Aged Care Sector Report

The StewartBrown December 2020 *Aged Care Financial Performance Survey* incorporates detailed financial and supporting data from **1,200 aged care homes** (97,056 beds/places) and **45,553 home care packages** across Australia. The quarterly survey is the largest benchmark in the aged care sector and provides invaluable insight into the trends and drivers of financial performance at the sector level and at the aged care home or programme level.

For the six months ended 31 December 2020

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1. EXECUTIVE SUMMARY

Abstract

The *Aged Care Financial Performance Survey* (Survey) December 2020 Sector Report gives an overview of the financial performance of the aged care sector in Australia. It is based on the results of the StewartBrown Survey for the six months ended 31 December 2020.

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

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

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

Refer *Appendix A* which provides a graphical depiction of the Data Collection, Data Cleansing and Survey Metrics.

<u>Staffing hours per care recipient</u>

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

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

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

Dec-20 Survey Results Snapshot

Following is a snapshot of the key financial performance results and indicators by segment from participants in the Dec-20 *Aged Care Financial Performance Survey*. Comparisons are year-on-year with the majority of analysis being comparison with the Dec-19 results.

Survey Analytics

Residential Aged Care

Data from 1,200 Facilities

More than 44% of the residential aged care sector represented

Organisational Data

Data from 228 Approved Provider organisations

More than 27% of the residential sector represented

Dec-20 Survey

Home Care

Data from 45,553 Home Care packages

More than 30% of the home care sector represented

Approved Provider - Aggregate Results

(0.78%)
Operating surplus return on assets
(Dec 19: Negative 1.04%)

($0.7million) deficit
Operating result
(Dec 19: $0.9million)

1.01%
Operating EBITDA (cash) return on assets
(Dec 19: 0.71%)

(616k) deficit
ACFA average operating results FY19
(FY18: $218k deficit)

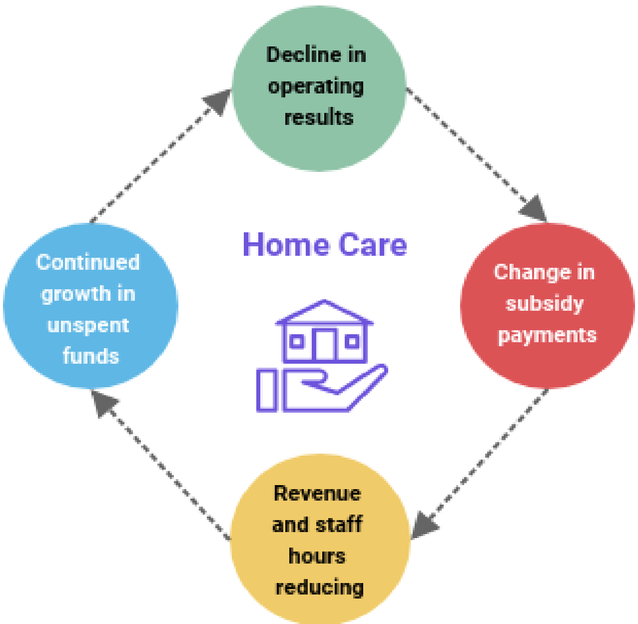
34.7%
Cash + financial assets as a percentage of debt
(Dec 19: 36.43%)

$921k
Operating EBITDA
(Dec 19 : $620K)

