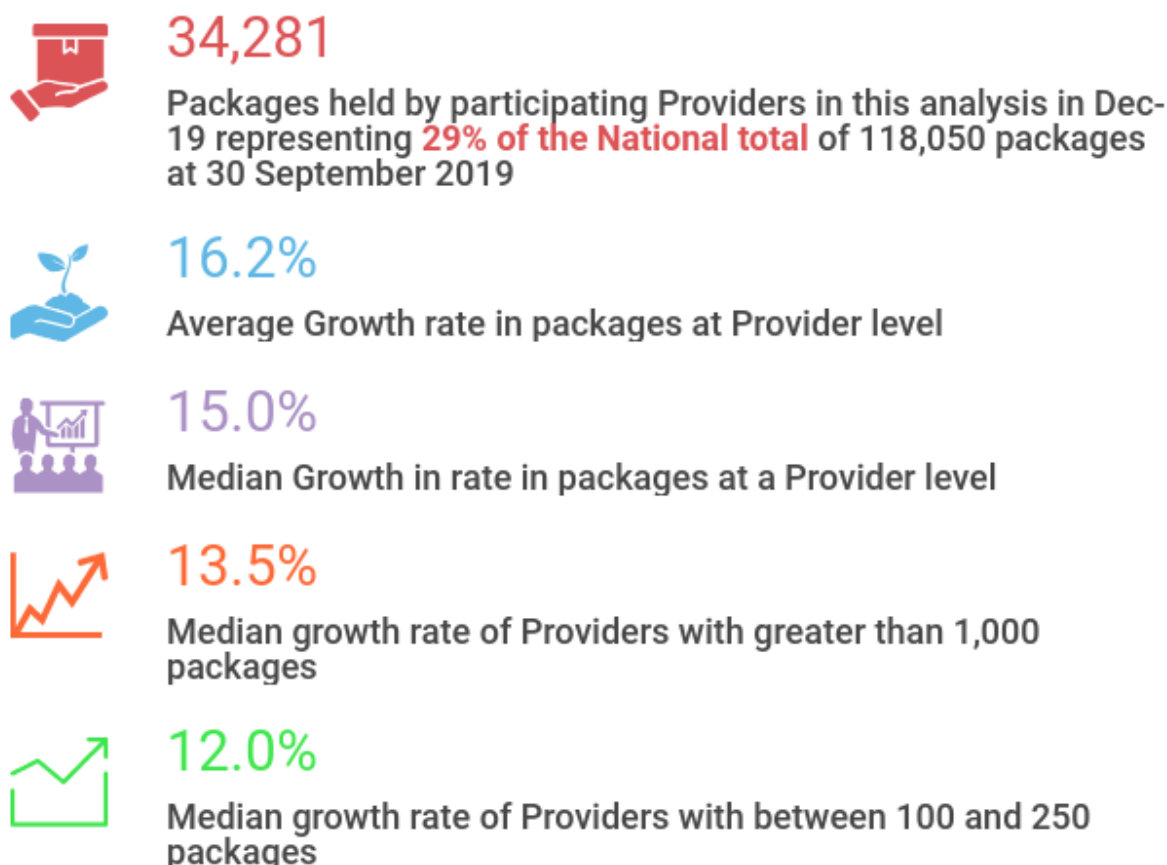
## Package Growth

The latest GEN Home Care Packages Program Data Report for the first quarter 2019-20 state that there has been a 30.2% growth in the number of persons in a home care package in the twelve months to September 2019. In the September 2019 quarter the package growth was 10.6%. For providers this type of growth is also being achieved with average growth rates for the six months to Dec-19 of 16.2%.

The growth in the current financial year has been a result of significant increases in package numbers in the last quarter of 2019 and further package releases in the first quarter of 2019-20. There was an increase of 11,343 persons in a home care package in the September 2019 quarter on the back of a release of 47,700 packages in the June 2019 quarter. It could be expected that this uptake of packages would have continued in the December 2019 quarter (data from the Government on the Dec-19 quarter is not yet available).

The package growth for providers is included in the following graph.

