Aged Care Financial Performance Survey

Aged Care Sector Report

Celebrating 80 YEARS 1939 to 2019

The StewartBrown June 2019 *Aged Care Financial Performance Survey* incorporates detailed financial and supporting data from over 1,102 aged care homes and over 34,999 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 financial year ended 30 June 2019

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SECTION 1. HIGHLIGHTS

Key Results From FY19 Survey

Approved Provider Aggregated Balance Sheet

170
Providers included in the data set

$24.1billion
Total Liabilities
(FY18: $22.4 billion)

$10.8 billion
Total Revenue
(FY18: $10.1 billion)

$12.2 billion
Net Assets
(FY18: $11.96 billion)

$7.5 billion
Cash and Financial Assets
(FY18: $7.9 billion)

$19.7 billion
Refundable Resident Loans
(FY18: $18.3 billion)

$25.5 billion
Property Assets
(FY18: $23.4 billion)

$1.2 billion
Borrowings
(FY18: $1.1 billion)

$1.5 billion
Intangible Assets
(FY18: $1.4 billion)

$36.3 billion
Total Assets
(FY18: $34.4 billion)

Approved Provider Results

($1,397k)
Average Operating Surplus
(FY18: $161k)

0.9%
Operating EBITDA Return on Assets
(FY18: 1.4%)

$1,921k
Average Operating EBITDA
(FY18: $2,665k)

35.6%
Liquid cash and financial assets as % of debt
(FY18: 40.5%)

(0.7%)
Operating Surplus Return on Assets
(FY18: 0.1%)

Residential Aged Care

Excluding 9.5% one-off ACFI grant	*Including 9.5% one-off ACFI grant*
($2.62) deficit Aged Care Home (ACH) Result per bed day for *Survey Average* (FY18: $2.37 surplus)	**$2.11 surplus** Aged Care Home (ACH) Result per bed day for *Survey Average* (FY18: $2.37 surplus)
$25.72 ACH Result per bed day for *First 25%* (FY18: $30.26)	**$30.69** ACH Result per bed day for *First 25%* (FY18: $30.26)
$5,531 ACH EBITDAR per bed per annum for *Survey Average* (FY18: 6,760)	**$7,164** ACH EBITDAR per bed per annum for *Survey Average* (FY18: 6,760)
$15,269 ACH EBITDAR per bed per annum for *First 25%* (FY18: $16,570)	**$17,020** ACH EBITDAR per bed per annum for *First 25%* (FY18: $16,570)
24.3% Proportion of Homes with negative ACH EBITDAR (FY18: 21%)	**20%** Proportion of Homes with negative ACH EBITDAR (FY18: 21%)
53.3% Proportion of Homes with negative ACH Result (FY18: 45.1%)	**43.8%** Proportion of Homes with negative ACH Result (FY18: 45.1%)

Home Care

$3.65

NPBT per client day for *Survey Average*
(FY18: $3.77)

$18.28

NPBT per client day for *First 25%*
(FY18: $17.77)

$1,474

EBITDA per client per annum for *Survey Average*
(FY18: $1,524)

$6,855

EBITDA per client per annum for *First 25%*
(FY18: $6,488)

$6,995

Survey *Average* for unspent funds
(FY18: $6,022)

89.3%

Survey Average revenue utilisation
(FY18: 86.7%)

9.2%

Case management costs as % of income
(FY18: 9.7%)

23.5%

Administration costs as % of income
(FY18: 23.4%)

Survey Analytics

FY19 Survey

Residential Aged Care

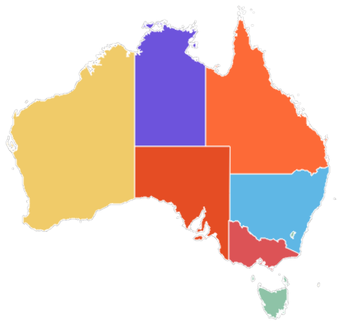
Data from 1,102 Facilities

More than 40% of the residential aged care sector represented

Organisational Data

Data from 170 Approved Provider organisations

More than 19% of the residential sector represented



Home Care

Data from 34,999 Home Care packages

More than 34% of the home care sector represented

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 involving a detailed analysis of the FY19 operating income and expenses of participants including a review of assets and funding engaged in providing aged care aged care homes. The Survey covered the following participation:-

- 193 approved providers
- 1,102 residential aged care homes *(57 additional aged care homes were excluded due to their operational circumstances)*
- 34,999 home care packages *(443 packages excluded)*
- Comparisons with 3 listed aged care entities (Estia/Japara/Regis)

In respect of residential care, participants to the Survey represent approximately 43% of aged care homes within Australia. The profile of the residential care participants, based on the geographical spread, is:-

Table 1: Residential Care Survey Metrics

Number of aged care homes / ABS Remoteness	Major City	Inner Regional	Rural & Remote	Total
StewartBrown Residential Care Survey				
Total Survey aged care homes	**713**	**274**	**115**	**1,102**
Aged care homes included	676	261	108	1,045
Aged care homes excluded	37	13	7	57
State/local government	0	6	15	21
Survey less state/local government (A)	**713**	**268**	**100**	**1081**
GEN Aged Care Data Service Listing (30 June 2019)				
Total	**1,697**	**656**	**365**	**2,718**
State/local government	34	114	90	238
Service Listing less state/local government (B)	**1,663**	**542**	**275**	**2,480**
Coverage % = (A)/(B)	**42.9%**	**50.6%**	**41.8%**	**44.4%**

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)
- Approved Provider Report (bi-annual)
- Listed Provider Analysis Report (bi-annual)
- Corporate Administration Report (every second year)
- Managing Prudential Risk in Residential Aged Care *(submission to Department of Health)*

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

SECTION 2. EXECUTIVE SUMMARY

Abstract

This Aged Care 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 2019.

The analysis and trends included in this report are at the aggregate (consolidated) level including the approved provider performance, residential aged care and home care package financial and operational results. The Survey participants receive specific comparative data relevant to their location, size and the respective individual aged care home(s) and home care programme(s) within their organisation, including access to an inter-active website.

The Survey highlights that the financial performance of the aged care sector continues to experience significant challenges due to further declines in the financial results in both the residential care and home care segments.

The aged care sector is under a high level of financial stress, creating viability concerns for some approved providers, reducing the investment in the sector and potentially causing dislocation of care recipients and staff if an approved provider fails.

The deteriorating financial performance comes with a backdrop of the ongoing *Royal Commission into Aged Care Quality and Safety* which to date has highlighted concerns over staffing levels due to standards of care practices in certain circumstances.

The necessary reform agenda, including substantial and appropriate funding initiatives, needs to progress during the Royal Commission period rather than delaying until their findings and recommendations are tabled, to then be considered by Parliament and sector stakeholders, which may be some years away. The aged care sector does not have the luxury of time as many of the issues being experienced are increasingly of a long-term nature and, accordingly, will require structural changes to remedy.

FY19 Survey Results Summary

The financial performance of the aged care sector, and specifically the residential care segment continues to be a significant concern. The residential care operating results for FY19 declined in real terms even after the $320 million subsidy injection for the last quarter. Without further targeted and required funding initiatives, including from both the government and consumer, the forecast trends are such that the continued viability of a number of approved providers may be under substantial strain.

When analysing the FY19 results for residential aged care, we have placed greater emphasis on the adjusted results excluding the "one-off grant" (which was an effective 9.5% increase on ACFI and related supplements for the fourth quarter). The rationale for this being that the grant injection ceased at 30 June 2019 and forecasts and financial performance for FY20 and beyond must be based on the actual revenue streams as they now stand.

What is clear, though, is that the one-off grant injection in an overall sense only allowed the residential aged care sector to maintain the FY18 operating results, which in itself is not nearly sufficient for sector growth or financial sustainability.

It also needs to be noted that FY18 did not include a COPE (inflation) adjustment on the ACFI subsidy, so in many ways should have been the low point, and accordingly to only maintain this financial performance level after a one-off grant injection represents a poor result.

The home care segment has experienced a further reduction in the average operating surplus for FY19 and given the likely future home care reforms, the ongoing performance of home care providers will also require monitoring.

The following is a summary of the key financial performance results and indicators by segment from participants in the FY19 *Aged Care Financial Performance Survey*.

Approved Provider - Aggregate Results

- Operating surplus* reduced from an average $161k surplus to a deficit of $1,397k, a decrease of $1,558k
- Operating EBITDA (cash flow from operations surplus) reduced by $744k to $1,921k surplus
- Operating surplus expressed as a return on assets employed has reduced from 0.1% positive to negative 0.67%. The ACFA total residential care sector FY18 return on assets was negative (0.4%) and is also expected to decline for FY19
- Operating EBITDA return on assets has reduced by 0.5% to 0.9% (FY18: 1.4%)
- Liquid cash and financial assets as a percentage of debt (refundable loans, borrowings and CDC liability) has reduced by 4.9% to 35.6% (FY18: 40.5%). The listed entity ratio reduced by 0.2% to 1.5% (FY18: 1.7%)

**Operating surplus/ deficit excludes non-recurrent revenues and expenses revaluations/ donations/ impairment etc)*

Residential Care

- Average ACFI per bed day (pbd) for Survey participants increased by $5.22 pbd to $177.79 pbd
- The one-off grant increased ACFI revenue further by an average of $4.73 pbd
- Occupancy levels for survey participants remained neutral (94.4% average occupancy)
- Total care hours per resident per day increased by 0.07 hours to 3.13 hours (FY18: 3.06 hours)
- ACFI direct care services costs increased by 6.2% to $148.95 pbd
- Costs for providing everyday living services exceeded revenue by $8.45 pbd
- Average Net Profit Before Tax (NPBT) for aged care homes (the overall ACH Result) reduced by $1,720 per bed per annum (pbpa) to a loss of $904 pbpa excluding the one-off grant (FY18: $816 pbpa)
- Including the one-off grant the average ACH Result was a surplus of $728 pbpa which is still lower than the FY18 ACH Result
- Average EBITDAR for aged care homes reduced by $1,229 pbpa to $5,531 pbpa (FY18: $6,760 pbpa)

- Excluding the one-off grant
  - 53.3% of aged care homes recorded a negative ACH Result for FY19 (45.1% for FY18)
  - 24.3% of aged care homes recorded a negative EBITDAR (21.0% for FY18*) (representing a cash loss)*
  - 74.1% of Rural & Remote aged care homes recorded a negative ACH Result *(49.1% recorded a cash loss)*
  - Almost half, (49.1%) of all aged care homes in Major Cities recorded a negative ACH Result
- The one-off grant has temporarily decreased these percentages, however in future quarters they are likely to be close to the above figures or even greater

Home Care Packages

- Revenue per client per day (pcpd) average for Survey participants increased by 4.6% (being $3.17 pcpd)
- The average NPBT per client day for survey participants reduced by $0.12 pcpd to $3.65 pcpd (FY18: $3.77 pcpd)
- Direct service costs increased by $0.88 pcpd (61.7% of total revenue)
- Revenue utilisation has improved by 2.6% to 89.3%
- The average unspent funds per client has increased by $973 per client (to average $6,995 per client)
- Staff hours per client per week reduced by 0.59 hours (average 6.10 hours per week)
- In the year to March 2019, the number of persons in home care packages has increased by 14,139. The participants in the StewartBrown survey have seen an increase of 3,078 packages in FY19, and an average increase of 9.8% across all the providers in the survey
- 48% of clients transitioned to an aged care home (45% in FY18)
- 11% of clients transferred to another provider (9% in FY18) - the majority being due to change of place of residence
- 30.4% of home care providers recorded a negative NPBT for FY19 (31.6% for FY18) at the consolidated programme level

Commentary on Results

The FY19 financial results for the sector indicate clearly that there has been a further systemic deterioration in the underlying operating results of aged care providers and that the current funding model in residential aged care continues to be under significant strain. Both residential care and home care experienced declines in financial performance, although the quantum and reasons differed.

Residential Care

Despite a one-off Government grant in the form of a 9.5% subsidy from 20 March 2019 to 30 June 2019, the residential care sector has experienced a decline in the Aged Care Home Result - excluding the one-off grant, it becomes a significant decline. This is mainly due to funding pressures on the revenue side with revenue increasing at a much lower rate than costs. In particular, the underlying ACFI revenue increased by 2.9% pa compared to increases in ACFI services costs of 6.2% pa.

The one-off grant increased ACFI revenue by a further 2.8% ($4.73 per bed day) on average. Whilst this has improved what are otherwise rather bleak results, there are currently no announced initiatives for aged care homes to receive this same (or greater) revenue boost in FY20, and as such future results are likely to be more in line with the underlying trends based on the FY19 results excluding the one-off grant.

Average ACFI subsidy revenue has increased to $177.79 per bed day (an increase of $5.17 per bed day) due to an increase in COPE (1.17%) and a small increase in acuity (care) levels particularly in homes with lower average ACFI & Supplements. This is a marked change from the period 2008 - 2016 when there was a sustained period of significant increases in ACFI as elderly people aged in place, and there was a significant shift in the acuity levels of persons being admitted into care. Over the past three years ACFI subsidy levels have largely stabilised both due to changes to the funding instrument itself and the fact that the acuity levels of incoming and existing residents have to some degree peaked.

Costs rose as expected due to Enterprise Agreement staff rate increases, CPI increases for other expenses except for electricity which was well above the underlying inflation rate. Given that 70% of the costs of an aged care home is related to staff costs, ***we believe that the indexing of ACFI should be based on the Wage Price Index***, rather than COPE and if so, would provide a greater level of sustainability within the sector and allow providers to manage staffing better, including increasing staff hours.

The impact of the regulatory changes, funding pressures and increasing costs has led more than half (53.3%) of all the aged care homes in the survey reporting an ACH Result in deficit for FY19 once the one-off grant has been excluded. Even more disconcerting is that 24.3% of aged care homes had negative EBITDA (indicating a cash loss from operations).

All geographic locations reported a decline; however, the Rural & Remote locations have significant financial sustainability concerns, with almost three quarters (74.1%) recording a negative ACH Result excluding the one-off grant - i.e. they are operating with a cash loss before RAD movements. There are almost half (49.1%) now performing at an operating cash deficiency.

Given that there are fewer opportunities for small rural and remote providers to merge or sell their aged care homes to larger providers, it is likely that remedial funding will be essential.

Direct care staffing hours per resident per day increased from 3.06 hours to 3.13 hours. This was despite declining operating results. Staff hours increased across most areas of care including registered nurses and other licensed or enrolled nursing staff.

The average ACH Result for FY19 for residential care was a deficit of $17.29 per bed per week, which equates to an unsustainable deficit of around $900 per bed per annum.

Occupancy levels in residential care aged care homes remained steady at an average of 94.4% which takes into account beds that are currently off-line for a variety of reasons or homes that are in the early stages of ramp-up after being newly constructed. This means that there is a vacancy rate of approximately 5.6% which is relatively low and has remained stable for a number of years.

There is no doubt that there are areas or aged care homes where, for a number of reasons, occupancy is lower than this. However, the concern is that with any aged care home closures due to financial stress there may not be capacity in other aged care homes, at a local level, to fill the gap. This will have a further negative impact on the system that is already under stress both financially and reputationally.

Capital equity injection and use of existing capital for necessary rebuild and refurbishment of aged care homes has noticeably slowed, a contributing reason being legislative and regulatory uncertainty in addition to the negative financial returns. The average operating surplus return on assets employed (ROA) was negative (0.7%). The poor returns are also reflected in the listed entity results which averaged 2.8% (FY18: 3.2%).

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 FY19 the average surplus from accommodation revenue and accommodation costs (by majority being depreciation and refurbishment) equated to $3,983 per bed per annum. Assuming a new residential bed costs around $325,000 to build and the depreciated bed value (WDV) is currently around $200,000 this is, in itself, not a sustainable return, being 1.2% pa for new builds and 1.9% pa for existing aged care homes.

Furthermore, 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 likely result in a reported deficit rather than a surplus.

Home Care

In-home care experienced a slight decline in financial performance from $3.77 per client per day to $3.65 per client per day. Like residential care, this is due to revenue increasing at a lower rate than costs Unlike residential care, this is largely due to providers pricing policies. Providers in general are not setting their prices relative to their unit costing but rather have tried to be compete on pricing alone. As a result, on average, revenues increased by 4.6% pa whilst costs increased at 5.0% pa.

With the new pricing transparency rules coming into effect from 1 July, including rolling up administrative overheads into the unit costs of services, it should be expected that the unit prices for services will increase accordingly. Presently, we are not seeing this and there is a concern that margins will decline further as will the results of home care providers.

Staff hours per client per week fell on average. This is despite the increases in average revenue levels and what we estimate is an increase in the number of high care packages in the overall package mix. This maybe as a result of consumers using larger proportions of their packages for capital or non-labour based services or making greater use of third party services rather than using the direct services of the approved provider.

Revenue utilisation rates have improved slightly, however this has not stopped the continued and considerable increase in client unspent funds. The unspent funds have now increased to a level where the government is considering changes to the funding arrangements to unlock these funds to enable the release of more packages.

A significant number of home care providers are operating at a loss at the consolidated programme level with 30.4% of home care providers recording a negative NPBT for FY19 (31.6% for FY18).

Since June 2018 the number of approved providers in home care has increased nationally by 60 (8.9% increase). The number of funding packages has increased by 16.6% - from 91,847 packages as at June 2018 to 99,110 packages as at March 2019 (June 2019 data provided by the Department is not yet available). This is an increase of 14,139 persons in home care packages.

In comparison, the participants in the StewartBrown survey have seen an increase of 3,078 packages in FY19, and an average increase of 9.8% across all the providers in the survey. Given the greater number of home care providers, some of the growth in packages will have been absorbed by them.

Summary

In conclusion, the aged care sector requires significant additional investment taking into account the high level of current and future demand. Although the home care national prioritisation queue (consumers assessed for funding but not yet allocated full funding) has decreased for the first time since March 2017, there are still just under 120,000 consumers on the queue.

This statistic, coupled with the estimated 83,000 plus new residential beds being required over the next 10 years to meet the ageing population demands, indicates that substantial investment is required. For this investment to occur the sector must be financially sustainable which will require all stakeholders to engage in exploring robust solutions to the funding and operational business models.

Future Financial Sustainability

In ***Section 5*** of this report we have prepared financial projections for residential care for FY20 and FY21 based on a series of assumptions. Our forecast ACH Result based on the current funding levels (excluding the one-off grant) projects an operating deficit of $5.05 per bed day for the FY20 average, further declining to a deficit of $7.63 for FY21. These levels are not sustainable and will require an urgent and appropriate response.

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 - indexing should be tied to the Wage Price Index rather than COPE
- Additional subsidy funding for Behaviour (BEH) and Complex Health Care (CHC) domains within ACFI
- Rural, remote and very remote - additional viability supplements
- Capital funding to assist with making older, inefficient homes more efficient and link repayments or interest to future operating performance
- Workforce strategies and initiatives funding including the training of staff in dementia care
- Extra and optional fees - deregulation and clearer regulatory guidance
- Accommodation Pricing - increase pricing levels
- Greater focus on prudential management, monitoring and governance - particularly given the financial strain on providers

Home Care

- National prioritisation queue and waiting lists - increased home care package funding
- Pricing and service delivery - more clarity and flexibility in relation to provision of service guidelines including how funds are to be spent (capital items)
- 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 programmes (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 seniors' housing to residential care
- Education and guidance on Governance for aged care providers

SECTION 3. APPROVED PROVIDER ANALYSIS

This section provides a summary of the FY19 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 170 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 for FY19 and FY18.

The Numbers Behind the Results

170
Providers included in the data set

$7.5 billion
Cash and Financial Assets
(FY18: $7.9 billion)

$10.8 billion
Total Revenue
(FY18: $10.1 billion)

$25.5 billion
Property Assets
(FY18: $23.4 billion)

$1.5 billion
Intangible Assets
(FY18: $1.4 billion)

$19.7 billion
Refundable Resident Loans
(FY18: $18.3 billion)

$36.3 billion
Total Assets
(FY18: $34.4 billion)

$1.2 billion
Borrowings
(FY18: $1.1 billion)

$24.1billion
Total Liabilities
(FY18: $22.4 billion)

$12.2 billion
Net Assets
(FY18: $11.96 billion)

Operating Results for year ended 30 June 2019

The following table represents the Survey summary revenue and expenses average by approved provider for the financial years ended 2018 to 2019. The amounts expressed are the average of the 170 approved providers for ease of comparison. The ACFA comparisons are for the 2017 and 2018 financial years (due to timing of their report) and include the residential segment only for the approved providers.