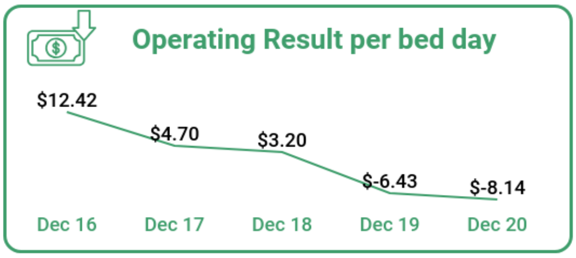
December 20 Survey Results Analysis

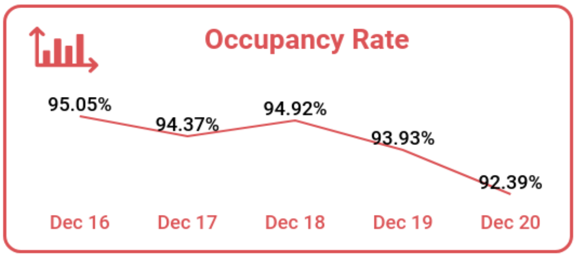
- Occupancy declined by 1.5% from Dec-19 to 92.4% for mature homes. Occupancy and the financial performance are significantly inter-related and accordingly declines in occupancy affects the operating performance
- Direct care staff costs represented 80.7% of the ACFI (direct care) subsidy, and the ongoing disparity between the subsidy COPE increase and staff cost increases continues to cause considerable viability concern.
- Unsustainable loss in providing indirect care services. The cost of providing these essential services exceeds the revenue by an average of $9.10 per resident per day without any allowance for the administration costs.
- 58% of aged care homes made an operating loss for the period to Dec-20 with 31% making an EBITDAR (cash) loss. The number of homes making a loss is not sustainable

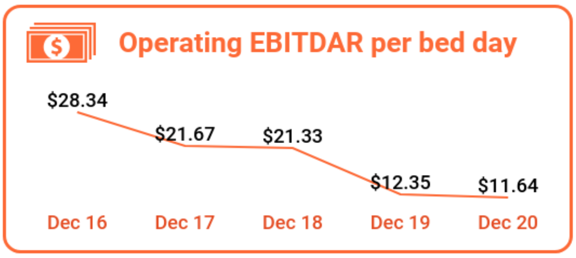
- Home Care Packages has experienced a marginal decline in the operating performance when compared to Dec-19 to $4.53 per client per day
- Unspent Funds continued to grow to be an average of $9,901 per client (care recipient). This represents in excess of $1.4 billion nationally in unspent (unutilised) funds
- Effective from March 2021 subsidy funding will be paid in arrears, and from September 2021 subsidies will be reimbursed in arrears based on actual services provided. This will have an effect on provider cash flow management
- Revenue per client per day and staff hours per client per week continue to decline. Service revenue must improve (driven by unit price increases) with resultant increase in staffing hours provided to care recipients