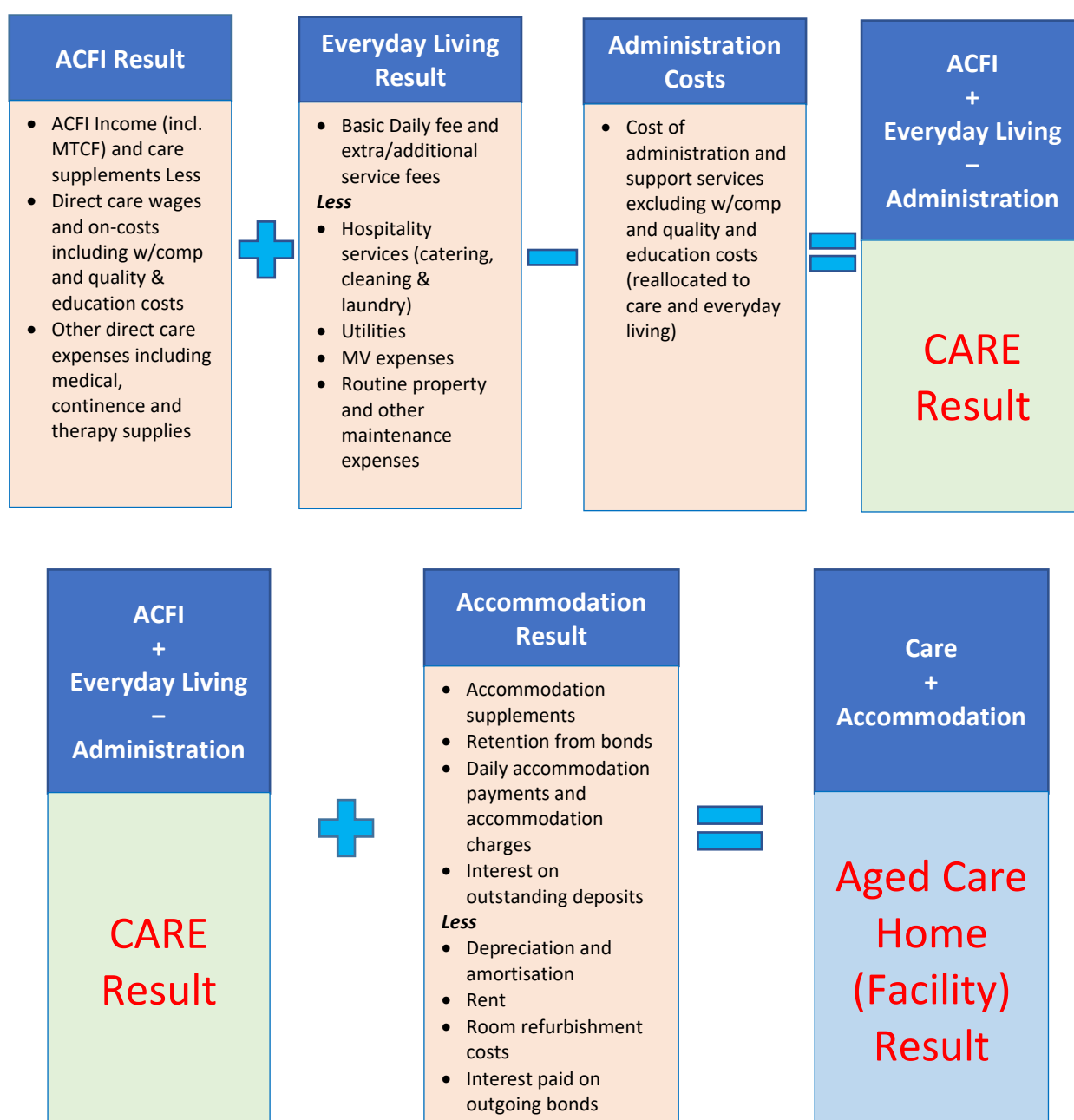
*Figure 30: Home Care Package growth for the Dec-19 six month period*



## 6. GLOSSARY

### Aged Care Home (ACH Result, or Facility Result)

The **Aged Care Home (ACH Result, or Facility) Result** is made up of the components shown in the diagram below. The **Care Result** is derived from the resident acuity (care) needs; the **Accommodation Result** is derived from revenue streams not directly related to resident acuity, but to the resident's financial ability to pay for residential accommodation.





**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.

**ACH Result**

This refers to the Operating Result may also be referred to as the net result or the **NPBT** Result.

**ACH EBITDAR**

The same as Facility EBITDAR. The starting point for this calculation is the Aged Care Home (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 aged care homes (facilities) because it excludes all those items which are generally allocated at the aged care home (facility) level on an inconsistent and arbitrary basis depending on the policies of the individual provider.

**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.

**Aged Care Home**

Individual discrete premises that an approved provider uses for residential aged care. “Aged Care Home” is the term approved at the Department of Health; in some contexts “Facility” is used, with an identical meaning.

**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 aged care homes in the group. For example, the average for contract catering across all homes would be the total amount submitted for that line item divided by the total occupied bed days for all aged care homes 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 aged care homes that provide data for that line item. All other measures are *averaged* across all the homes 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 aged care homes (facilities) / programs in Band 4, then the benchmark would be the average of the *First 25%* of the aged care homes (facilities) / programs in Band 4.

### **Benchmark Bands**

#### *Residential Care*

Based on Average ACFI + Care Supplements (including respite) (\$ per bed day)

Band 1 - Over \$190

Band 2 - Between \$175 and \$190

Band 3 - Between \$160 and \$175

Band 4 - Under \$160

#### *Home Care*

Based on Total Revenue (Direct Care + Brokered + Case Management + Administration) (\$ per client day)

Band 1 - Under \$47

Band 2 - Between \$47 and \$67

Band 3 - Between \$67 and \$87

Band 4 - Over \$87

### **Care Result**

This is the element of the aged care home (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 aged care homes (facilities). The denominator used in this measure is the number of occupied bed days for any home (facility) or group of homes (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.

### **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 “aged care home (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 aged care home (facility) EBITDAR for the financial year to date divided by the number of operational beds in the aged care home (facility).

**NPBT**

Net Profit Before Tax. For the context of the Survey reports, NPBT is referred to as Operating Result or net result or, in the aged care home (facility) analysis, as the ACH Result (Aged Care Home, or Facility) Result.

**Facility**

An aged care home is sometimes called a “facility” for convenience. The Facility Result is the result for each aged care home being considered. Often called Aged Care Home and abbreviated to ACH.

**Facility EBITDAR**

The same as ACH EBITDAR. The starting point for this calculation is the Aged Care Home (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 aged care homes (facilities) because it excludes all those items which are generally allocated at the aged care home (facility) level on an inconsistent and arbitrary basis depending on the policies of the individual provider.

**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% - Home Care Packages (HCP)**

Home Care results (NPBT) are distributed for the Survey period from highest to lowest by \$ per client per day (\$pcd). This is then divided into quartiles - the *First 25%* is the first quartile, 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 NPBT result.

**First 25% - Residential Care**

The Residential Care results are distributed for the Survey period from highest to lowest by Care Result. This is then divided into quartiles - the *First 25%* (the first quartile), second 25%, third 25%, fourth 25% and the average of each quartile is reported. The *First 25%* represents the quartile of homes with the highest Care Result.

**Location - City**

Aged care homes 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**

Aged care homes 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*.

## 7. 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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