Table 2: Income & Expenditure Comparison (average by approved provider)

	Survey FY19 *(Average)*	Survey FY18 *(Average)*	ACFA FY18 *(Residential)*	ACFA FY17 *(Residential)*	Listed Providers FY19 *(Average)*	Listed Providers FY18 *(Average)*
Income & Expenditure	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Operating Result						
Revenue						
Service revenue	60,794	56,531	19,313	18,599	542,592	500,816
Investment revenue	1,539	2,033	368	348	73	136
Total operating revenue	**62,333**	**58,564**	**19,681**	**18,947**	**542,665**	**500,951**
Expenses						
Employee expenses	42,115	38,720	14,026	13,073	370,811	338,871
Depreciation and amortisation	4,446	4,141	1,094	993	27,704	23,578
Finance costs	411	396	211	190	8,768	6,774
Other expenses	16,759	15,147	4,570	4,315	89,705	81,596
Total expenses	**63,730**	**58,403**	**19,900**	**18,571**	**496,988**	**450,819**
Operating surplus (deficit)	**(1,397)**	**161**	**(218)**	**376**	**45,677**	**50,133**
Other Income	1,220	1,406	710	739	4,690	4,408
Total Surplus (deficit) (NPBT)	**(178)**	**1,567**	**491**	**1,115**	**50,367**	**54,541**
Operating EBITDA	**1,921**	**2,665**	**718**	**1,211**	**82,076**	**80,349**
Ratios						
NPBT return on assets (ROA)	(0.1%)	0.8%	0.9%	2.2%	3.0%	3.5%
Operating surplus return on assets (ROA)	(0.7%)	0.1%	(0.4%)	0.8%	2.8%	3.2%
Operating EBITDA return on assets	0.9%	1.4%	1.4%	2.4%	5.0%	5.2%
Operating surplus % of operating revenue	(2.2%)	0.3%	(1.1%)	2.0%	8.4%	10.0%
Employee expenses % of operating revenue	67.6%	66.1%	71.3%	69.0%	68.3%	67.6%
Depreciation as % of property assets	3.1%	3.1%	3.9%	3.8%	2.9%	2.8%

Key Results

	Survey Average $'000s	1st Quartile $'000s	Bottom Quartile $'000s
Operating Surplus / (Deficit)	($1,397)	$1,922	($4,136)
Average NPBT	($178)	$2,367	($2,168)
Operating EBITDA	$1,921	$4,481	($2,666)
EBITDA	$3,140	$4,926	($698)
NPBT Return on Assets	(0.09%)	1.71%	(1.60%)
Operating Surplus Return on Assets	(0.67%)	1.39%	(3.05%)
Cash & Financial Assets % of Debt	35.64%	38.41%	35.14%

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 $1,397k for FY19
- The operating surplus *excluding* investment income was a deficit by approved provider of $2,936k for FY19 (deficit of $1,872k for FY18)
- ACFA income and expenditure is for the residential care segment only and shows a similar decline for the FY17 and FY18 periods and it is likely the FY19 results will also show a significant deterioration

Balance Sheet Summary as at 30 June 2019

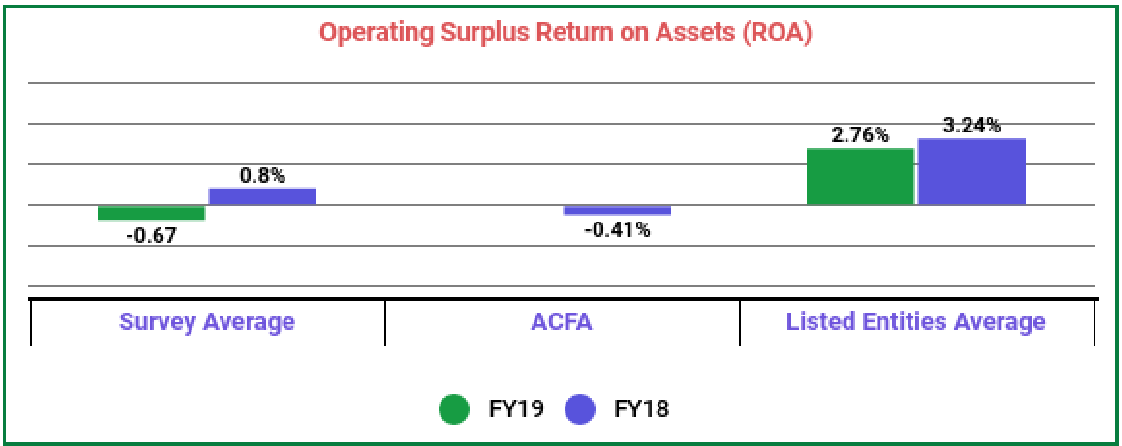
A summary of the balance sheet (average by provider average) for the 2018 to 2019 financial years is included in the table below.

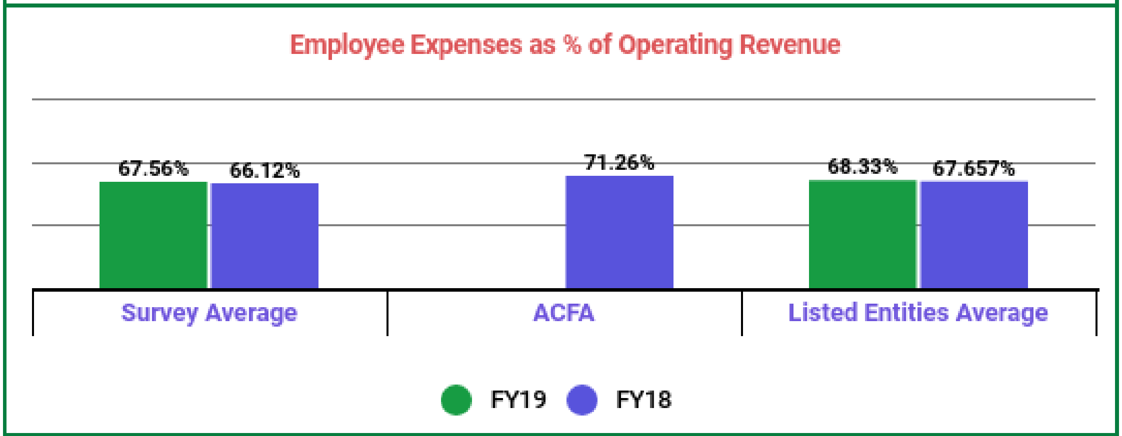
Table 3: Summary Balance Sheet Comparison (average by approved provider)

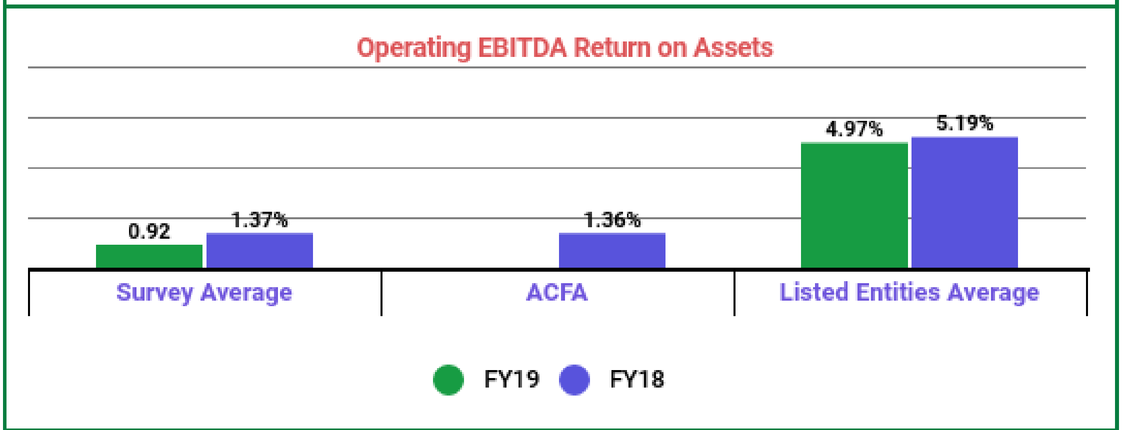
	Survey FY19 *(Average)*	Survey FY18 *(Average)*	ACFA FY18 *(Residential)*	ACFA FY17 *(Residential)*	Listed Providers FY19 *(Average)*	Listed Providers FY18 *(Average)*
Balance Sheet	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Assets						
Cash and financial assets	44,330	46,484	10,210	9,090	15,368	16,091
Operating assets	9,791	9,912	9,525	8,263	21,267	18,777
Property assets	150,055	137,367	28,872	26,431	980,783	913,666
Intangibles	9,117	8,316	6,019	6,125	671,356	668,528
Total assets	**213,293**	**202,079**	**54,626**	**49,909**	**1,688,774**	**1,617,062**
Unspent funds held as per ACFA report						
Liabilities						
Refundable loans	116,135	107,476	31,064	27,395	829,302	763,822
CDC liability	1,256	999	608	365	n/a	n/a
Borrowings	6,998	6,402	4,933	4,969	212,860	210,696
Other liabilities	17,309	16,856	4,674	4,624	155,867	150,640
Total liabilities	**141,699**	**131,733**	**41,280**	**37,353**	**1,198,029**	**1,125,158**
Net Assets	**71,595**	**70,346**	**13,347**	**12,557**	**490,745**	**491,904**
Net Tangible Assets (Liabilities)	**62,477**	**62,030**	**7,327**	**6,431**	**(180,610)**	**(176,624)**
Ratios						
Net assets proportion % total assets	33.6%	34.8%	24.4%	25.2%	29.1%	30.4%
Property assets proportion % total assets	70.4%	68.0%	52.9%	53.0%	58.1%	56.5%
Cash + financial assets % refundable loans	38.2%	43.3%	32.9%	33.2%	1.9%	2.1%
Cash + financial assets % debt	35.6%	40.5%	27.9%	27.8%	1.5%	1.7%

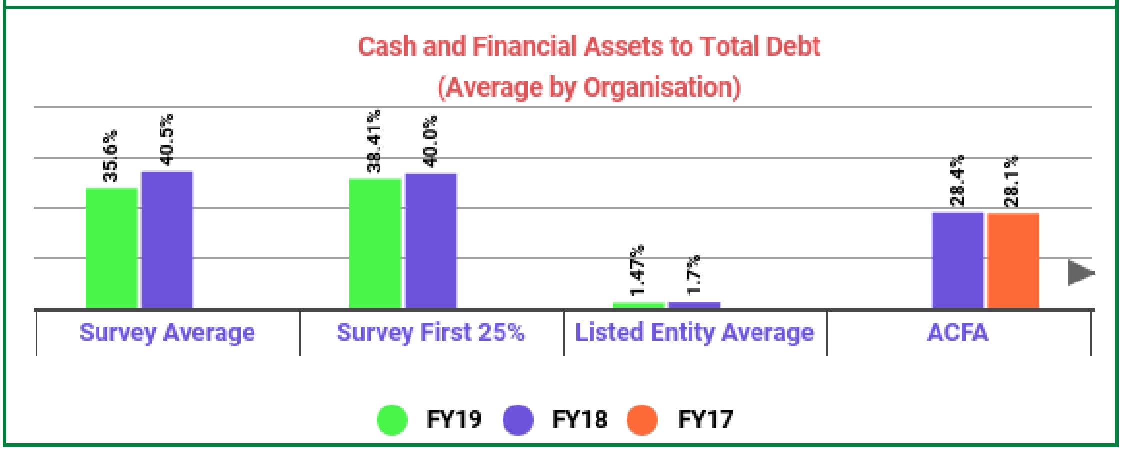
Brief Commentary

- Net assets and net tangible assets have increased for the Survey approved providers but decreased for the listed entities (Estia/Japara/Regis)
- The results for the sector indicate that the operating surplus expressed as a return on assets employed by approved providers is not financially sustainable under the current funding model


Operating Surplus Return on Assets (ROA)
-0.67
0.8%
-0.41%
2.76%
3.24%
Survey Average
ACFA
Listed Entities Average
FY19
FY18


Employee Expenses as % of Operating Revenue
67.56%
66.12%
71.26%
68.33%
67.657%
Survey Average
ACFA
Listed Entities Average
FY19
FY18


Operating EBITDA Return on Assets
0.92
1.37%
1.36%
4.97%
5.19%
Survey Average
ACFA
Listed Entities Average
FY19
FY18


Cash and Financial Assets to Total Debt
(Average by Organisation)
35.6%
40.5%
38.41%
40.0%
1.47%
1.7%
28.4%
28.1%
Survey Average
Survey First 25%
Listed Entity Average
ACFA
FY19
FY18
FY17

Royal Commission Costs at an Approved Provider Level

For the three listed providers, the average expenditure incurred in relation to the Royal Commission was $1.8m. It is likely that the majority of providers did not incur this level of cost but did still incur additional costs to meet their obligations to provide information to the Commission.

Although the FY19 Survey didn't ask for data on Royal Commission costs, the 2019 Corporate Administration Survey conducted earlier this year asked providers the following question:

> "What is the estimated cost at a Corporate Administration level of preparing information for and making submissions to the Royal Commission including additional internal resources and external consultants and legal or other professionals? Estimate should be based on actual costs year to date and forecast of any additional expected costs for the remainder of FY19."

An estimate was provided by 42 organisations. An additional two organisations responded with "unknown or not sure". For the 42 organisations that provided data, the average cost was $127,214. This is equivalent to 0.19% of operating revenue. Providers have received no additional funding to recompense them for these additional costs.

Approved Provider Profile

Table 4: Profile of Survey approved providers by total assets bands

Total Assets	<$25M	$25M - $50M	$50M-$150M	> $150M	Total
Number of Approved providers	33	31	48	58	170
%	*19.41%*	*18.24%*	*28.24%*	*34.12%*	*100.00%*
Number of residential care aged care homes	34	40	93	729	896
%	*3.79%*	*4.46%*	*10.38%*	*81.36%*	*100.00%*
Number of residential operating places	2,086	3,173	8,592	59,607	73,458
%	*2.84%*	*4.32%*	*11.70%*	*81.14%*	*100.00%*
Number of Home Care (HCP) clients	1,063	2,051	2,442	27,894	33,450
%	*3.18%*	*6.13%*	*7.30%*	*83.39%*	*100.00%*

Table 5: Profile of Survey approved providers by revenue bands

Operating revenue range ($million per annum)	<$10M	$10M - $20M	$20M-$75M	> $75M	Total
Number of Approved providers	41	46	42	41	170
%	*24.12%*	*27.06%*	*24.71%*	*24.12%*	*100.00%*
Number of residential care aged care homes	39	74	135	648	896
%	*4.35%*	*8.26%*	*15.07%*	*72.32%*	*100.00%*
Number of residential operating places	2,583	6,001	12,236	52,638	73,458
%	*3.52%*	*8.17%*	*16.66%*	*71.66%*	*100.00%*
Number of Home Care (HCP) clients	594	842	4,039	27,975	33,450
%	*1.78%*	*2.52%*	*12.07%*	*83.63%*	*100.00%*

Organisation Results sorted by Revenue Band

	Revenue >$75M $'000s	Revenue $20M - $75M $'000s	Revenue $10M - $20M $'000s	Revenue <$10M $'000s
Operating Surplus / (Deficit)	($4,776)	($1,123)	$60	$65
Average NPBT	($1,030)	($256)	$314	$202
Operating EBITDA	$6,524	$720	$371	$286
EBITDA	$10,270	$1,587	$626	$424
NPBT Return on Assets	(0.17%)	(0.15%)	0.58%	0.87%
Operating Surplus Return on Assets	(0.80%)	(0.65%)	0.11%	0.28%
Cash & Financial Assets % of Debt	30.81%	37.54%	62.36%	78.71%

Organisations Results 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)	($3,425)	($376)	($636)	($34)
Average NPBT	($929)	$250	$144	$219
Operating EBITDA	$5,262	$394	($139)	$204
EBITDA	$7,758	$1,020	$641	$458
NPBT Return on Assets	(0.18%)	0.31%	0.39%	1.31%
Operating Surplus Return on Assets	(0.67%)	(0.47%)	(1.73%)	(0.20%)
Cash & Financial Assets % of Debt	30.34%	57.85%	86.33%	84.92%

SECTION 4. RESIDENTIAL CARE ANALYSIS

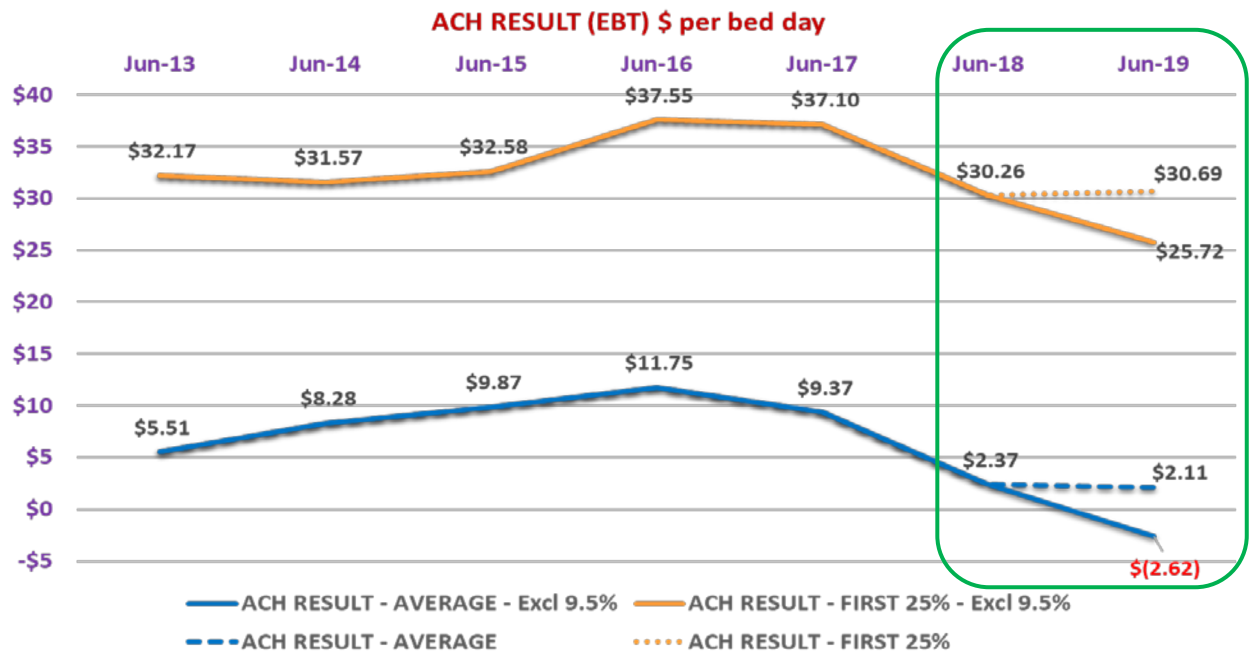
ACH Result Trend

The actual results for residential aged care homes was an NPBT surplus of $2.11 per bed day or $728 per bed per annum. This result is still less than the FY18 result of $2.37 per bed day, even after the 9.5% one-off subsidy boost in the last quarter of FY19. The one-off Government grant averaged $4.73 pbd, which increased the FY19 result from a deficit of $2.62 pbd to the actual result of a surplus of $2.11 pbd.

As noted earlier in this report, when analysing the FY19 results for residential aged care, we have placed greater emphasis on the adjusted results excluding the “one-off” subsidy injection (which was an effective 9.5% increase on ACFI and related supplements for the fourth quarter). The rationale for this being that this injection ceased at 30 June 2019 and forecasts and financial performance for FY20 and beyond must be based on the actual revenue streams as they now stand.

When the one-off Government grant in the form of a 9.5% subsidy from 20 March 2019 to 30 June 2019 is excluded, the residential care sector has experienced a significant decline in the Aged Care Home Result. This is mainly due to the continued trend of expenses increasing at a much higher rate (5.2% in FY19) than revenue excluding the one-off grant (3.2% in FY19). The *Average* ACH Result has decreased from $2.37 per bed day (pbd) in FY18 to negative $2.62 pbd in FY19.

Figure 1: ACH Result



It needs to be noted that these results are off the back of FY18 where there was no COPE indexing of ACFI subsidies. So even with an average 1.17% COPE indexing of ACFI and the 9.5% boost in subsidies for the June quarter, results did not reach the levels of FY18 where there was no indexing of subsidies. This does not bode well for the coming year where the COPE indexation is only 1.4% and wage increases are likely to be double that. Refer to Section 5 of this report for more detailed analysis of our expectations for FY20 and beyond.

For the Survey *Average* the key movements are as follows:

Revenue
- Increase due to Government one-off grant of $4.73 pbd for the Survey Average and $4.97 pbd for the First 25%
- Increase in ACFI & supplements revenue by $5.17 pbd (3.0%) - partly due annual increase in COPE of 1.4%; remainder is due to increasing acuity (care) levels particularly in homes with lower average ACFI & Supplements
- Increase in Everyday Living revenue by $1.37 pbd mostly due to CPI increase in the Basic Daily Fee
- Increase in Accommodation revenue by $1.47 pbd due to:
  - Resident - $0.25 pbd (due to increase in DAPs ratio as compared to RADs)
  - Subsidy - $1.21 pbd (due to increase in Significant Refurbishment subsidy)

Expenses
- Increase in total care labour costs of $8.17 pbd and increase of roughly 4 minutes per resident per day in total care hours (total direct care hours - 3.13 per resident per day)
- Increase in catering of $1.22 pbd
- Increase in utilities of $0.26 pbd (mostly due to increase in electricity $0.20 pbd)
- Increase in property maintenance of $0.24 pbd
- Increase in administration of $0.99 pbd mostly due to increase in corporate recharges
- Increase in accommodation expenditure by $1.38 pbd due to higher depreciation charge
-

Additional Trends
- Occupancy - stable at 94.4% (FY18 94.3%)
- Increase in supported resident ratio to 47.6% from 46.7%
- Increase in average Refundable Accommodation Deposit held and received during the year
- Increasing preference for DAPs over RADs - split is now 29% RAD, 47% DAP and 24% Combination

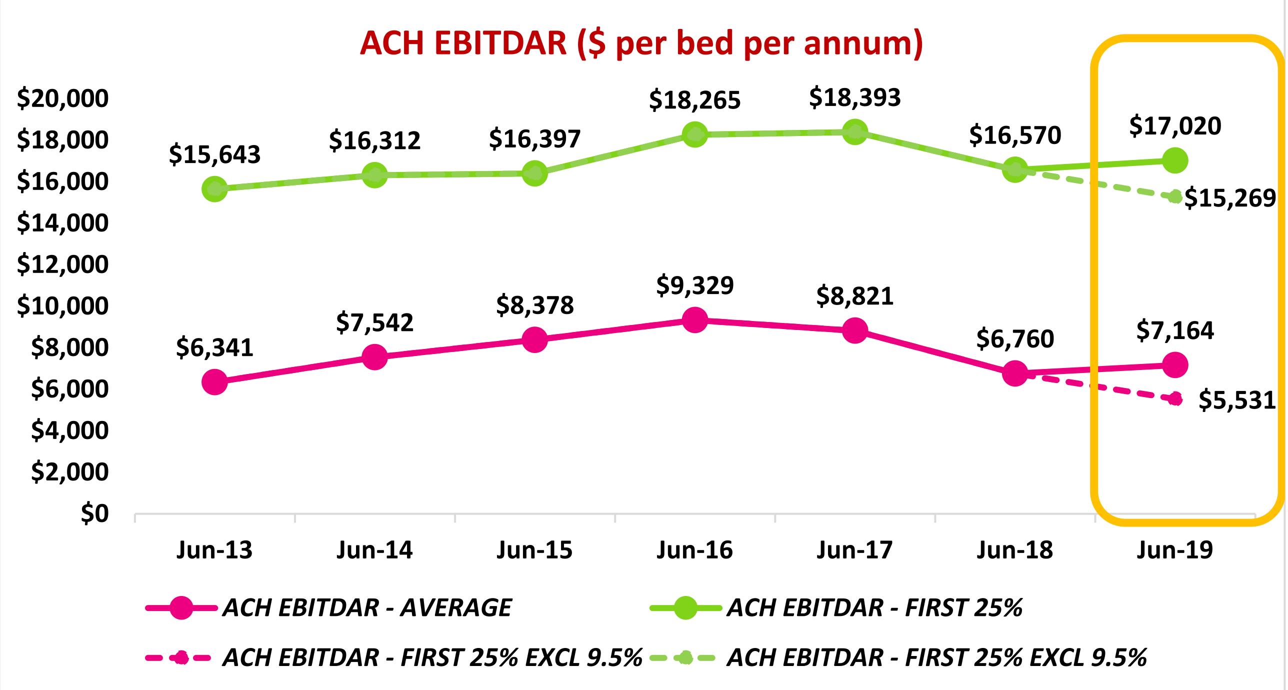
Table 6: Summary Results for FY19 Survey

	FY19 1045 Aged care homes	FY19 Excl One-off Grant 1045 Aged care homes	FY18 974 Aged care homes		Difference FY19 Excl One-off Grant – FY18
ACH Result ($pbd)	$2.11	($2.62)	$2.37	↓	($4.99)
ACH Result ($pbpa)	**$728**	**($904)**	**$816**	↓	**($826)**
ACH EBITDAR ($pbpa)	**$7,164**	**$5,531**	**$6,760**	↓	**($1,229)**
Average Occupancy	94.4%	94.4%	94.3%	↑	0.2%
Average ACFI Revenue ($pbd) excluding one-off grant	$177.79	$177.79	$172.57	↑	$5.22
One off grant ($pbd)	$4.73	n/a	n/a		n/a
Direct care hours per resident per day	3.13	3.13	3.06	↑	0.07
ACFI services costs as % of ACFI	81.6%	83.8%	81.3%	↑	2.5%
Supported ratio	47.6%	47.6%	46.7%	↑	1.0%
Average Bond/RAD held (Full & Part)	$316,876	$316,876	$295,209	↑	$21,667
Average FULL RAD taken during period	$402,384	$402,384	$386,594	↑	$15,790

ACH EBITDAR Trend

The below graph shows the ACH EBITDAR (Earnings Before Interest, Taxation, Depreciation, Amortisation and Rent) trend from FY13 to FY19. At the *Average* ACH level it is becoming increasingly difficult to remain financially sustainable. A return of $5,531 per bed per annum is unlikely to be sufficient to refurbish or replace infrastructure when the time comes, nor to attract the necessary capital to grow the sector.