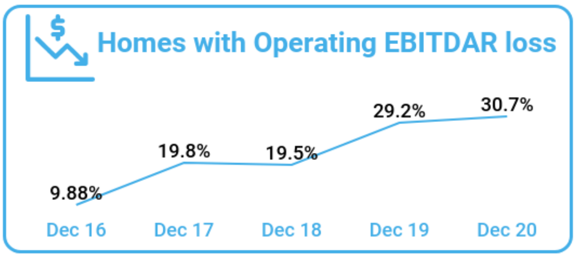


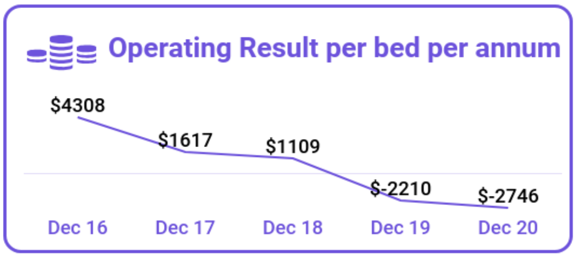
Residential Aged Care

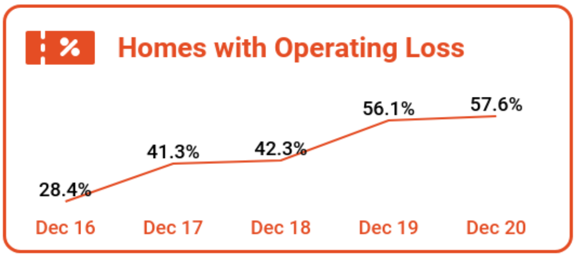




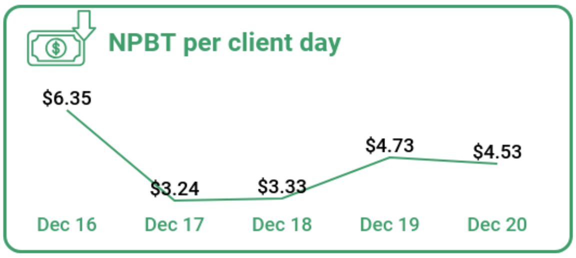


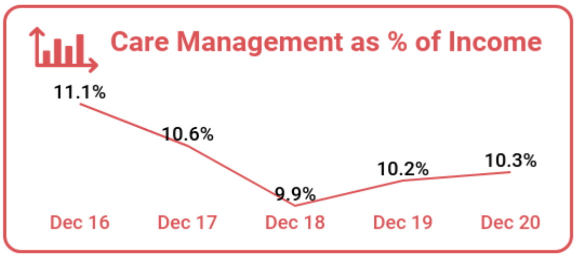


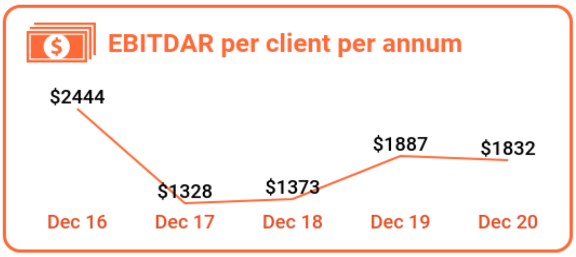


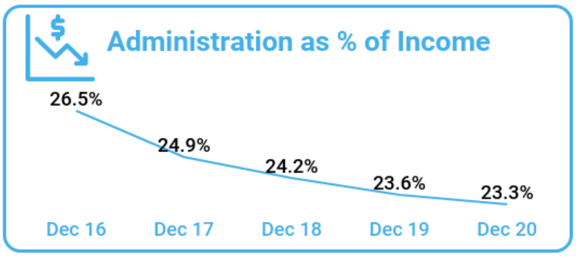


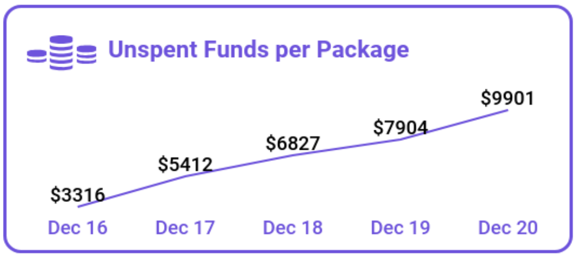
Home Care

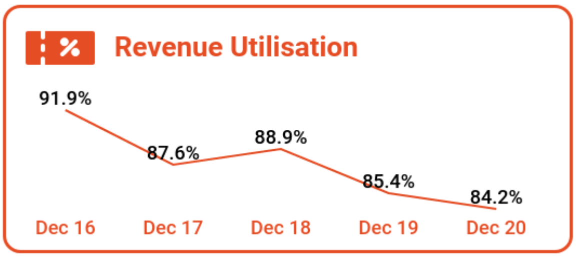












COVID-19 Funding: Financial Effect

The financial impact of COVID (funding received less direct COVID related expenditure) has had a significant effect on the December 2020 six monthly results, through some target support programs as well as those that have been made available to the wider business community.

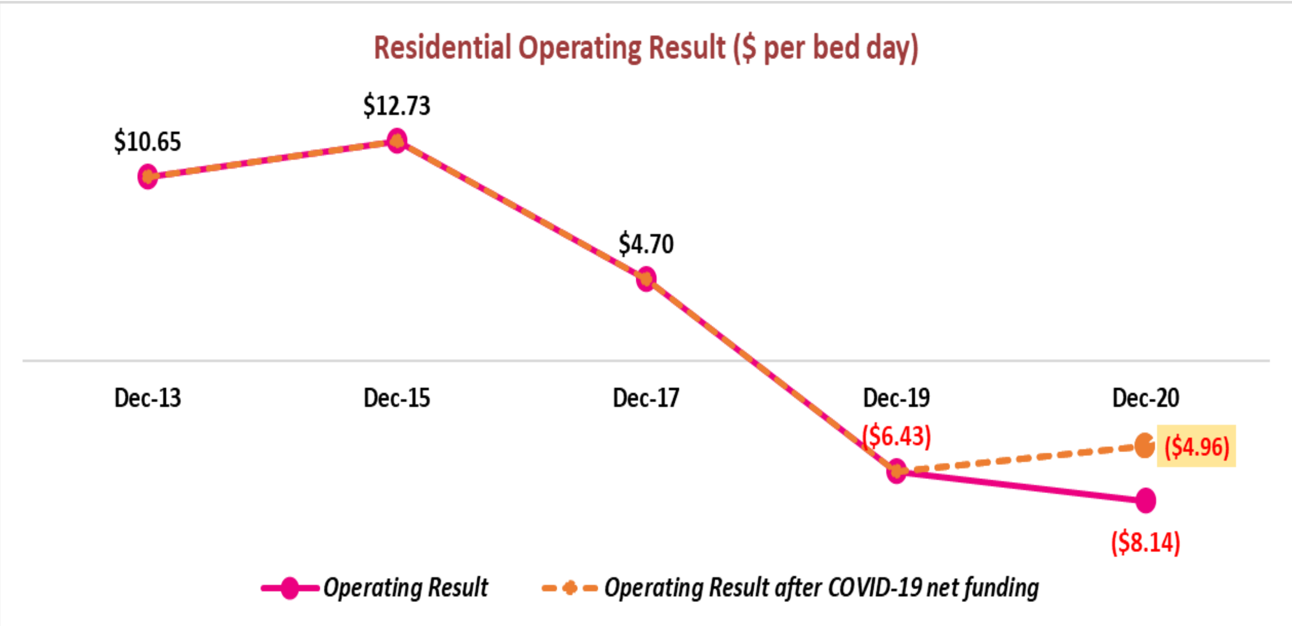
Consistent with the June and September reports, we have undertaken our analysis on the basis of removing the effects of the covid-19 funding measures as well as the additional costs relating to the pandemic. The rationale for this is to ensure comparability of results and trends across periods and examine the underlying financial returns for aged care providers.

To further ensure comparability, we have conducted detailed comparisons of expenses before COVID and after the removal of the additional COVID expenses and investigated any major variances.

In relation to home care providers, the additional covid-19 subsidy did not create any significant financial benefit due to the revenue able to be reported being based on services provided to clients - not receipts from funding sources. We are aware of some providers that received JobKeeper payments, but this was generally a result of reductions in revenues in other parts of their business.

Based on the data provided, the COVID revenue exceeded the COVID expenditure by an average of $3.18 per bed day at the aged care home level in the December six month period. For FY20, revenue exceeded expenditure by an average of $2.62 per bed day. This means that for the December 2020 results, the average operating result excluding COVID revenue and expenditure was a deficit of $8.14 per bed day compared to a deficit of $6.43 per bed day for the same period in 2019.