Figure 2: ACH EBITDAR trend



Results by Geographic location

At a regional level the financial performance results deteriorate further where the average EBITDAR per bed per annum for an aged care home located in outer regional, remote or very remote areas (referred to as Rural & Remote) was $1,288 for the year to Jun-19 (FY18: $3,056).

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

It is clear from the following graphic (which excludes the 9.5% top-up supplement) that results are lower and at all levels of operation. The graphic shows the Aged Care Home (ACH) result and its individual components. The difference between the average NPBT of an aged care home in a major city and one in a rural and remote location is $13.38 per bed day. Deficits for homes in rural and remote areas averaged $13.72 per bed day, which means that over half of the homes in that category have results worse than that. This outcome is not sustainable and means that these providers are eating into their capital income sources to sustain their business.

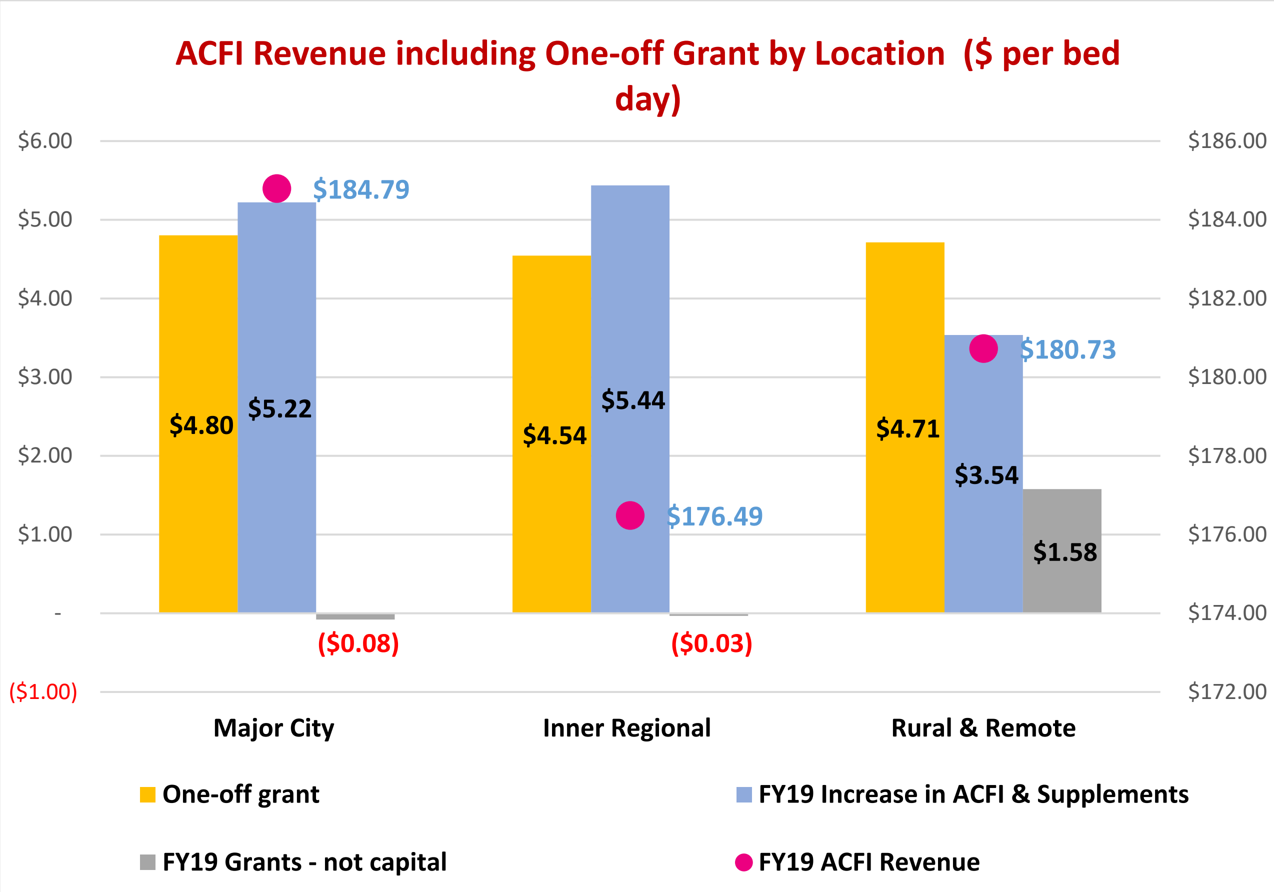
	Survey Average	Major Cities	Inner Regional	Rural & Remote
ACFI Result	$28.84	$30.52	$26.37	$20.88
+	+	+	+	+
Every Day Living Result	($8.45)	($7.15)	($10.19)	($15.13)
−	−	−	−	−
Administration Costs	$34.26	$34.23	$34.06	$35.12
+	+	+	+	+
Accommodation Result	$11.25	$10.52	$12.00	$15.65
=	=	=	=	=
Aged Care Home Result	($2.62)	($0.34)	($5.88)	($13.72)

The ACFI Revenue for FY19 and FY18 by region is shown in the figure below. *Rural & Remote* have a higher ACFI Revenue at $180.73 pbd for FY19 compared to *Inner Regional* at $176.49 pbd (likely due to the viability supplements received), however it is still lower than the average ACFI Revenue for major city at $184.79 pbd.

Whilst the one-off grant was fairly similar across locations at an average of $4.73, the FY19 increase in ACFI Revenue for Rural & Remote was only $3.54 compared to $5.44 for *Inner Regional* and $5.22 for *Major City*.

Grants – not capital for Rural & Remote did increase by $1.58 pbd whilst the other two locations experienced a decrease in Grants – not capital.

Figure 3: ACFI Revenue including One-off Grant by Location ($ per bed day)



Snapshot - FY19 Results by Geographic Location

with ACH EBITDAR including the one-off subsidy

Major Cities

676 Aged Care Homes (ACHs)

($118)
ACH Result $ per bed per annum

$6,490
ACH EBITDAR $ per bed per annum

$8,149
ACH EBITDAR per bed per annum (including subsidy)

$179.99
Average ACFI per bed day

83.0%
ACFI services costs as % of ACFI

3.15
Direct care hours per resident per day

45.9%
Supported resident ratio

94.65%
Average Occupancy

$389,772
Average full accommodation deposit held

$432,215
Average full RAD taken during period

Inner Regional

261 Aged Care Homes

(2,031)
ACH Result $ per bed per annum

$4,076
ACH EBITDAR $ per bed per annum

$5,647
ACH EBITDAR per bed per annum (including subsidy)

$171.94
Average ACFI Per bed day

84.7%
ACFI services costs as a % of ACFI

3.06
Direct care hours per resident per day

48.6%
Supported resident ratio

94.70%
Average Occupancy

$292,028
Average accommodation deposit held

$331,636
Average full RAD taken during period

Rural & Remote

108 Aged Care Homes

($4,595)
ACH Result $ per bed per annum

$1,288
ACH EBITDAR $ per bed per annum

$2,867
ACH EBITDAR $ per bed per annum (including subsidy)

$176.01
Average ACFI Per bed day

88.1 %
ACFI services costs as a % of ACFI

3.25
Direct care hours per resident per day

51.6%
Supported resident ratio

91.76%
Average Occupancy

$270,240
Average accommodation deposit held

$313,018
Average full RAD taken during period

Impact of FY19 Performance

Please note that the following analysis is based on the financial operating performance at residential aged care home level - not at the approved provider level.

The total percentage of aged care homes (1,045 in the survey) making an EBITDAR loss (Earnings Before Interest, Taxation, Depreciation, Amortisation and Rent) has increased by 3.3%, from 21.0% to 24.3%, if we exclude the one-off grant. Including the grant, the figure has improved slightly to 19.8%. In addition to these homes, there are a further 57 aged care homes that were excluded from the data set due to being outside the acceptable range with respect to their operating results, and for other reasons.

Excluding the one-off grant, the total percentage of aged care homes making a negative ACH Result has increased by 8.2%, from 45.1% to 53.3%. The one-off subsidy did improve the actual FY19 results with a marginal decrease to 43.8%.

Figure 4: Analysis of Aged care homes making negative ACH result and ACH EBITDAR losses in total Survey

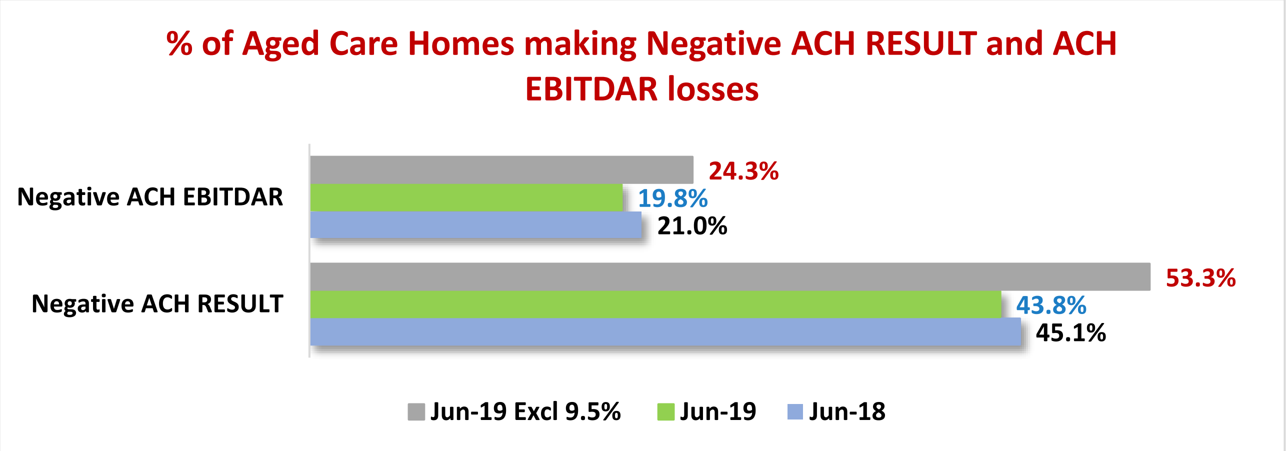


Figure 5: Analysis of Aged care homes making ACH Result losses (by location) in total Survey

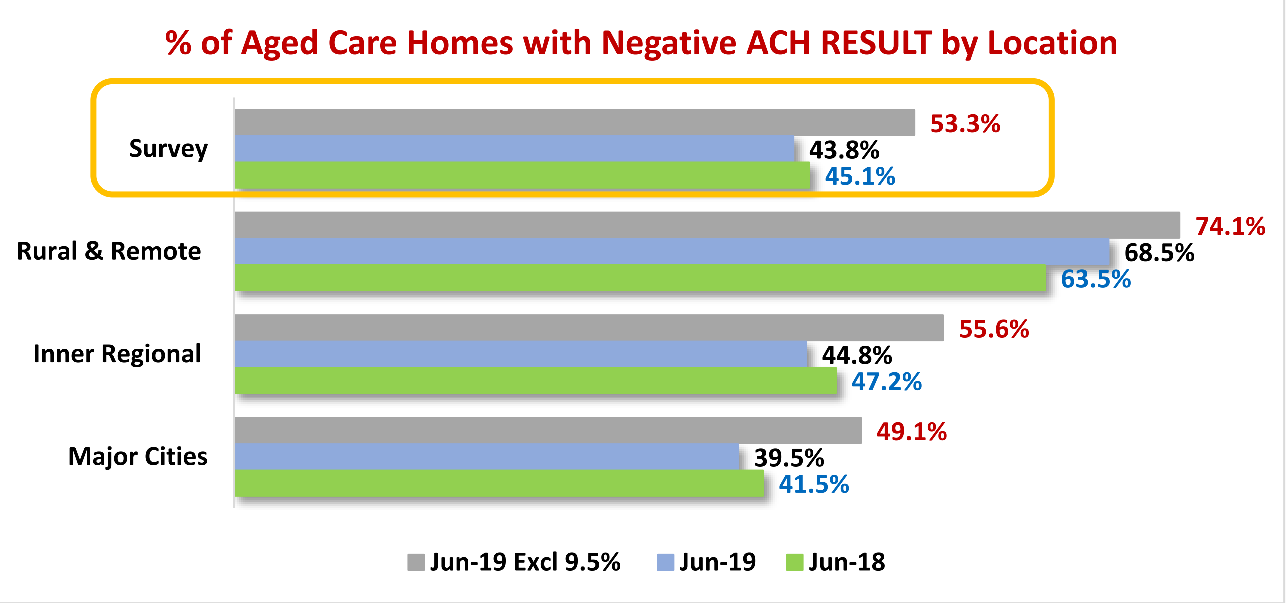
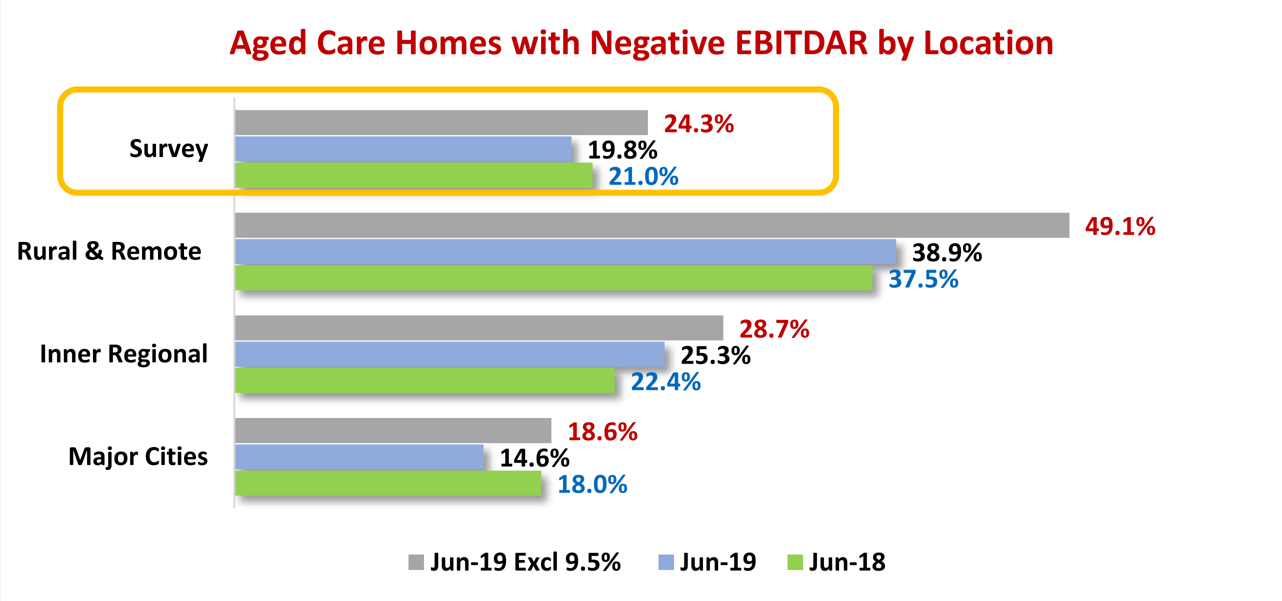


Figure 6: Analysis of Aged care homes making EBITDAR losses (by location) in total Survey



Brief commentary

Figures 4 and 5 above graph the number of aged care homes making an ACH Result and ACH EBITDAR loss as a percentage of total number of aged care homes in their respective geographic location (remoteness). For each location the number of aged care homes reporting a loss for FY19 is significant, as follows:-

- Rural & Remote (ABS categories of Outer regional, Remote and Very Remote) aged care homes - 74.1% of aged care homes in this geographic area made an ACH Result loss after excluding the one-off Grant and 68.5% made a loss even with the one-off Grant; 49.1% made an EBITDAR loss
- Inner Regional aged care homes - 55.6% made an ACH Result loss and 28.7% made an EBITDAR loss when the one-off Grant is excluded
- Similarly, of the aged care homes located in major cities, almost half (49.1%) made an ACH Result loss and 18.6% made an EBITDAR loss when the one-off Grant is excluded

It is understood that these results are at an aged care home level and in larger organisations, particularly not-for-profits, the results will often vary across their portfolio.

Traditionally, some of the more profitable facilities in the major cities and inner regional areas would subsidise those facilities in a provider's portfolio that were less profitable. These were often smaller facilities in regional and remote areas that were difficult to run but supported the mission of the organisation. The problem now being encountered is that with close to 50% of homes in the major cities making an operational deficit and close to 20% of these facilities incurring a net operational cash deficit, the ability to sustain that mission in rural and remote areas will be hampered and in fact may become unsustainable.

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%

	Average			First 25%		
	FY19	**FY18**		**FY19**	**FY18**	
Hours by Staff Category - hours worked per resident per day						
Care management	0.11	0.12	↓	0.10	0.11	↓
Registered nurses	0.39	0.37	↑	0.35	0.31	↑
Enrolled & licensed nurses	0.32	0.30	↑	0.26	0.24	↑
Other unlicensed nurses & personal care staff	2.12	2.10	↑	1.94	1.93	↑
Allied health & lifestyle	0.17	0.15	↑	0.19	0.15	↑
Imputed agency care hours implied	0.02	0.02	-	0.02	0.02	-
Total Care Hours	**3.13**	**3.06**	↑	**2.85**	**2.76**	↑

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 June 2018 by 6.2% and 8.7% respectively
- Total care hours have increased for both the Survey *Average* and for the *First 25%* by 2.4% and 3.4% respectively, and are now at 3.13 hours and 2.85 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 financial hardship for many providers and at a time when the care needs of residents have not been increasing at the same rate as in recent years

Care Costs in Focus

The following graphic looks at this care result by breaking it down into its individual components of revenue and expenditure.

It is clear that, on the face of it, there is adequate revenue from ACFI to pay for the direct care costs, however there are insufficient revenue streams to directly cover the indirect costs of providing care. With a deficit averaging $13.87 per bed day, it means that providers are using capital income streams (accommodation income or capital reserves) to subsidise the running costs of the aged care home. This is not a sustainable situation in any type of business, but in particular one, such as residential aged care where capital renewal in the form of refurbishment and rebuilding of facilities is critical for long-term survival and competitiveness.

An increase in the basic daily fee of $10 per bed day, and an equivalent supplement for supported residents would go a long way to meeting the indirect costs (excluding administration) of aged care providers. This would make any increase in ACFI funding available for meeting direct care costs including additional staff hours.

Cost of Care Analysis

Revenue

$177.79 (Average ACFI excluding 9.5%top-up)
\+ $ 52.32 (Resident Charges incl. BDF)
= $230.11

Direct Care Costs

Labour $140.72 + Other $8.23 = Total Direct Care Costs $148.95

Indirect Care Costs

Food Costs $30.09 + Cleaning $8.37 + Laundry $3.93 + Utilities $7.06 + Maintenance $10.67 + Administration $34.91 = Total Indirect Care Costs $95.03

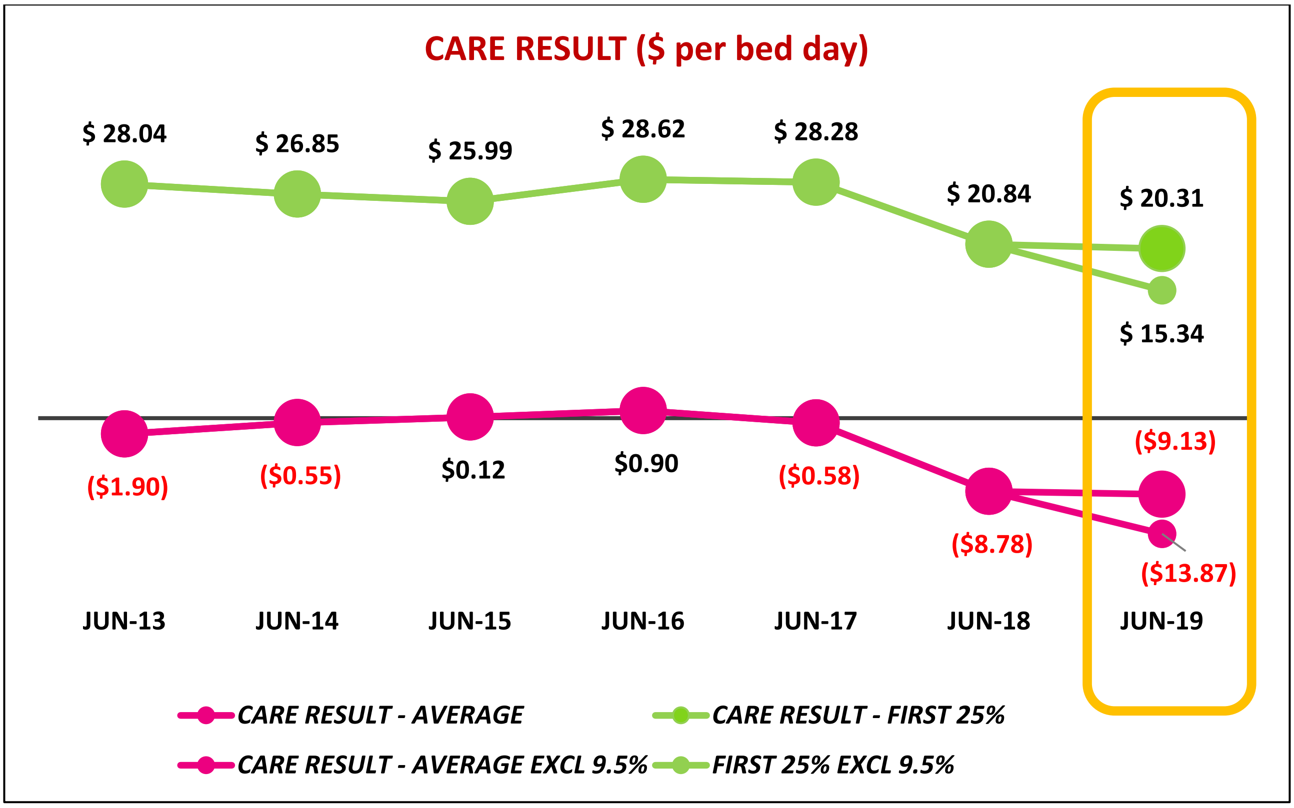
Total Operating Costs
$243.98

Care Result Deficit
($13.87)

Care Result Trend

The Care Result (ACFI + Everyday Living + Administration) trend is shown in the graph below. The FY19 Care result is a deficit of $13.87 per bed day (FY18 $8.78 pbd deficit). This represents an unstainable operating performance unless additional revenue (subsidy and resident) is achieved. Even with the one-off grant, the Care Result is a deficit of $9.13 pbd.