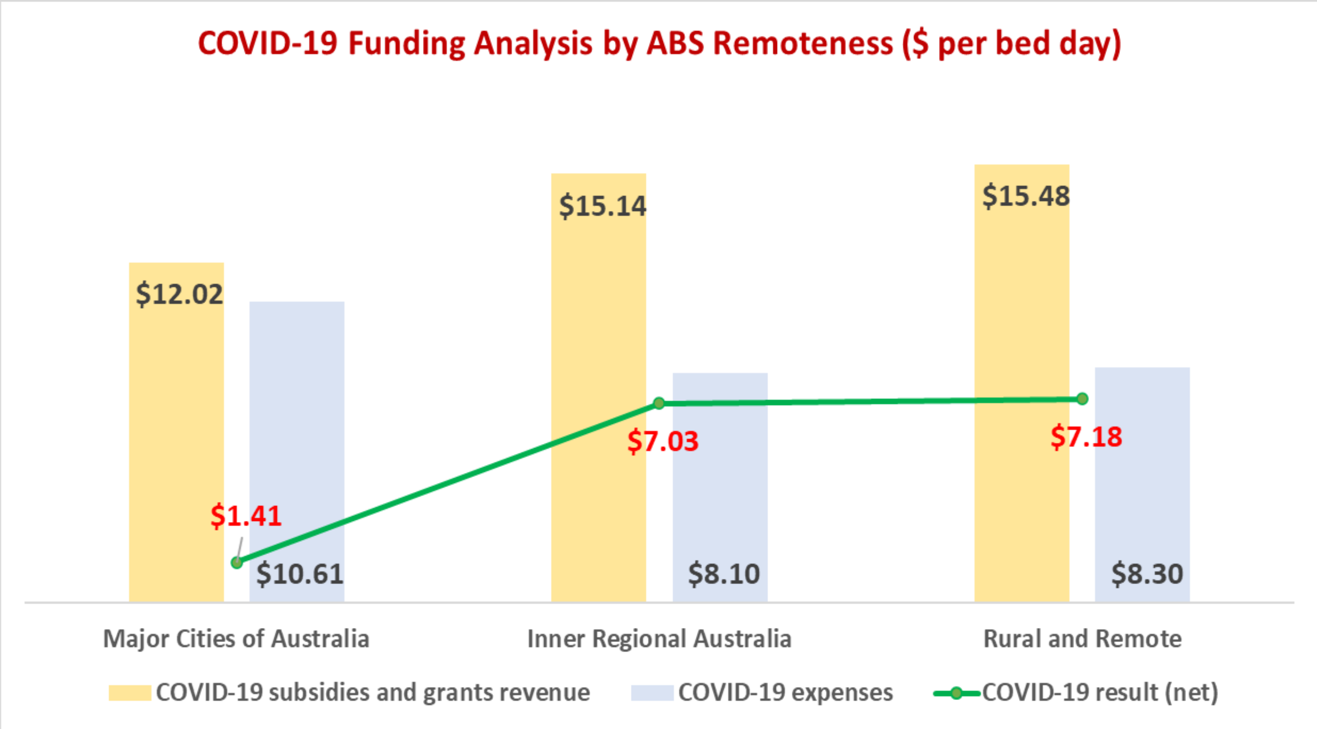
Figure 1: Operating result before and after effects of COVID revenue measures and related expenditure



The results vary across regional areas as the regional providers received higher COVID support payments than those homes in the cities. Similarly, the costs associated with the city providers were likely to be higher than those in the regional and remote locations.

The location of an aged care home will also have had some bearing on both the amounts of COVID funding received and the level of COVID expenditure incurred. Those in areas of high risk were more likely to be under lock-down more often and for longer periods and incurring additional costs and these were largely in the major cities which received less funding per occupied bed than those in more regional areas that were less likely to be incurring those additional costs for as long as their city counterparts.

Figure 2: COVID-19 subsidy and expenditure analysis by region



Victoria

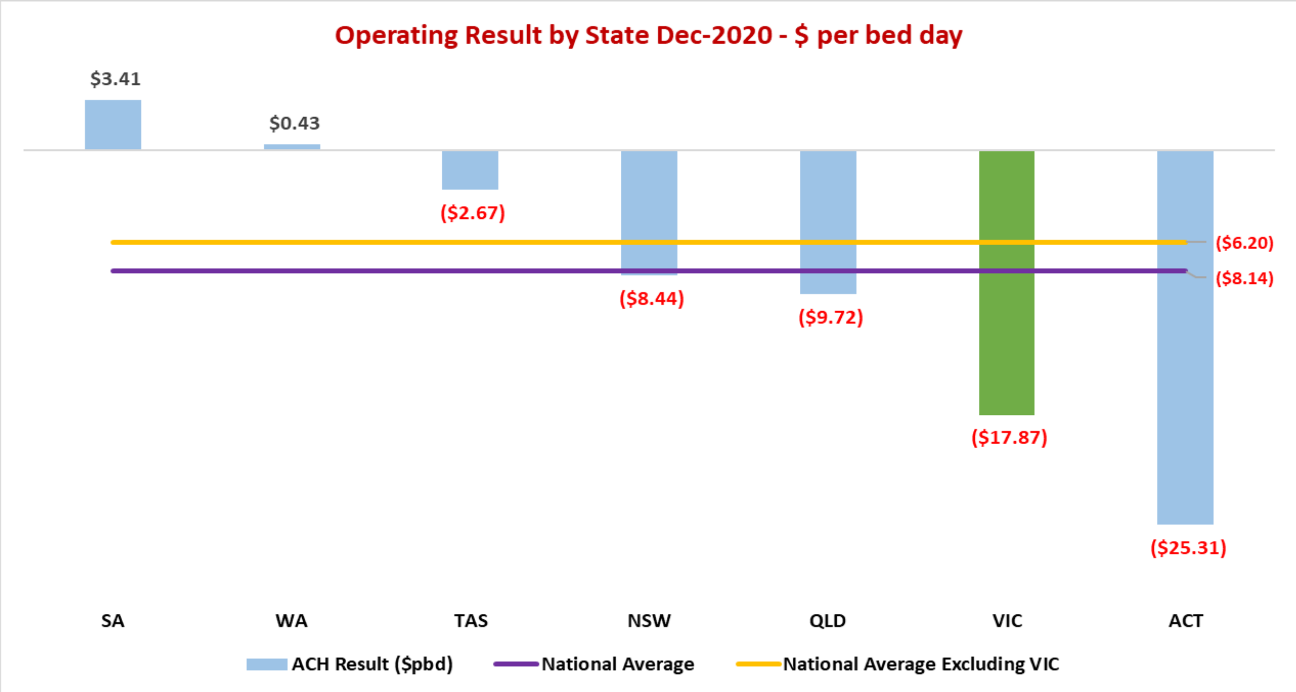
The major geographic centres of Victoria were locked down for a large period of time in the December six month period, with some earlier easing of restrictions in regional centres. Some outbreaks occurred in specific regions of NSW, particularly in late December. During these lockdowns, aged care homes were under strict rules regarding visitation.