Figure 7: 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 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).

Figure 8: Cumulative increases in ACFI subsidy, Direct Care costs as compared to CPI

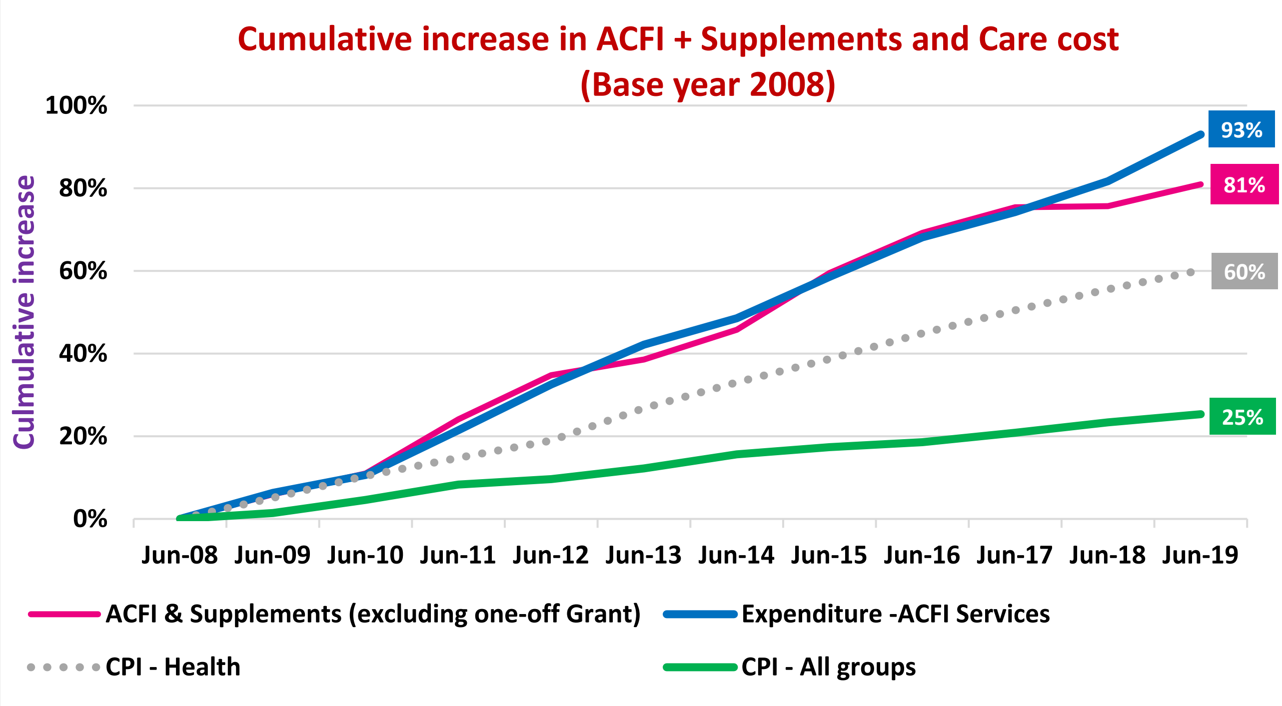


Table 8: ACFI Revenue and Expenditure Trend Points

	FY08	FY18	FY19	Cumulative increase since FY09
ACFI & Supplements (excluding one-off grant subsidy & MTCF)	$97.98	$172.11	$177.27	80.9%
Expenditure - ACFI services	$77.18	$140.24	$148.95	93.0%

Everyday Living Result

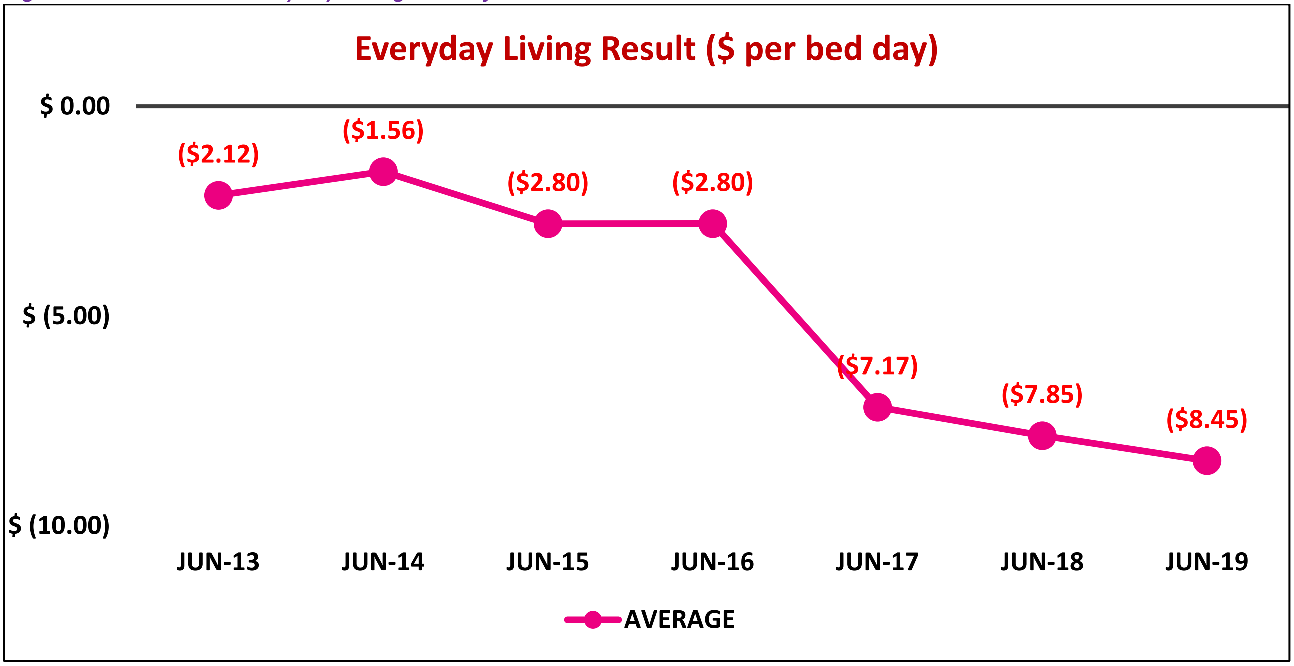
The recoupment of everyday living costs is again highlighted as an area of concern for approved providers. Whilst opportunities exist to charge additional optional services to residents, several challenges exist in this regard. A major issue is in relation to supported residents who, by majority, do 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.

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

For FY19 the costs of providing everyday living services exceeded the revenue by $8.45 pbd (FY18 $7.85 pbd). Refer to the Everyday Living snapshot (next page) for a summary of the various components.

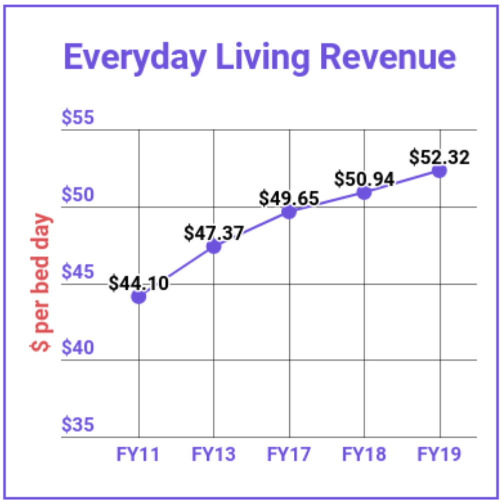
Figure 9: Trend in the Everyday Living Result from FY13 to FY19



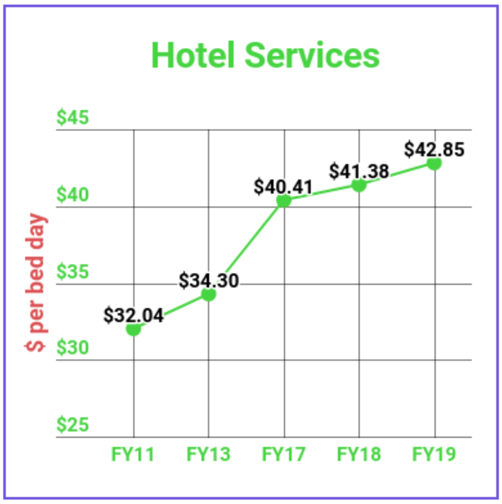
The Everyday Living Result has declined since FY13 by an average of $6.33 per bed day. In the past 12 months, the Everyday Living Result has declined by an average of $0.60 per bed day.

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.

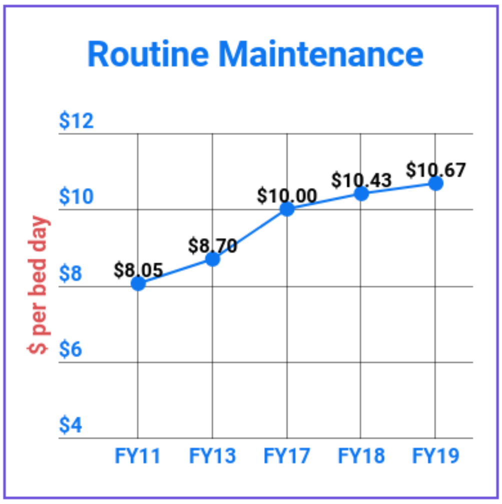
To reiterate, an increase in the basic daily fee of $10 per bed day, and an equivalent supplement for supported residents would go a long way to meeting the everyday living costs of aged care providers. This would make any increase in ACFI funding available for meeting direct care costs including additional staff hours.



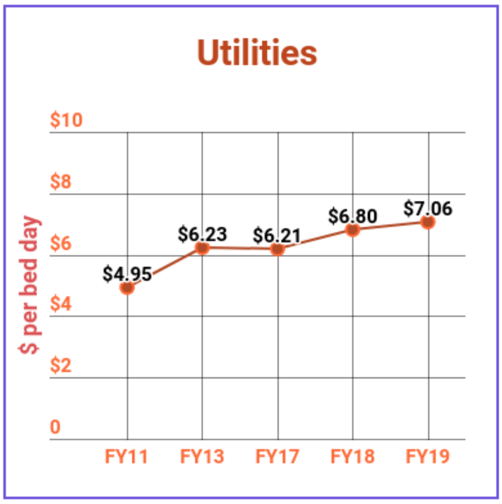
Since FY11 Everyday Living Revenue increased by an average of $8.22 per bed day or 18.6%



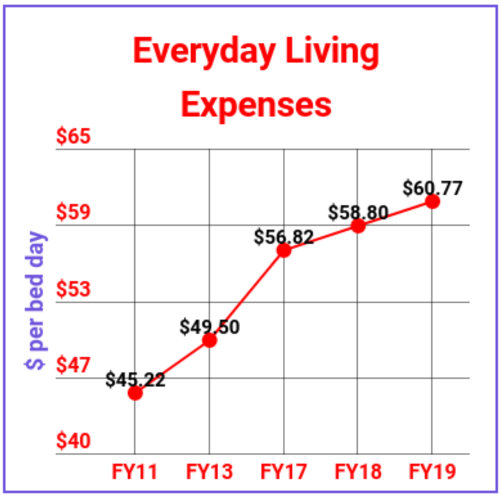
Hotel services costs increased by an average of $10.81 per bed day or 33.7%



Routine Maintenance costs increased by an average of $2.62 per bed day or 32.5%



Utility costs increased by an average of $2.11 per bed day or 42.6%



Total Everyday Living Expenses have increased by an average of $15.55 per bed day or 34.4% during the same period that revenue increased by only $8.22 per bed day

Administration Costs

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

Figure 10: Administration costs trend over time since FY13 ($ per bed day)

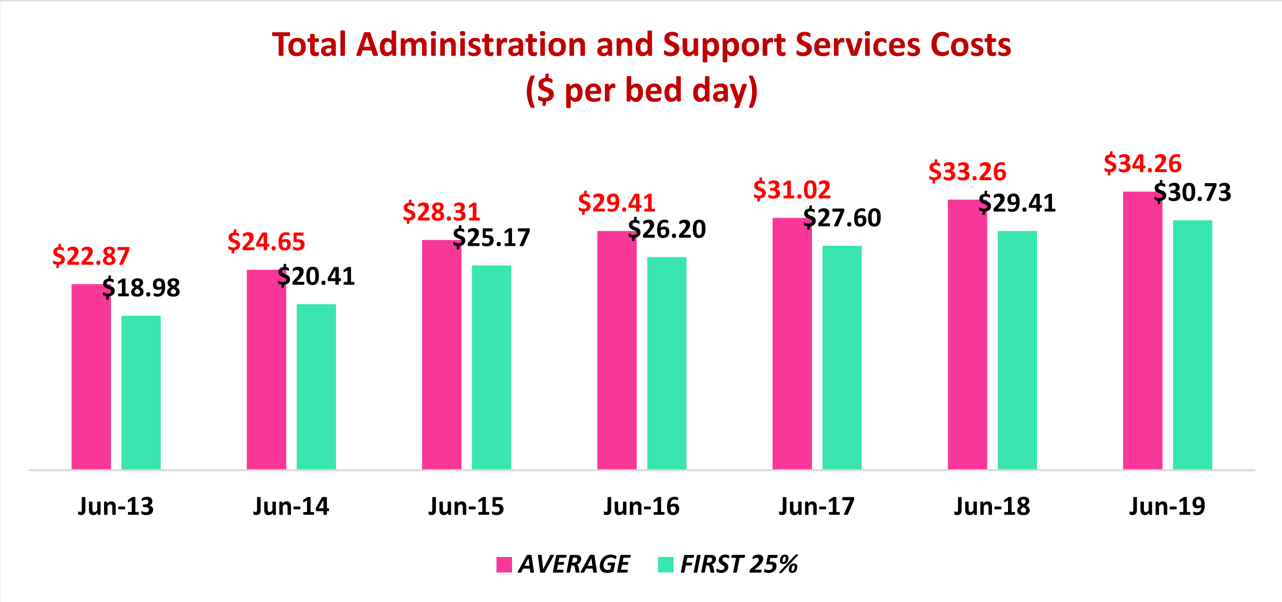
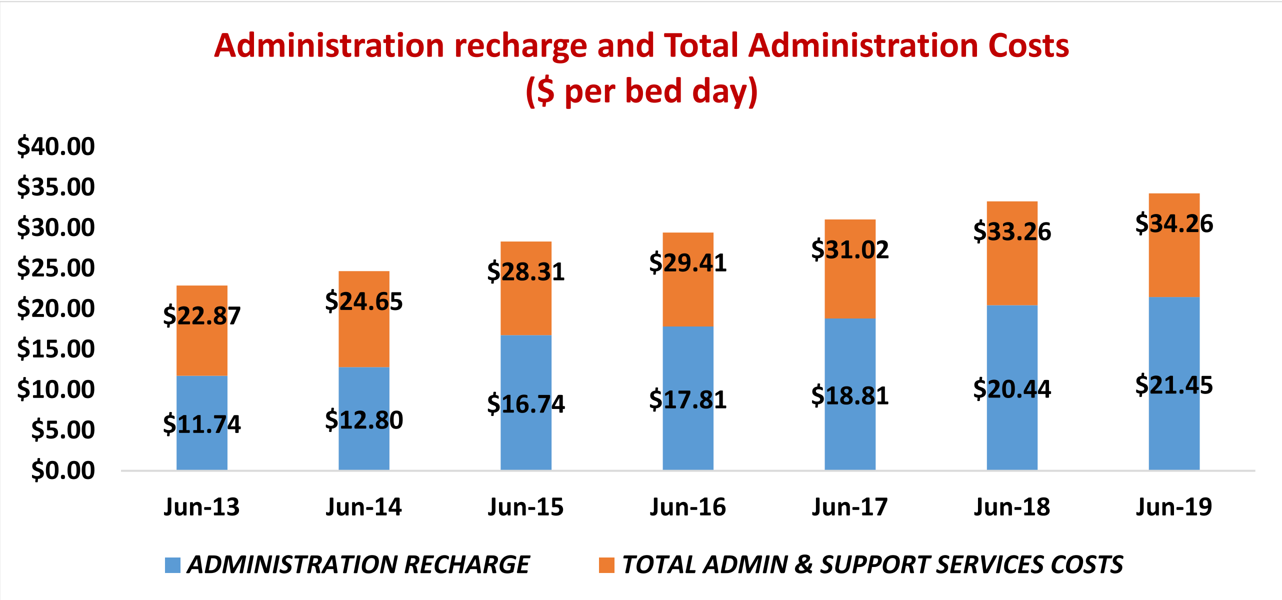


Figure 11: Administration costs trend over time since FY13 showing Administration Recharge ($ per bed day)



The main increase in administration costs has been in the corporate administration recharge.

Catering Costs

There has been a great deal of publicity over the past year or so in relation to catering in aged care homes and that includes the use of StewartBrown data in that analysis. The total costs of catering across 1,045 aged care homes averages $30.99 per resident per day. The average cost of consumables in aged care homes, including food, equates to $8.28 per bed day (FY18: $8.07). But that does not allow for the fact that one-third of aged care homes in our survey employ a contract catering model and the cost of food and consumables are included in the contract catering price. We have additional data available to use which allows us to look at these catering costs in a little more granularity than in the past. We should look at the facts.

Fact 1: **$30.99**

Average spent on food and food preparation per resident per day in FY19 **($29.67 in FY18)**

To understand the individual components of the overall cost of providing catering services to residents in aged care homes the data is best analysed by grouping facilities based on their service delivery model - in-house catering or contract catering. For consumables it is more accurate to look at those facilities that run their own catering operation in-house. For contract catering costs it is best to use the data set of those facilities that operate a contract catering model.

Table 9: Catering costs broken down by service delivery model for FY19

	All Facilities Average (1,045 Homes) $ per bed day	In-House Catering Average (713 Homes) $ per bed day	Contract Catering Average (332 Homes) $ per bed day
Staff Costs	14.95	19.31	6.37
Consumables	8.28	11.16	2.59
Contract catering costs	7.12	0.02	21.11
Total Catering Costs	**$30.99**	**$30.49**	**$30.07**

What is clear that, when the costs are broken down, the actual cost of consumables is $11.16 per resident per day. This is far more than the numbers that are currently being promoted as the average cost of food.

Fact 2:

59.7%

The proportion of everyday living revenue that is spent on food and food preparation costs

As has been previously explained, aged care homes receive a basic daily fee from residents and this should cover the everyday costs of residents such as food, cleaning, laundry, utilities and general maintenance of the home as well as the administration costs of running the home.

The average everyday living revenue received by homes in FY19 was $52.32 per bed day and the total everyday living costs incurred, including food, was $60.77 per bed day. This is before administration costs of $34.26 per bed day. The cost of preparing meals for residents accounted for 59.7% of the everyday living revenue.

Fact 3:

$10.34

Average spent on food, supplements and cooking ingredients in FY19 **($9.99 in FY18).** Total of $10.78 per day on catering consumables

In the current survey, as well as in the 2018 survey, we asked participants to provide some additional data relating to catering consumables. Based on data received from 379 homes (around half of the homes that have in-house catering models) the average spent on food, supplements (allocated to catering) and cooking ingredients was $10.34 per resident per day up from $9.99 in FY18. The amount of supplements was $0.59 per bed day down from $0.85 per bed day in FY18. The remaining costs relate to crockery, cutlery, paper products and incidentals.

Accommodation Result

The accommodation result of an aged care home is an important component of its operations. It is important that aged care homes 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 FY19 was $11.25 per bed day (FY18 $11.15 pbd) which represents $3,877 per room per annum. This result is achieved after an average depreciation expense of $5,854 pa.

Accommodation Result Components

Revenue

$13.41
Resident Contribution
DAPs, accommodation charges, and interest on outstanding RADs

+

$17.91
Government Contribution
Accommodation supplements including maximum supplement for significantly refurbished or newly built homes

=

$31.32
Total Accommodation Income

−

Expenses

$11.59
Building depreciation

+

$6.02
Other Depreciation

+

$1.06
Property Rental

+

$1.40
Other

=

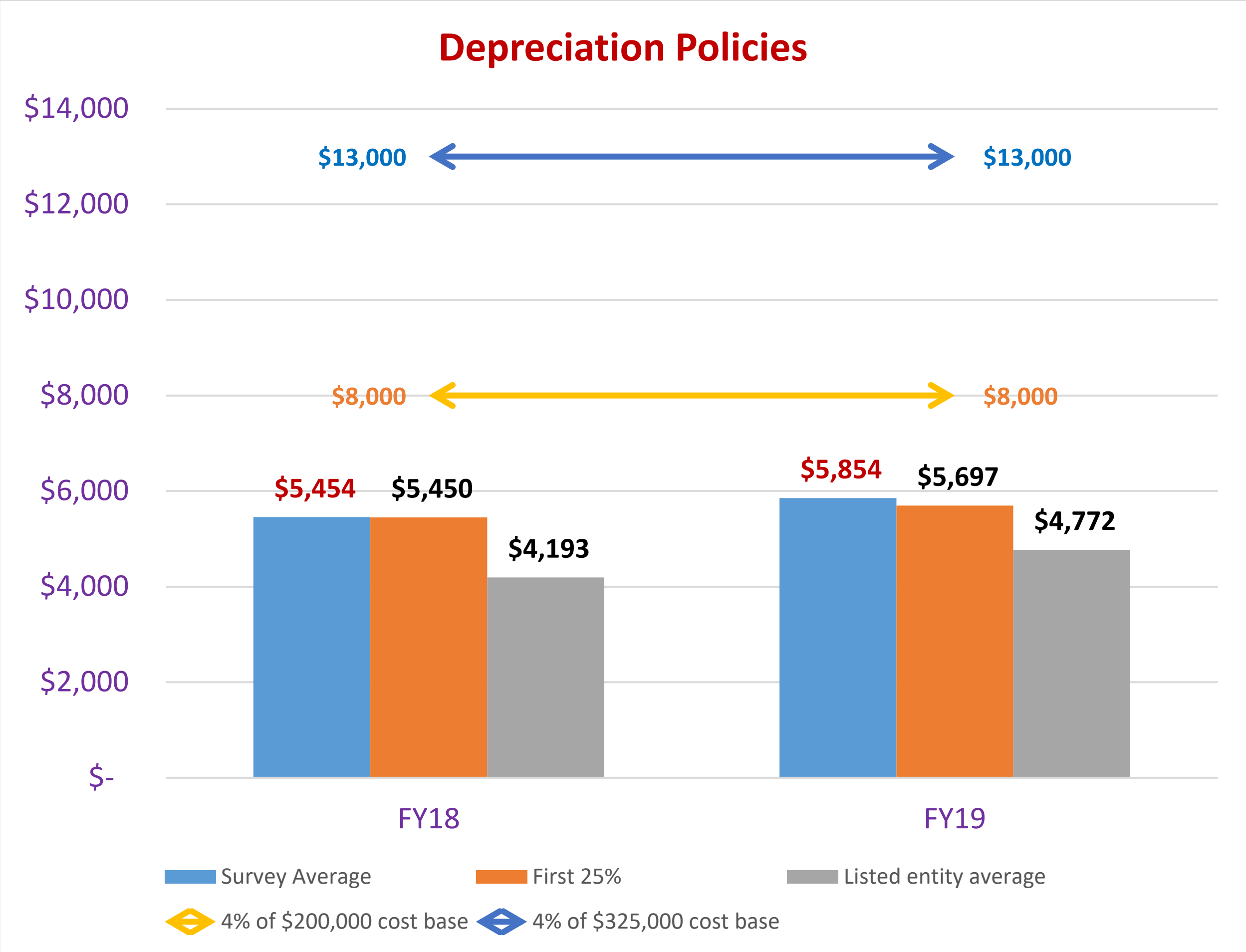
$20.07
Total Accommodation Expenses

=

$11.25
Accommodation Result

However, given the necessity to upgrade aged care homes regularly, a depreciation rate of 4% ($8,000 pa) (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 aged care home in an increasing "retail" style accommodation market. If applied to the Survey Average, this would reduce the surplus to $1,731 per room per annum.

Figure 12: Depreciation policies of residential aged care providers

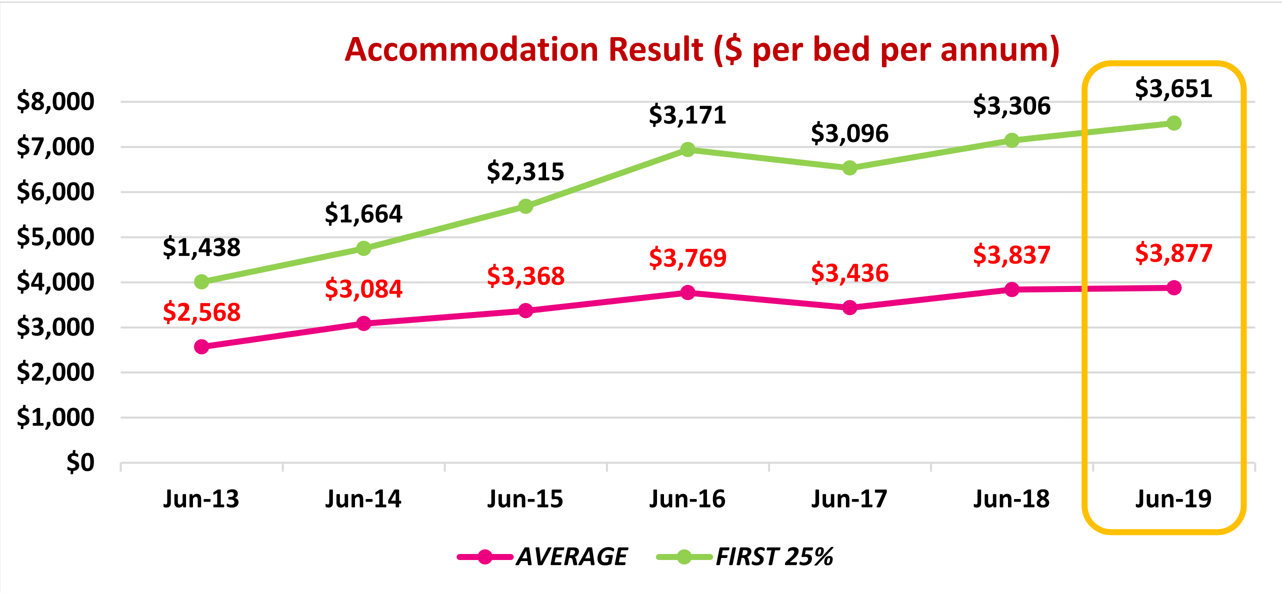


A further relevant consideration is that currently the surplus from the accommodation result is being used to offset the loss from the care result. In FY19 the Care Result was a deficit of $13.87 per bed day which, if funded from the accommodation result, impacts on the ability of approved providers to fund future refurbishment of an aged care home. This not only affects the accommodation revenue (accommodation pricing) but does not allow for efficiency gains to be achieved through building design modifications.

Table 10: Residential Care Accommodation Result

	Survey *Average*			Survey *First 25%*		
	FY19	FY18		FY19	FY18	
	$ pbd	$ pbd		$ pbd	$ pbd	
Accommodation Revenue	**31.32**	**29.85**	↑	**29.48**	**27.91**	↑
Depreciation	17.61	16.18	↑	16.70	16.51	↑
Refurbishment	0.25	0.32	↓	0.25	0.42	↓
Property rental	1.06	1.10	↓	0.99	0.44	↑
Bond/RAD interest expense	1.15	1.10	↑	1.16	1.12	↑
Accommodation Expenses	**20.07**	**18.70**	↑	**19.10**	**18.49**	↑
Accommodation Result	**$11.25**	**$11.15**	↑	**$10.38**	**$10.13**	↑
Accommodation Result $pbpa	**$3,877**	**$3,837**	↑	**$3,651**	**$3,306**	↑
Depreciation charge $pbpa	**$5,854**	**$5,454**	↑	**$5,697**	**$5,450**	↑
Depreciation charge $pbpa for WDV of $200,000 per bed at 4%						**$8,000**
Depreciation charge $pbpa for new build of $325,000 per bed at 4%						**$13,000**

Figure 13: Residential Care Accommodation Result Trend

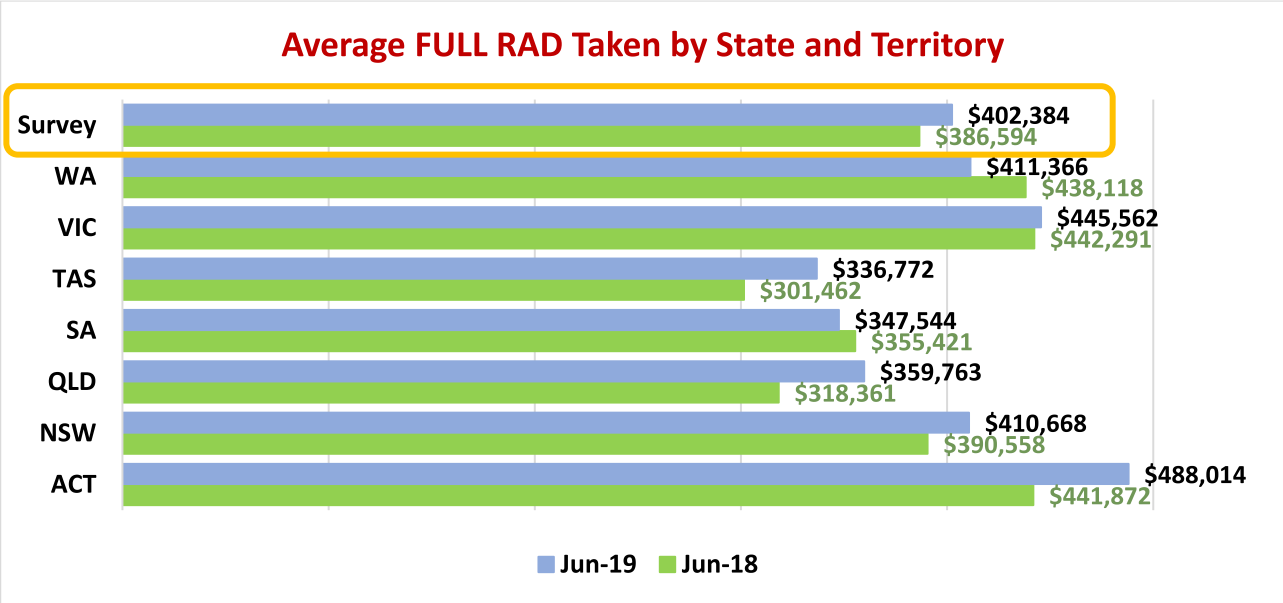


Accommodation Pricing

Accommodation pricing is an important component of the sustainability equation of a residential aged care home. It is a revenue benefit (DAP) or a capital benefit (RAD) depending upon the equity position of the organisation.

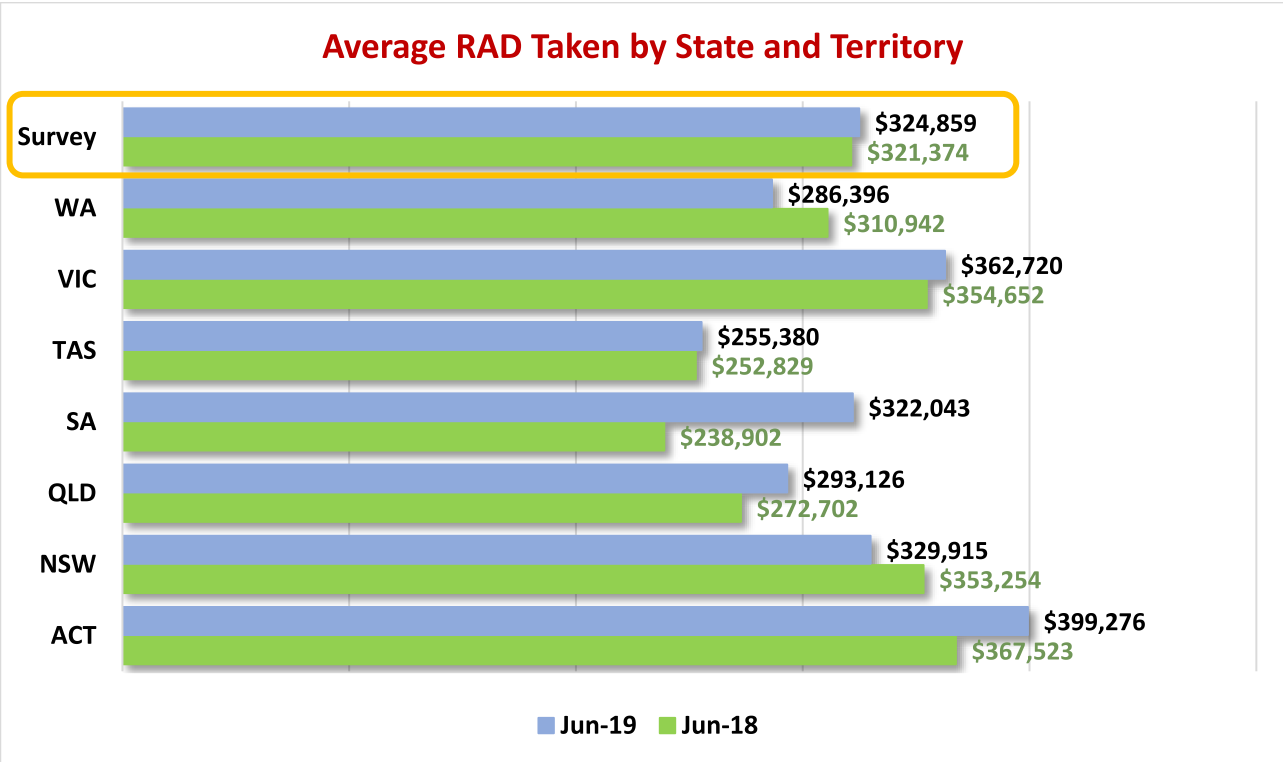
There has been a marginal increase in accommodation pricing for FY19. The amount of Refundable Accommodation Deposits (RADs) received during the period increased by a national average of $15,790 (4.1%).

Figure 13: Average FULL Refundable Accommodation Deposits Received for FY19 and FY18



When the combination payments are taken into account, the average RAD is only $324,859 (FY18: $321,374) - an increase of $3,485 (1.1%). The increase in the percentage of new residents paying a Daily Accommodation Payment (DAP) rather than a RAD has been a contributing factor to this.

Figure 14: Average Refundable Accommodation Deposits Received (FULL and PART payments) for FY19 and FY18



It is clear from our interactions with providers and observing comments made in the media and by consumers that there is a misconception that the accommodation price charged by an approved provider has a bearing on the quality of care that an aged care home provides.

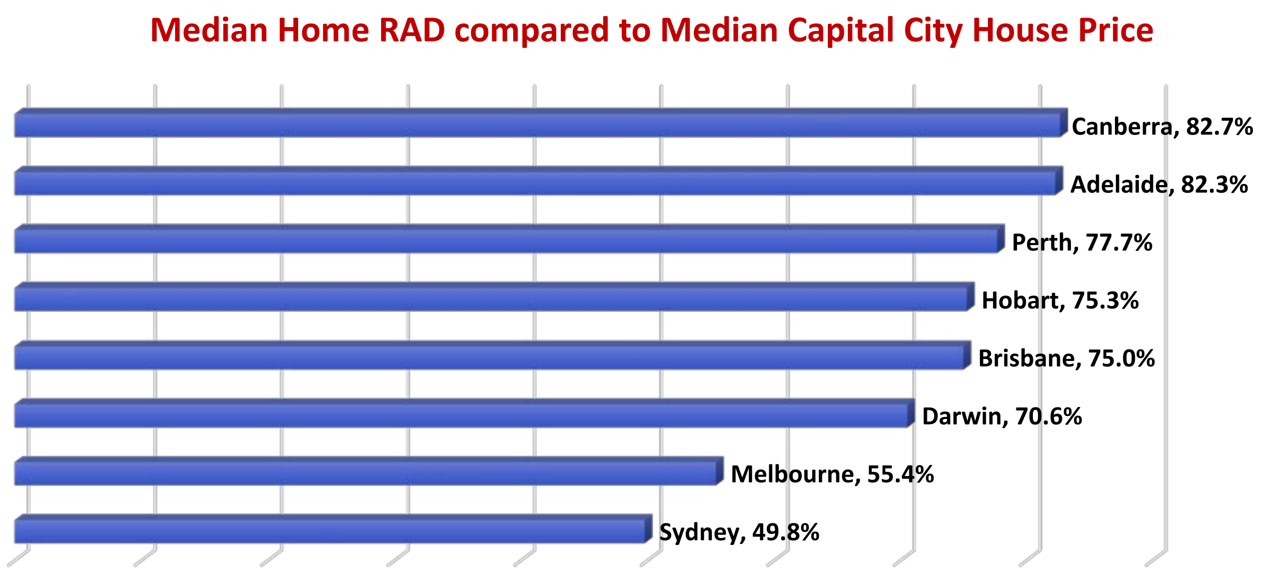
A higher accommodation price does not equate to a higher standard of direct care.

This is a serious misconception as the care and services provided by the home should be independent of the standard of the accommodation offering and all homes should, at a minimum meet the standards as laid down by the quality standards. Accommodation pricing should reflect 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.

This confusion from a consumer perspective in relation to accommodation pricing has resulted in providers not having an effective accommodation pricing strategy. The education of the consumer and community generally in the differential between accommodation and care will also go a long way to a better understanding of the funding environment and who is responsible for paying for these costs. It is incumbent upon all parts of the sector - providers, peak bodies, consumer advocates and the government - to better inform and educate the community and consumers about these fundamentals.

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 15: Median Advertised RAD compared to Median House Price

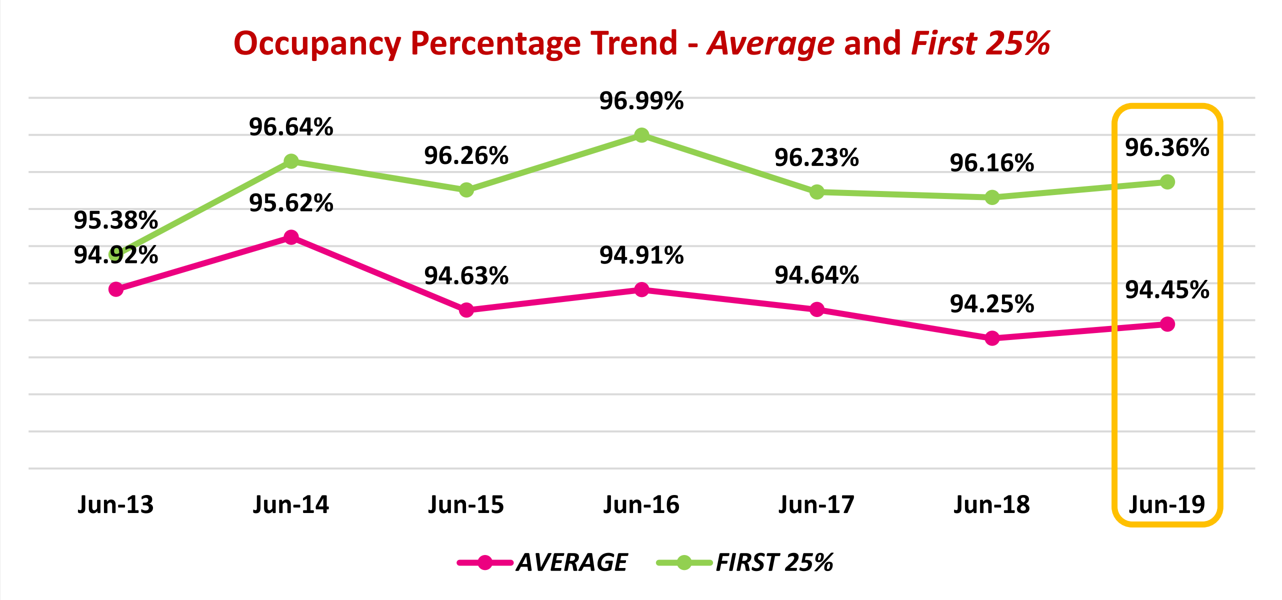


It is understood that pricing of accommodation is not a uniform concept and local conditions, including the level of competition and the standard of a home's accommodation needs to be taken into consideration when setting prices. It is important that there is a strategy in place and that these matters are taken into consideration when testing the market. This is an opportunity to raise additional capital and increase revenues so accommodation pricing should be considered and reviewed regularly.

Occupancy

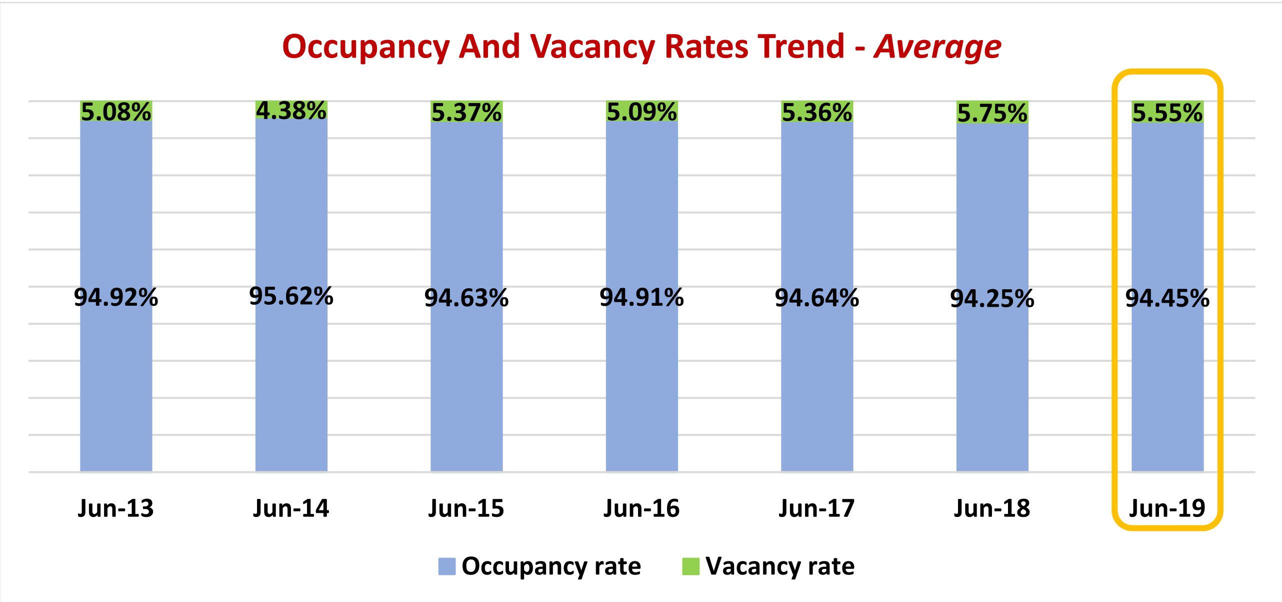
The occupancy rate overall remains steady at 94.45% nationally (94.25% at Jun-18) with the *First 25%* of providers (based on ACH Result) having an average occupancy of 96.36% (96.16% at Jun-18). A trend analysis of occupancy levels for both the *Average* and *First 25%* is included in the below figure.

Figure 16: Occupancy Percentage Trend Analysis



StewartBrown calculates the occupancy based on number of operational places which exclude off-line places due to refurbishment or other strategic reasons. As such the StewartBrown occupancy rate can be used to measure the vacancy rate as shown in the figure below. As at Jun-19 the average vacancy rate is 5.55%.

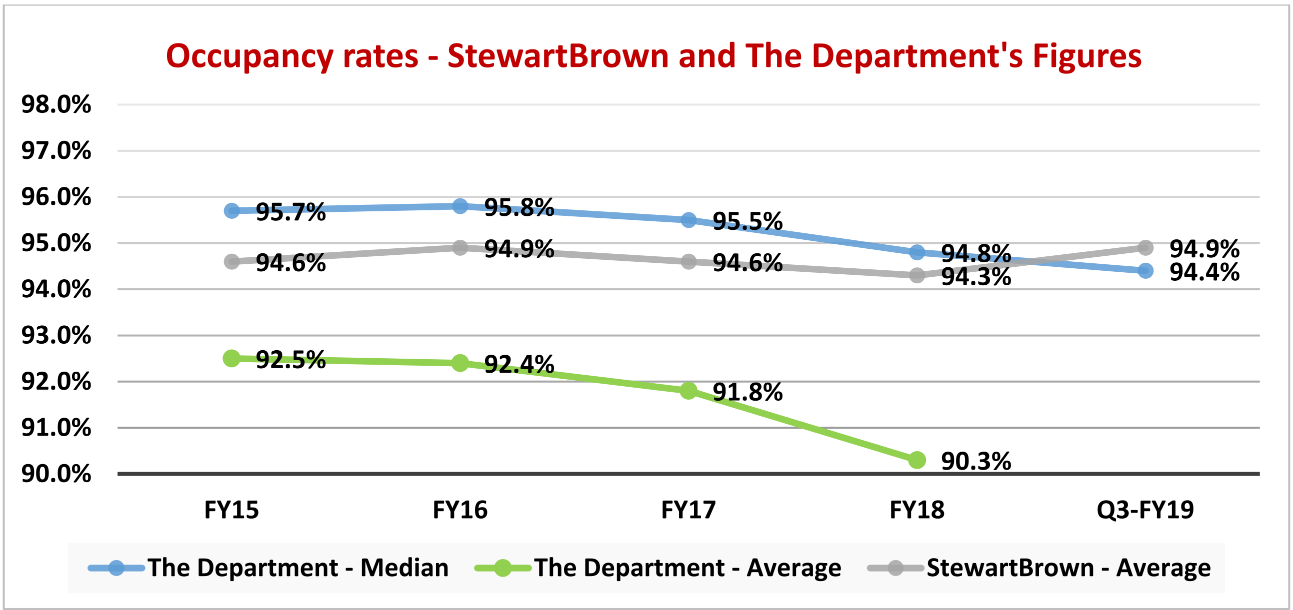
Figure 17: Occupancy Percentage Trend Analysis



The Department of Health (the Department) calculates occupancy on approved places (and as advised by providers) whereas StewartBrown calculates the occupancy based on number of operational places as mentioned above.

Additionally, StewartBrown do not include State or local government occupancy levels as these are often unreliable. The figure below compares the Department of Health occupancy trend and the StewartBrown occupancy trend (excluding government owned facilities). The Department's occupancy displayed has been displayed as both the average as per the ACFA Seventh Report 2019 and as a median average.

Figure 18: Occupancy Percentage Trend Analysis StewartBrown and Department of Health Occupancy



When the Department median occupancy rate is compared to the StewartBrown occupancy average it is very close being 94.9% (StewartBrown) and 94.4% for the Department median.

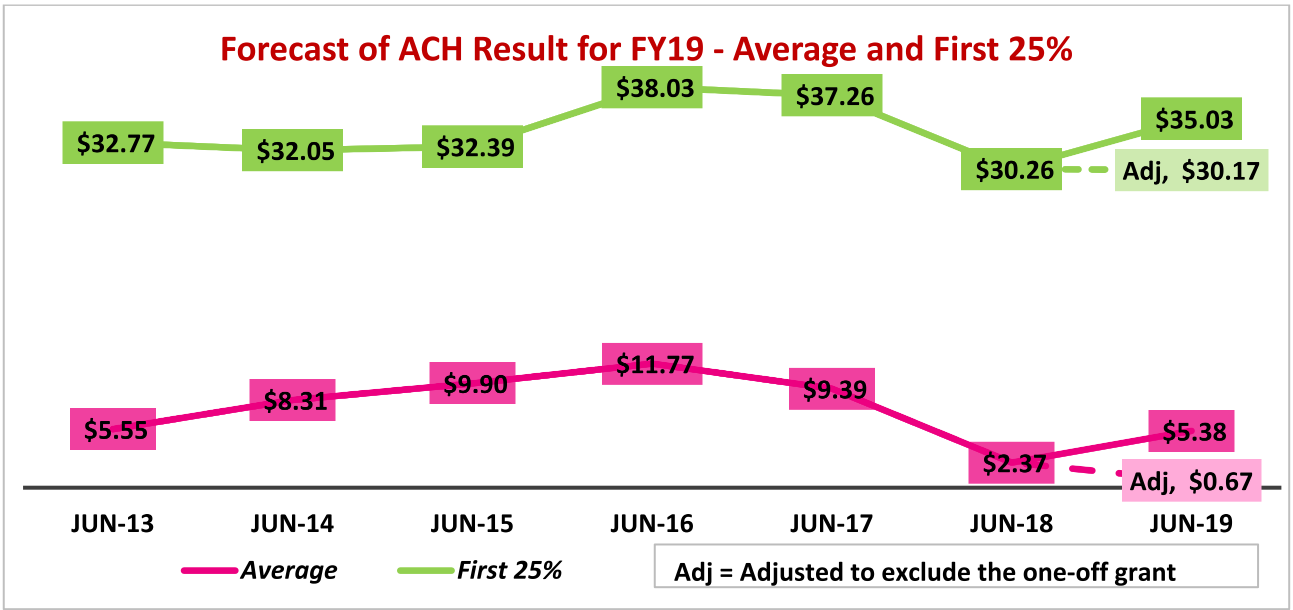
SECTION 5. RESIDENT CARE - FINANCIAL SUSTAINABILITY

Recap - FY19 Forecast

StewartBrown performed a forecast of the FY19 ACH Results in early 2019 using the December 2018 results and the announcement for a one-off grant subsidy. The FY19 forecast was calculated using the following assumptions:-

- ✓ Based on Dec-18 actual ACH Results
- ✓ Average occupancy of 94.9%
- ✓ Adjusted for the "one-off" 9.5% increase in grant funding effective 20 March, 2019 (refer below)
- ✓ Adjusted for other revenue increases in line with pension/ CPI increase
- ✓ Adjusted for Wage increases of 3.0% pa
- ✓ Utilities increase 5.0% pa
- ✓ Depreciation assumed to remain stable
- ✓ Adjusted for other expenditure increases at CPI of 2.1% pa

Figure 19: FY19 Forecast ACH Result showing the likely effect of the 9.5% one-off grant funding boost



The actual results both including and excluding the one-off grant were lower than our projections as shown in the table below.

Table 11: Actual vs Projected ACH Result for FY19

ACH Result	FY19 Actual	FY19 Projected	Difference
Average	$2.11	$5.38	($3.27)
First 25%	$30.69	$35.03	($4.34)
Average Adjusted	($2.62)	$0.67	($3.29)
First 25% Adjusted	$25.72	$30.17	($4.45)

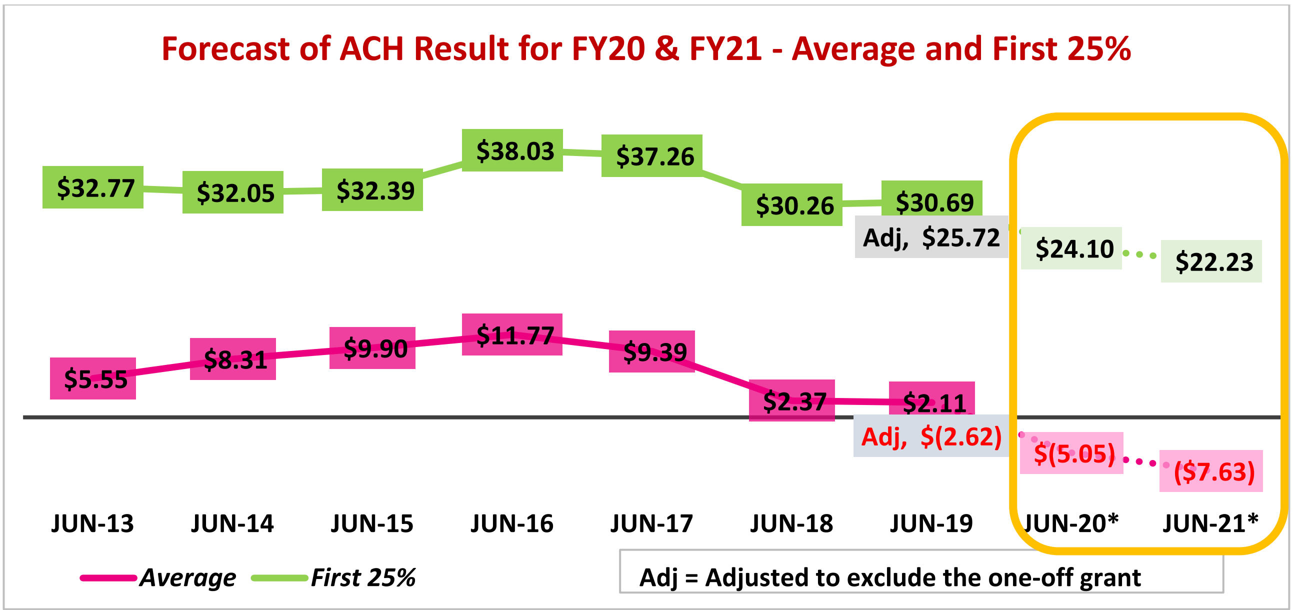
FY20 and FY21 Residential Care Forecast

Forecast Assumptions

We have calculated the projected ACH Results for FY20 and FY21 using the following assumptions:

- ✓ Based on FY19 actual ACH Results as per the StewartBrown Survey
- ✓ Average occupancy of 94.3% in both years
- ✓ ACFI inflation of 1.40% pa
- ✓ Increase of $0.35 per bed day (average) for additional optional services each year
- ✓ Other revenue increases in line with pension/ CPI increase (1.6% pa)
- ✓ Adjusted for Wage increases of 3.0% pa
- ✓ Utilities increase of 5.0% pa
- ✓ Depreciation assumed to remain stable
- ✓ Adjusted for other expenditure increases at CPI of 1.6%

Figure 20: FY19 Residential Care Forecast (ACH Result)



Commentary

As at FY19 the EBITDAR pbpa for the Survey *Average* was $5,531, therefore, the impact of an aged care home operating deficit of $5.05 per bed day in FY20 (keeping all else constant) is:-

- A reduction of ACH Result per bed per annum from a deficit of $904 to a deficit of $1,748 per bed per annum and;
- A reduction of ACH EBITDAR from $5,531 per bed per annum to $4,692 per bed per annum

For FY21, the impact of an operating deficit of $7.63 per bed day (keeping all else constant) is:-

- ACH Result per bed per annum deficit of $2,638 per bed per annum and;
- ACH EBITDAR of $3,808 per bed per annum

If the above FY20 and FY21 projections become a reality, then the financial viability of a considerable number of residential care aged care homes will come under scrutiny. This will include impairment testing which may reduce the carrying value of assets.

Impact of FY20 and FY21 Projections

The below table and figures show the number of aged care homes that could transition into having negative ACH Results and EBITDAR losses should the projections be realised. A comparison to FY19 Actual and FY19 Adjusted to exclude the one-off grant is included.

Table 12: FY20 and FY21 Projected Number of Aged care homes with Negative ACH Results and EBITDAR losses

	FY19 %	FY19 Adj %	FY20* %	FY21* %	FY19 No.	FY19 Adj No.	FY20* No.	FY21* No.
% of aged care homes with negative ACH Result by remoteness								
Major Cities	39.5%	49.1%	52.8%	56.4%	267	332	357	381
Inner Regional	44.8%	55.6%	60.9%	64.4%	117	145	159	168
Rural & Remote	68.5%	74.1%	76.9%	76.9%	74	80	83	83
Survey	**43.8%**	**53.3%**	**57.3%**	**60.5%**	**458**	**557**	**599**	**632**
% of aged care homes with negative ACH EBITDAR by remoteness								
Major Cities	14.6%	18.6%	22.6%	27.4%	99	126	153	185
Inner Regional	25.3%	28.7%	30.7%	33.7%	66	75	80	88
Rural & Remote	38.9%	49.1%	51.9%	56.5%	42	53	56	61
Survey	**19.8%**	**24.3%**	**27.7%**	**32.0%**	**207**	**254**	**289**	**334**

Figure 21: Projected percentage of homes with negative ACH Result

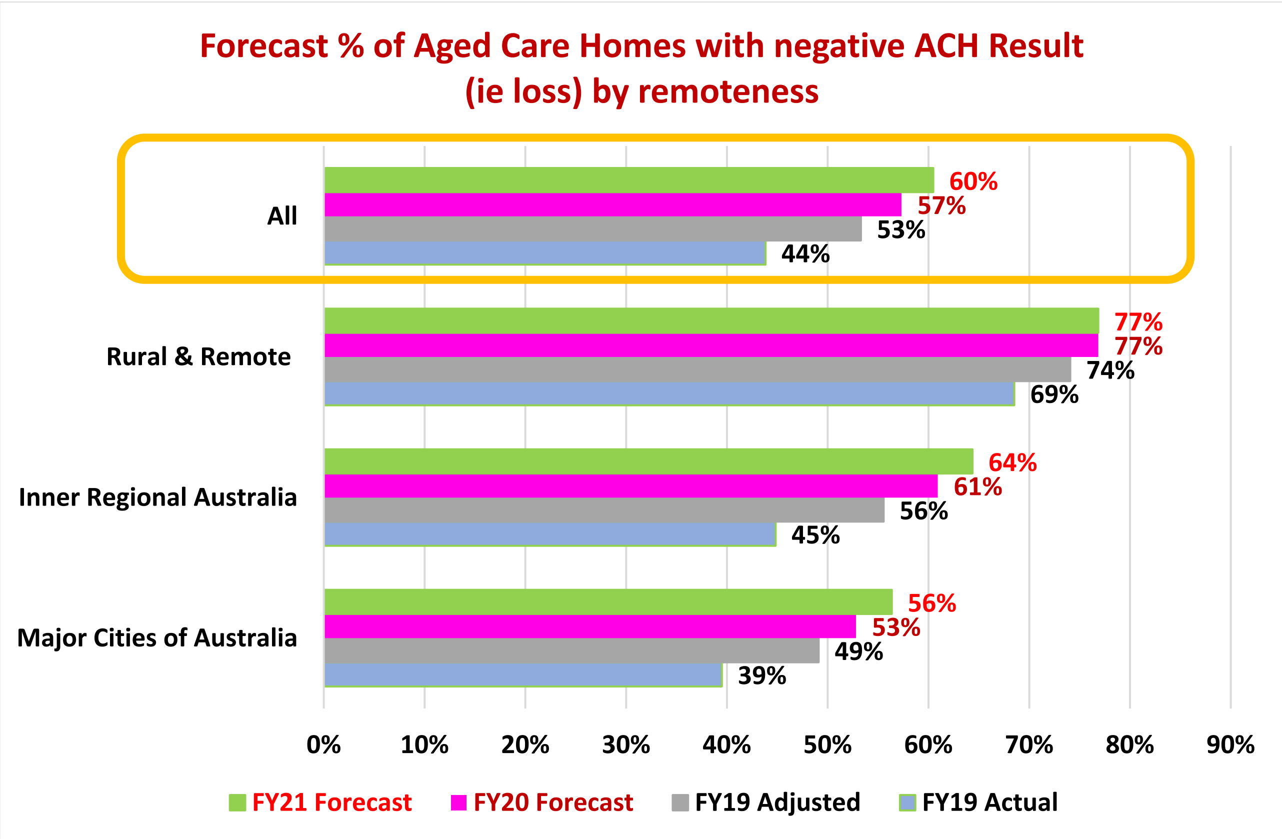
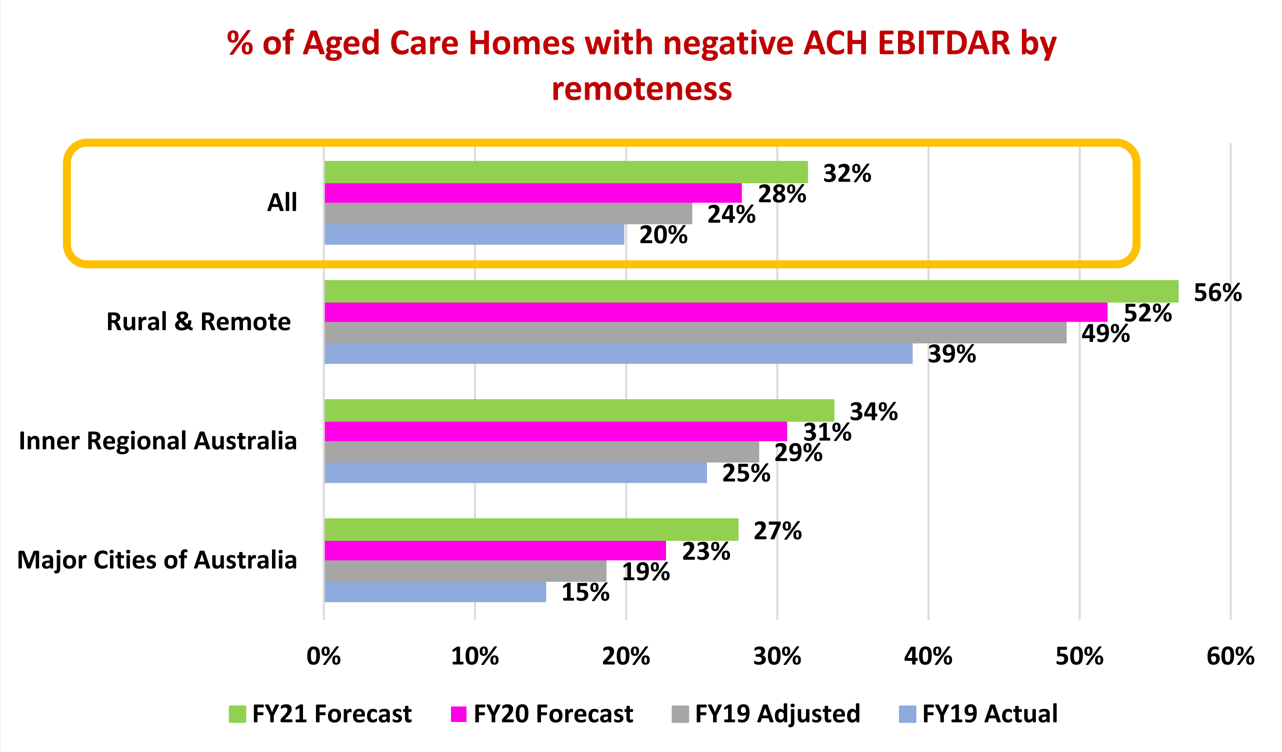


Figure 22: Projected percentage of homes with negative ACH EBITDAR



Current Reforms

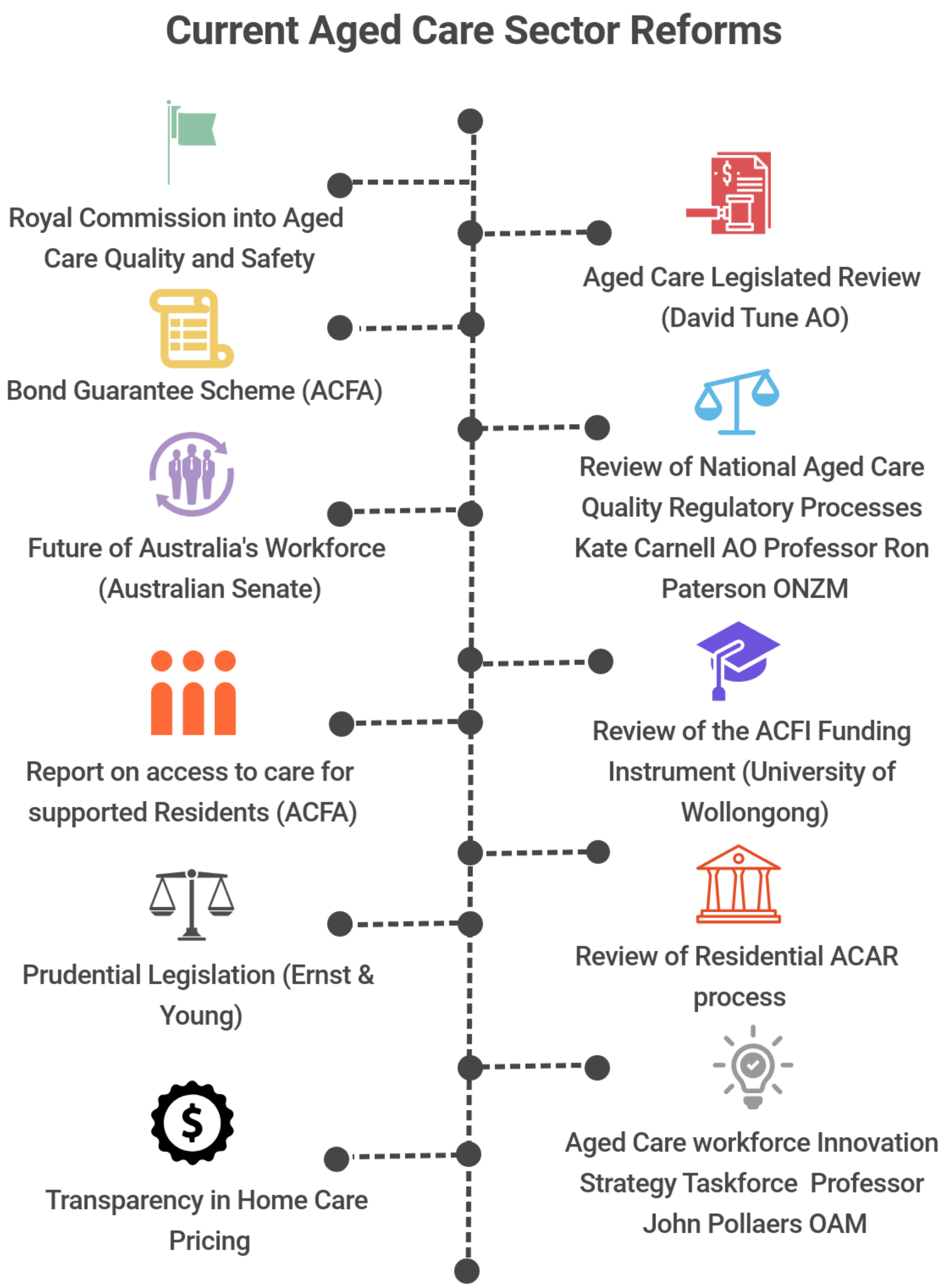
The sector has undergone considerable reforms dating back to 1997 (*Aged Care Act*) and continues to undergo reform. The graphic below summarises the current reviews that have been undertaken and that will inform the reform process. The future sustainability of the sector will be dependent upon the impact of impending reforms and initiatives.

It is expected that independent of the Royal Commission, there are likely to be reforms announced in a number of key areas based on consultation that has already taken place within the sector or announcements made by Government. These include:

- Home Care funding arrangements
- Prudential management including Accommodation Bond Guarantee Scheme
- ACAR process for allocating residential aged care places
- More clarity regarding additional services in residential care

There is no doubt that further reform will come as a result of the recommendations of the Royal Commission when they hand their report down in November 2020. But that is a long way off and there is a need for reform now, particularly to provide more financial sustainability and certainty within the sector.

Figure 23: Summary of Current Aged Care Sector Reforms

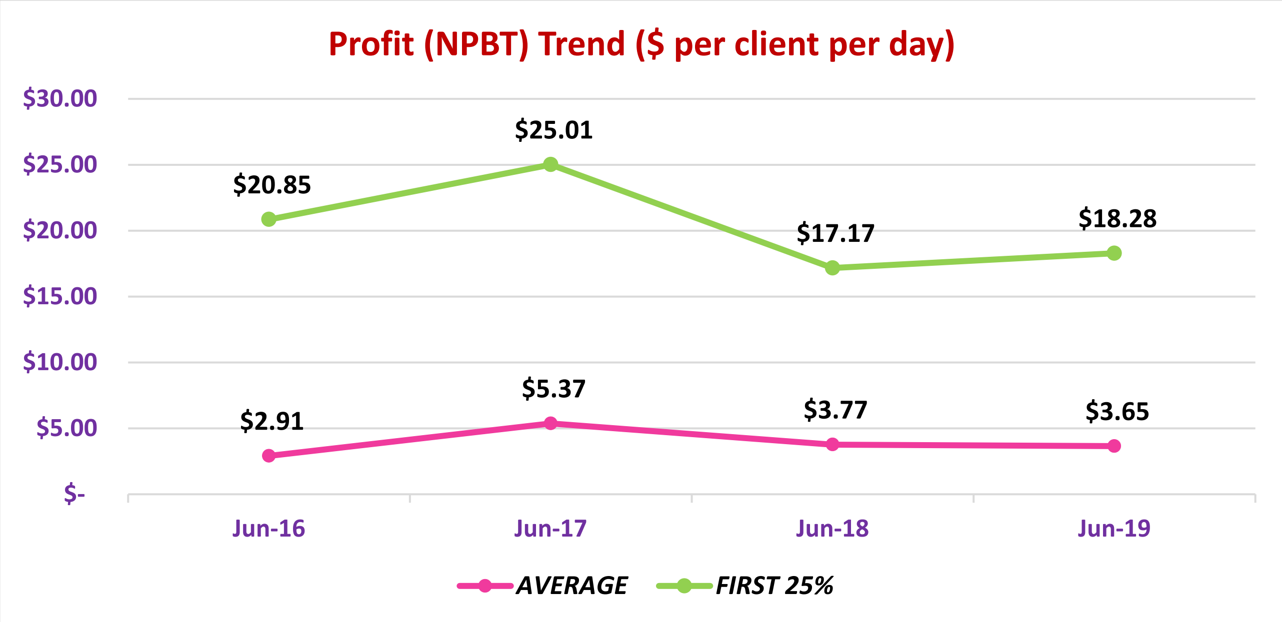


SECTION 6. HOME CARE ANALYSIS

The home care segment has experienced a minor decline in the average operating surplus for FY19 since FY18 of $0.12 per client per day (pcpd) to an average surplus of $3.65 pcpd. The programmes in the *First 25%* fared much better with a rise in the average surplus from $17.17 pcpd for FY18 to $18.28 pcpd in FY19, an increase of $1.11 pcpd.

These results for FY19 appear to have arrested the more dramatic declines in the results between FY17 and FY18 after the reforms in February 2017.

Figure 24: Trend of Net Profit Before Tax (NPBT) for Home Care Packages FY16 to FY19. All Packages Average and First 25%



There were various factors contributing to these results and some observations are as follows:

Package Revenue

- Increased by 4.6% for Survey *Average* and 2.5% for *First 25%*
- Revenue utilisation increased by 2.5% for Survey *Average* and 1.6% for *First 25%*
- Higher unspent funds across Survey *Average* and *First 25%*

Package Expenses

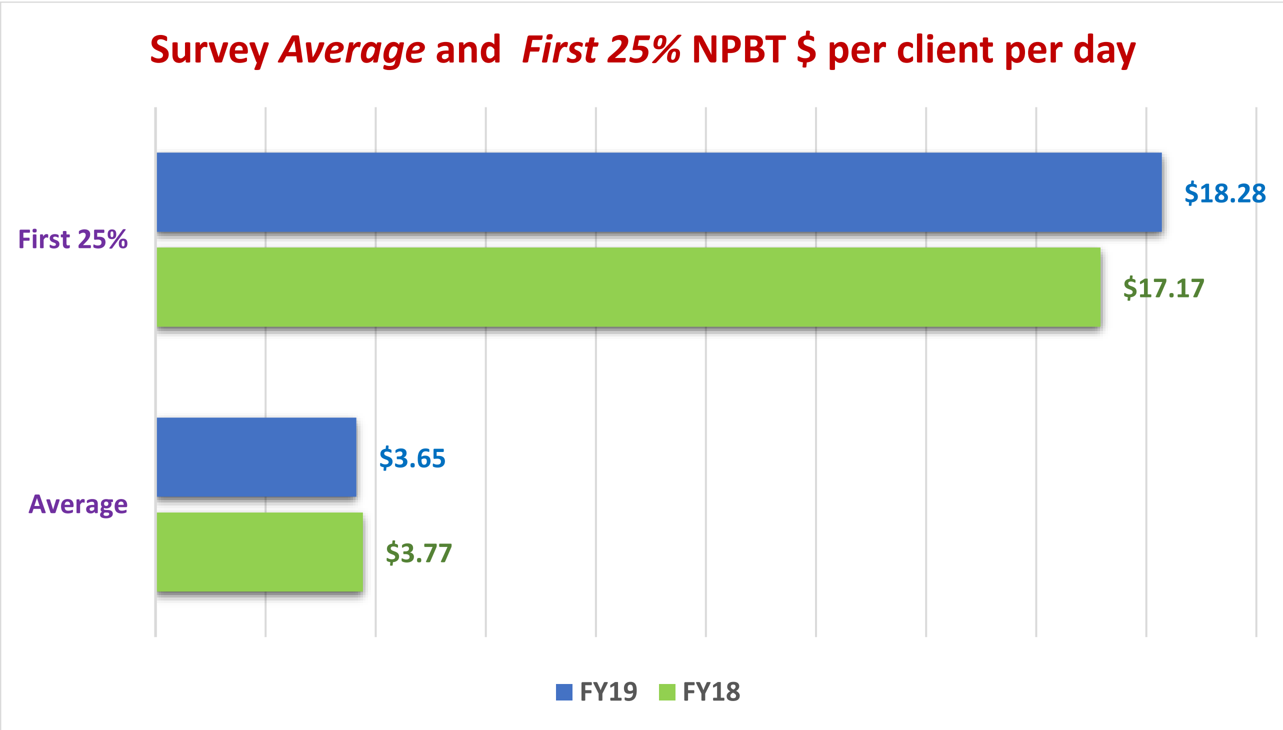
- Increased by 5.0% for the Survey *Average* and 1.5% for the *First 25%*
- Direct service costs increased by $0.88 pcpd (2.4%) for the Survey *Average* and by $2.49 pcpd (6.4%) for the *First 25%*
- Cost of direct service and brokered/sub-contracted as a percentage of total income has increased to 62% from 61% (FY18) for the Survey *Average*
- There was an increase in the use of brokered services of $1.65 pcpd (29.5%) for the Survey *Average* compared to a reduction of $0.91 pcpd (15.3%) for the *First 25%*
- Decrease in case management and advisory $0.04 pcpd (reduction in staff costs) for Survey *Average* and $0.56 pcpd for *First 25%*
- Increase in administration costs of $0.82 pcpd for Survey *Average* and $0.21 pcpd for the *First 25%*

Other

- According to the latest Home Care Packages Programme Data Report for the 4th Quarter 2018-19 there has been a 7.9% growth in the number of persons in a home care package in the nine months to March 2019 and a 16.6% increase in the year to March 2019. For providers, this type of growth has been rare
- In the year to March 2019 there has been an 8.9% growth in package numbers. There has also been an 8.9% increase in the number of providers of home care services, and this has absorbed some of the growth in packages
- We have seen, at a provider level, that the more consistent growth in packages has occurred for large providers with greater than 1,000 packages
- In the year to March 2019, the number of persons in home care packages has increased by 14,139
- The participants in the StewartBrown survey have seen an increase of 3,078 packages in FY19, and an average increase of 9.8% across all the providers in the survey
- Mix of packages - while there has been a significant increase in the number of high care packages in recent years, the latest June release of 47,700 packages contained 9,200 (19.3%) Level 1 packages and 13,900 (29.1%) Level 2 packages. This release of low care packages, combined with the effect of unspent funds at all package levels, is likely to see the number of programmes in the low-care categories in our survey increase and average revenues decline, or at least stabilise somewhat

NPBT and EBITDA

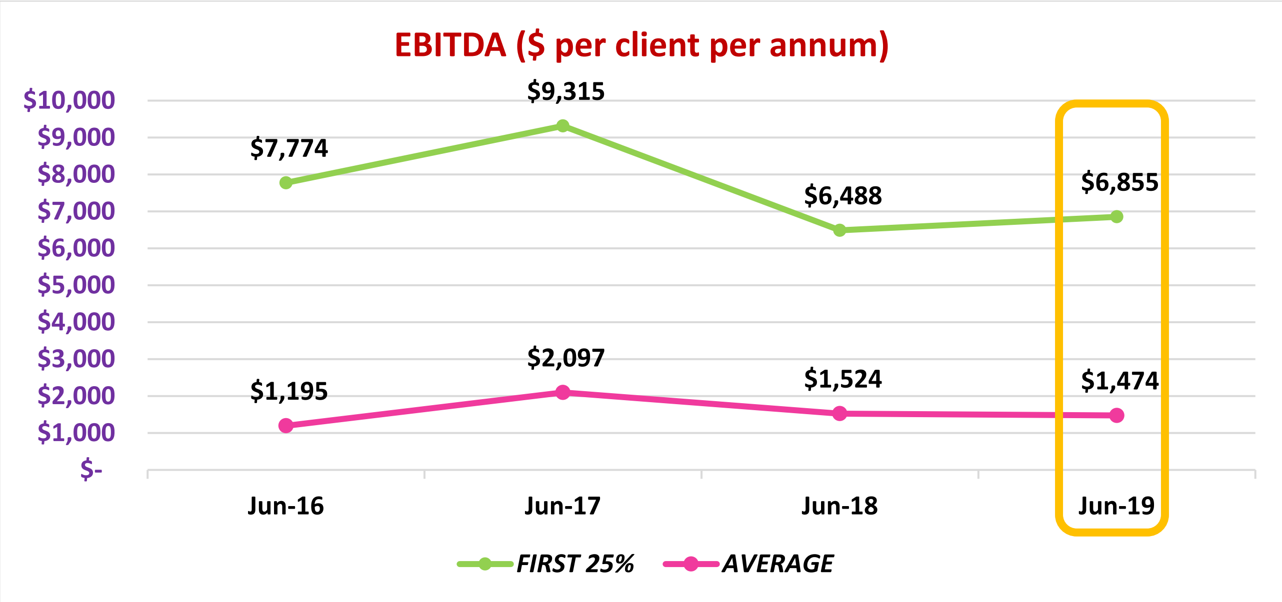
Figure 25: NPBT for Survey Average and First 25% for FY19 and FY18



There was a decline in the NPBT of programmes across all package levels with the exception of those programmes with a greater mix of high care packages which have been traditionally more profitable.

The EBITDA per client per annum for the Survey *Average* and *First 25%* are shown in the figure below. The same trends as per the NPBT can be seen.

Figure 27: Comparison of Survey Average EBITDA Per client per annum trends

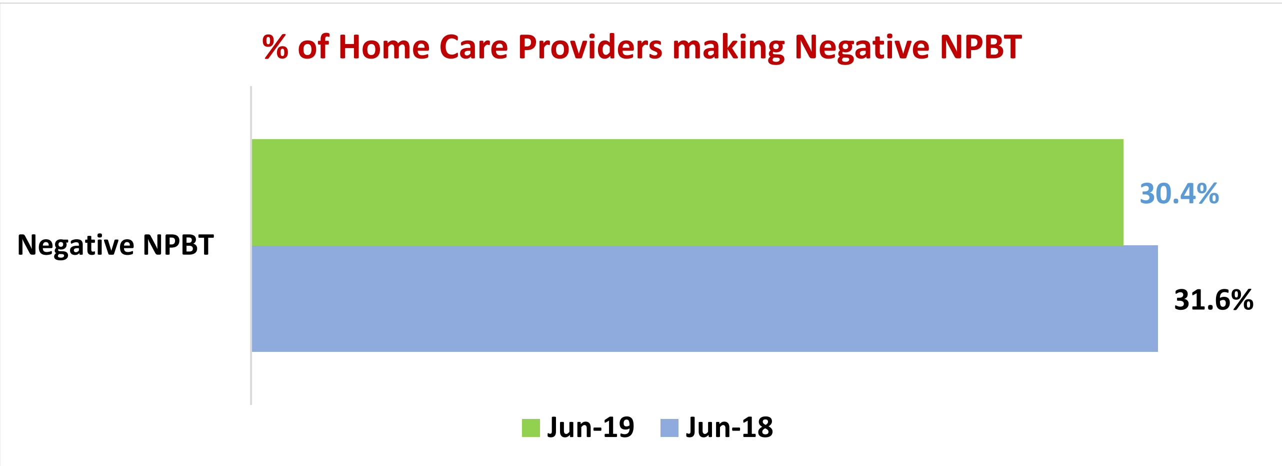


Impact of FY19 Performance

Please note that the following analysis is based on the financial operating performance at the consolidated home care programme level which is an approximate for the approved provider level. Where the provider is in the survey and had submitted data, we have included all programmes submitted by that provider to determine the consolidated provider NPBT.

The total percentage of home care providers (92 in the survey) making a negative NPBT (i.e. a loss) is 30.4%. This is a decrease of 1.2% compared to the FY18 figure of 31.6%.

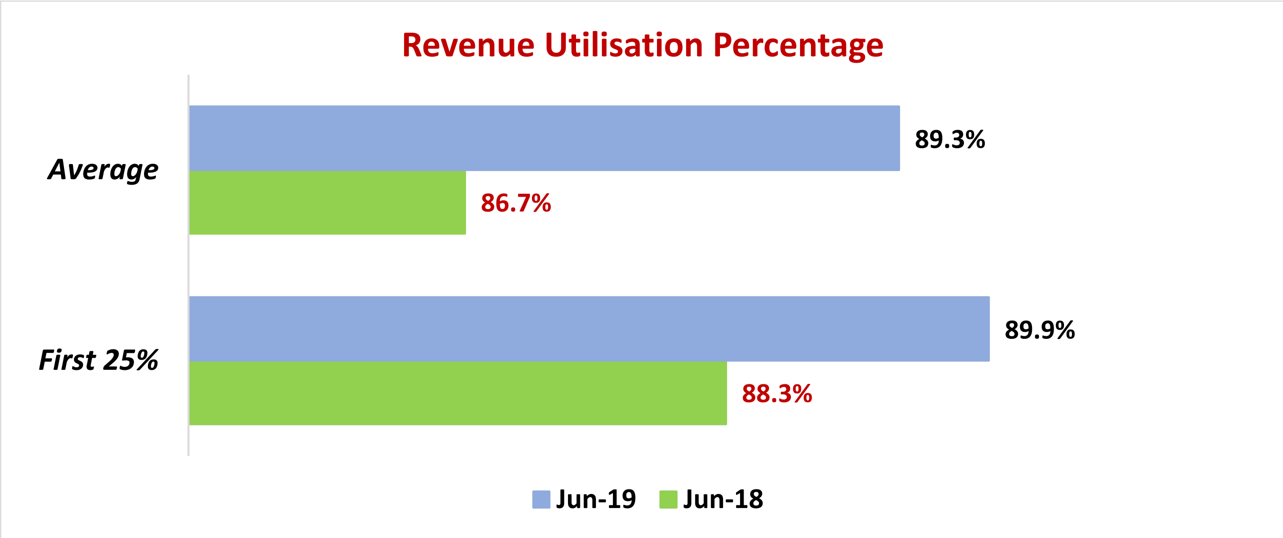
Figure 28: Percentage of home Care Providers making Negative NPBT



Revenue Utilisation

Revenue utilisation rates improved on average in FY19 and this has slowed the rate of growth in unspent funds, albeit they continue to grow, increasing by an average of $973 per package in FY19 compared to an increase of $1,767 in FY18.

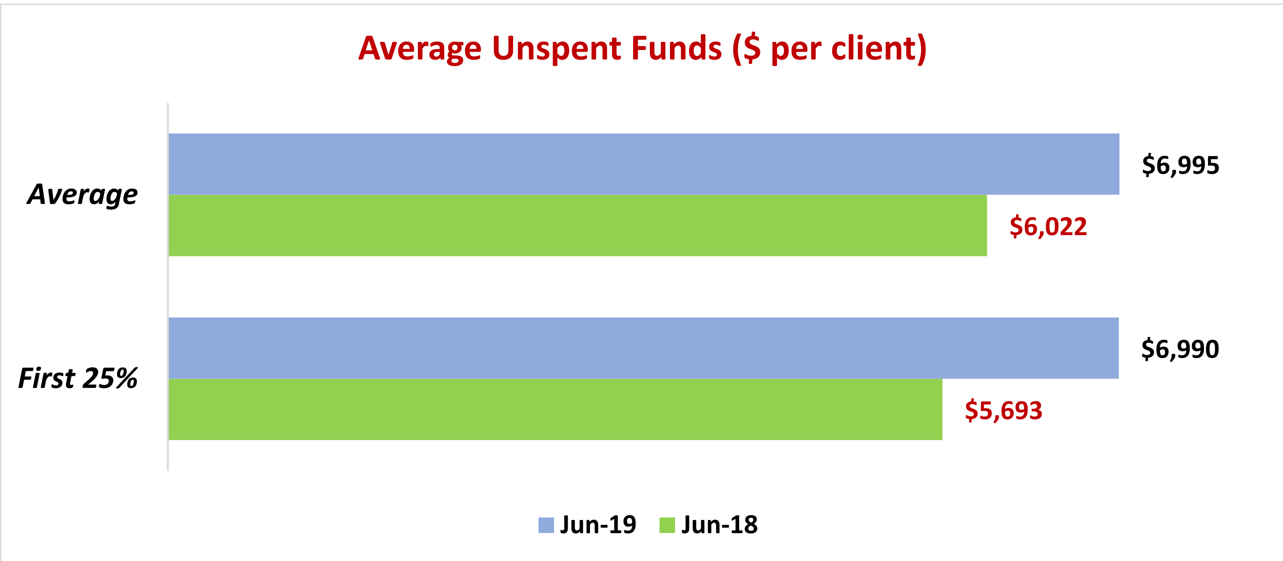
Figure 29: Revenue Utilisation comparison for FY19 and FY18



Unspent Funds

Despite the marginal improvement in *Average* revenue utilisation there has been a continuation in the increase of unspent funds for each client. As at 30 June 2018, home care providers reported holding unspent funds of $539 million (FY17: $329m) and this is likely to be over $700 million as at FY19 year-end. The increasing amount of unspent funds continues to be a significant area from both a service delivery and financial performance perspective.

Figure 30: Average Unspent Funds per client as at Jun-19 and Jun-18



Staff Hours Worked per Client

In the FY19 there has been a further decline in the number of hours provided per client per week. This is on the back of a similar decline in hours provided in FY18. This is despite the increases in average revenue levels and what we know is an increase in the number of high care packages in the overall package mix.

For the Survey *Average* almost the whole reduction relates to direct service provision. For the *First 25%*, direct service hours accounted for 66% of the overall reduction of 1.9 hours per client per week. The remaining 36% was split between case management hours and administration and support hours.

Table 13: Home Care Staff Hours per client per week for FY19 and FY18

	Average			*First 25%*		
	FY19	**FY18**		**FY19**	**FY18**	
Direct service provision	4.59	5.15	↓	5.07	6.31	↓
Agency	0.25	0.22	↑	0.18	0.15	↑
Case management & advisory	0.80	0.87	↓	0.92	1.31	↓
Administration & support services (including co-ordination)	0.47	0.46	↑	0.38	0.68	↓
Total Staff Hours	**6.10**	**6.69**	↓	**6.55**	**8.44**	↓

For the Survey *Average*, the reduction in hours has been offset to some degree by an increase in the level of brokered and sub-contracted services. It is likely to be the case that, instead of the package being utilised for direct service provision by the Provider, it is being utilised for third-party purchases of goods and services. These costs have increased by $1.65 per client per day.

The reduction in service hours is also a function of the continued increase in the level of unspent funds. Packages are not being utilised to their full potential.

On the positive side, there is a reduction in the administration and support services hours per client per week for the *First 25%*. We know from a lot of the work we have done with clients that many providers have been making significant efforts to address the level of administration overheads. In many cases, this has been achieved through a combination of modifying work practices and the adoption of technology to help streamline these processes.

Analysis of Client Exits

A large proportion of care recipients exit home care packages to move into residential care (ie an aged care home. This cohort represented 48% of all exits analysed in FY19 (FY18: 45%). This is in line with the fact that at 30 June 2019, 69.9 per cent (83,557) of people in the National Prioritisation System had dual approvals, having been approved for a permanent place in a residential aged care aged care home and a Home Care package, which they have not yet received.

While there has been a sense of apprehension regarding the new pricing transparency table on My Aged Care and the effect that this may have on the pricing strategies of providers, price is not the primary factor for care recipients changing providers. In fact, only 11% of exits were to other providers and of those, 15% changed due to pricing of services. This is not to say that price is not a major consideration for care recipients when they are choosing a provider when first entering the system.

Seeing that the *First 25%* are supplying only an extra 0.45 hours per client per week for a revenue differential of $124.81 per client per week, service price is likely to be a significant differentiator. This is further supported by the fact that there is a $14.63 pcpd difference in NPBT between the *First 25%* and the Survey *Average* and the revenue differential between the two groups is $17.83 pcpd. Price of service appears to be playing a significant role in why the *First 25%* is achieving the higher returns.

Figure 31: Client Exits for FY19 - based on analysis of 8,190 exits

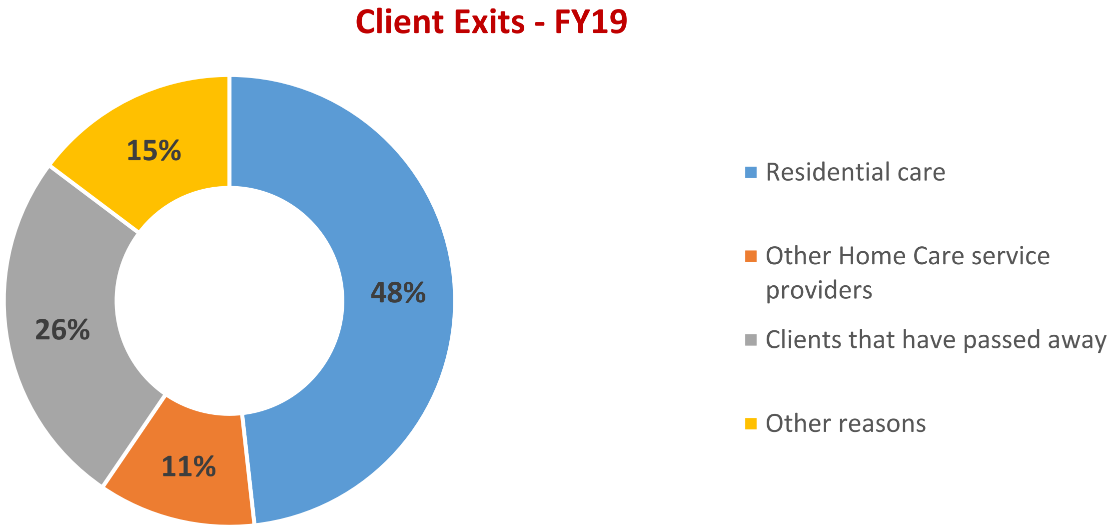
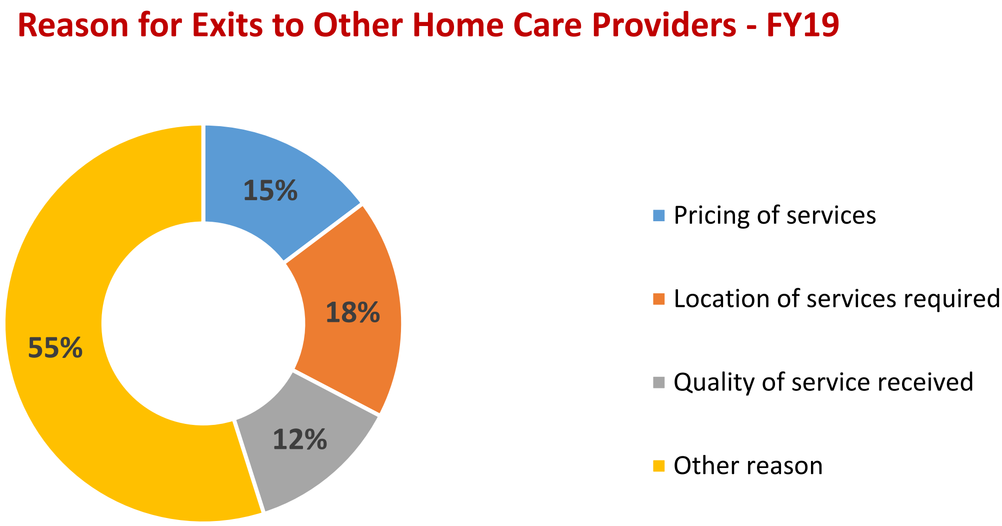


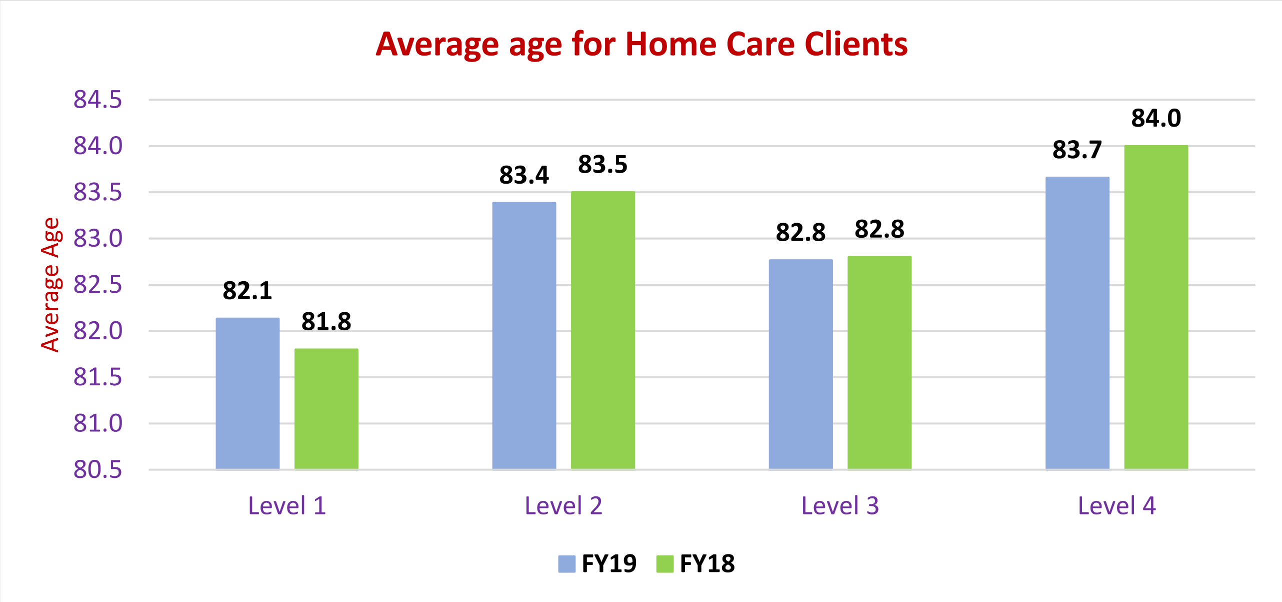
Figure 32: Reasons given for exits to other providers in FY19 - Analysis based on 375 exits



Average Client Age and Length of Stay

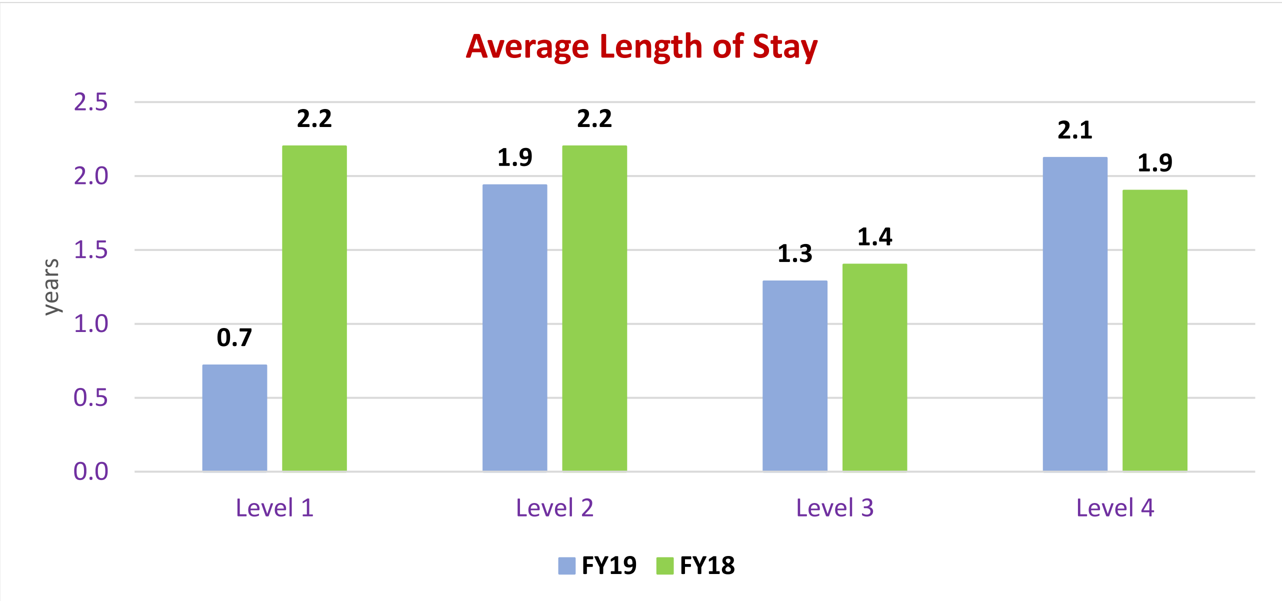
The Survey established a generally slightly decreasing average age of clients, except for those in Level 1 care, whose age slightly increased from FY18 to FY19. All movements are marginal and there are no significant trends appearing.

Figure 33: Average age of home care clients by package level



The average length of stay (the time the average client has been using the present home care package) was found to have decreased at all care levels, with the exception of Level 4 packages which showed a slight increase. There is volatility in the Level 1 packages because there are not that many of them. This may change now that the Government has released a significant number of Level 1 packages into the system in the June quarter of 2019.

Figure 34: Average length of stay of home care clients by package level



Analysis of Sector Data (GEN Aged Care Data)

The GEN aged care website has a significant amount of data with respect to home care and other segments of the aged care sector. Quarterly reports are published summarising some of this data and some of the trends. We have analysed these reports and the analysis and observations below are based on the report to June 2019.

- Additional 433 approved home care providers since Jun-16 (929 in total as at 30 June 2019)
- Post deregulation - growth since Mar-17 to Jun-19 is 34% (236 providers)
- Additional 7,263 consumers since Jun-18 (at Mar-19 is 99,110 consumers)
- Post deregulation - growth since Mar-17 to Mar-19 is 40% (28,531 consumers)
- A total of 47,700 home care packages were released during the June 2019 quarter. Of these 12,145 were upgrades to persons on a lower level interim package and the remaining 35,555 were to people not in an interim package
- 47,462 queued either in or assigned a lower level package and 72,062 not in or assigned a lower level package as at 30 June 2019 (119,524 in total in national prioritisation queue which is a reduction from 121,438 at Jun-18 and 127,748 at Dec-18)

Figure 35: Number of Consumers in National Priority System. Source: GenData

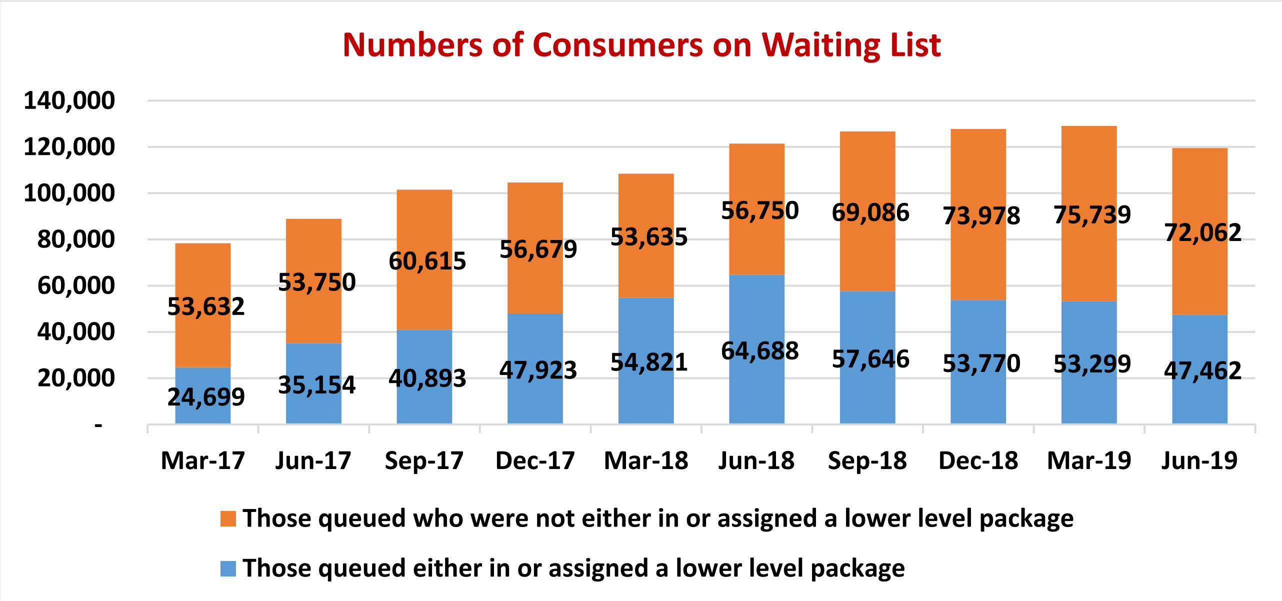


Figure 36: Number of Home Care Providers - Trend June 2016 to March 2019. Source: GenData

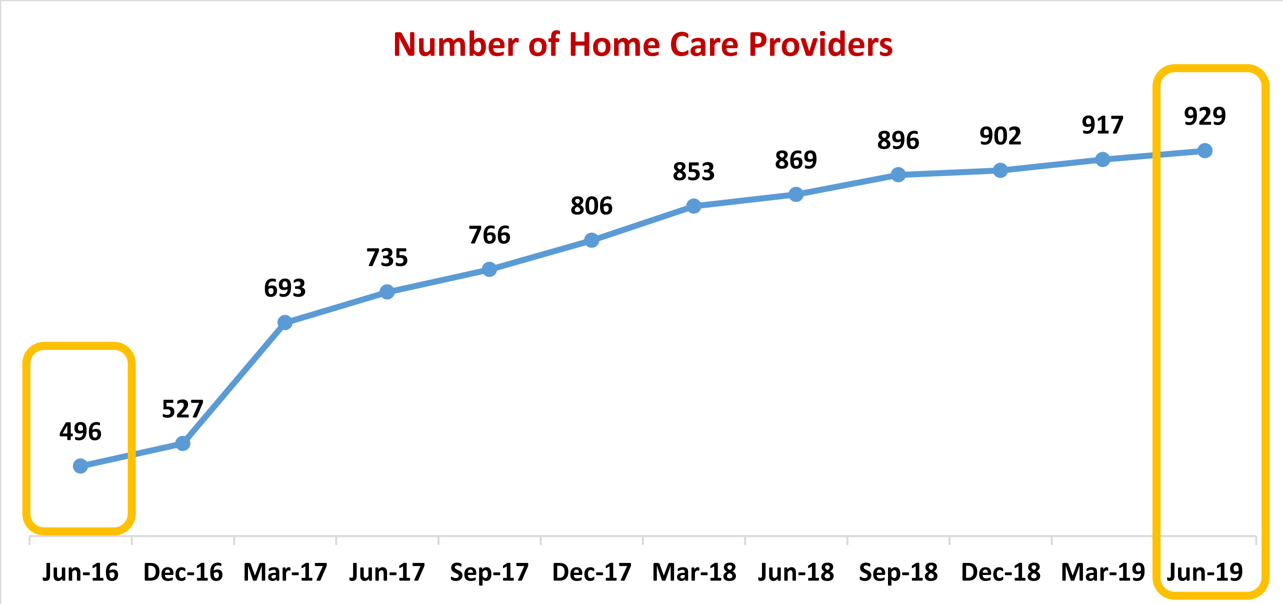
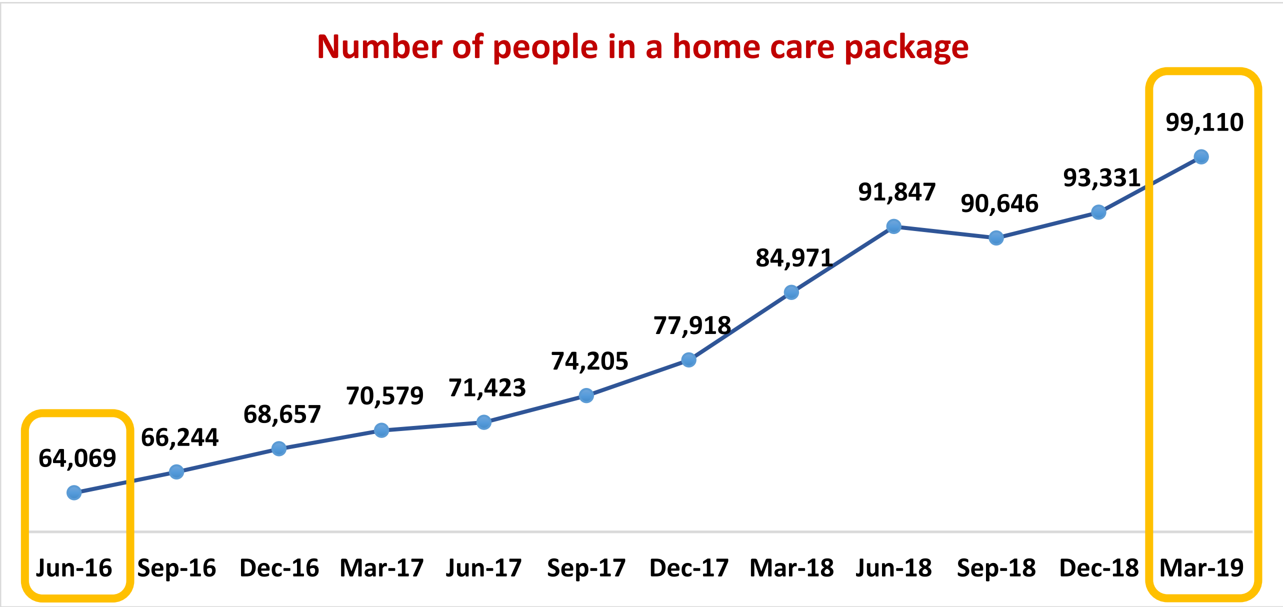


Figure 37: Number Of Care Recipients with a Care Package - Trend June 2016 to March 2019. Source: GenData



SECTION 7. GLOSSARY

Aged Care Home Result (ACH Result)

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

ACFI Result

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

+

Everyday Living Result

- Basic Daily fee and extra/additional service fees

Less

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

−

Administration Costs

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

=

ACFI + Everyday Living less Administration

CARE RESULT

ACFI + Everyday Living less Administration

CARE RESULT

+

Accommodation Result

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

Less

- Depreciation and amortisation
- Rent
- Room refurbishment costs

=

Care + Accommodation

ACH Result

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

ACFA
Aged Care Financing Authority - the statutory authority which provides independent advice to the government on funding and financing issues, informed by consultation with consumers, and the aged care and finance sectors. ACFA figures are sourced from their *Annual Report on the Funding and Financing of the Aged Care Industry – 2019.*

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.

Aged Care Home (ACH)
Sometimes given as "Aged Care Facility" or "Facility". Department of Health usage prefers Aged Care Home.

ACH EBITDAR
The starting point for this calculation is the ACH 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 because it excludes all those items which are generally allocated at the aged care home 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 aged care home performance.*

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

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

***Average*s**
For residential care all *averages* are calculated using the total of the raw data submitted for any one-line item and then dividing that total by the total occupied bed days for the aged care homes in the group. For example, the average for contract catering across all aged care 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 programmes in the group. For example, the average for sub-contracted and brokerage costs across all programmes would be the total amount submitted for that line item divided by the total client days for all programs in the survey.

***Average* by line item**
This measure is *average*d across only those aged care homes that provide data for that line item. All other measures are *average*d across all the aged care 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 all participants.

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 programmes being examined. For example, if we are examining the results for aged care homes/ programmes in Band 4, then the benchmark would be the average of the *First 25%* of the aged care homes/ programmes in Band 4.

Care Result
This is the element of the ACH 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. The denominator used in this measure is the number of occupied bed days for any aged care home or group of aged care homes.

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

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 “aged care home 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 ACH EBITDAR for the financial year divided by the number of operational beds in the aged care home.

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).

EBT
See ACH Result

First 25% **- Residential Care and Home Care Packages (HCP)**
The Residential Care and Home Care results (NPBT) 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 programmes 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 programmes with the lowest (fourth highest) EBIT $pd.

Geographic Location
Aged care homes have been designated a geographic location 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 Major City. Those that were designated as being an "Inner Regional" are "Inner Regional" and those that were designated as "Outer Regional", "Remote" of "Very Remote" have been designated as Rural & Remote.

NPBT
Net profit before tax. This may also be referred to as the net result or, in the residential aged care home analysis, as the ACH Result.

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

SECTION 8. CONTACT DETAILS

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

The Executive Partners for the Aged Care and Community Services Division are:

	**Grant Corderoy** **Senior Partner** **Grant.Corderoy@stewartbrown.com.au**
	**Stuart Hutcheon** **Managing Partner** **Stuart.Hutcheon@stewartbrown.com.au**
	**David Sinclair** **Partner** **David.Sinclair@stewartbrown.com.au**

For Benchmark enquiries
benchmark@stewartbrown.com.au
For Consulting enquiries
consulting@stewartbrown.com.au
For all enquiries
Telephone:
Sydney: (02) 9412 3033
Adelaide: (08) 8229 2280

Sydney Office
Level 2, Tower 1
495 Victoria Avenue
Chatswood NSW
2067

Adelaide Office
Level 1
104 Frome Street
Adelaide SA 5000