In the case of Victoria, the majority of outbreaks came during the second wave affecting 115 homes that had staff, residents or both contracting COVID. The restrictions caused by the necessary lockdowns were in place up until October 2020, and unfortunately this second wave resulted in 639 COVID related deaths.

This affected occupancy, and aged care homes also incurred considerable costs in relation to PPE, additional staff costs and hours as well as having to invest in time and technology to meet family expectations as far as being able to contact their loved ones in care.

The results of aged care homes in Victoria reflect the effects of the COVID pandemic in that State in the second half of 2020.

Figure 3: Operating result by State for the December 2020 six month period expressed in $ per bed day



In fact, the average operating result nationally was a **deficit of $8.14 per bed day**, however if the Victorian facilities were removed from the analysis, the results would have been improved to a **deficit of $6.28 per bed day.**

For the remainder of this report, all data and analysis will be reported excluding the net COVID funding effect. These funding measures are not recurrent, and we consider it important to measure the underlying results of aged care homes and home care programs on a trend basis, including to ascertain the likely results once these measures are removed, as some already have been.

Royal Commission into Aged Care Quality and Safety

The Royal Commission into Aged Care Quality and Safety was established on 8 October 2018. The Royal Commission held 23 hearings and workshops conducted in all capital cities and regional locations, received over 10,500 submissions and prepared two major reports: Interim Report "Neglect" and Final Report "Care, Dignity and Respect" (which was delivered to the Governor-General on 26 February 2020).

Recommendations from the Final Report

The Commissioners (Ms Lynelle Briggs AO and the Honourable Tony Pagone QC) tabled 148 recommendations with the Final Report. The recommendations were grouped into several chapters:-

- Foundations of the New Aged Care System
- Governance of the New Aged Care System
- Quality and Safety
- Program Design
- Informal Carers and Volunteers
- Aged Care Accommodation
- Aged Care for Aboriginal and Torres Strait Islander People
- Aged Care in Regional, Rural and Remote Areas
- Better Access to Health Care

- Aged Care for Older People with Disability
- Younger People in Residential Aged Care
- The Aged Care Workforce
- Provider Governance
- Quality Regulation and Advocacy
- Research and Development and Aged Care Data *(Pagone)*
- Data, Research, innovation and Technology *(Briggs)*
- Funding the Aged Care System *(Pagone)*
- Prudential Regulation and Financial Oversight *(Pagone)*
- Financing the New Aged Care System *(Pagone)*
- Funding the Aged Care System *(Briggs)*
- Personal Contributions and Means Testing *(Briggs)*
- Capital Financing for Residential Aged Care *(Briggs)*
- Financial Oversight and Prudential Regulation *(Briggs)*
- Financing the New Aged Care System *(Briggs)*
- Oversight, Implementation and Monitoring

Commentary

There has been considerable initial discussion and commentary with respect to the Final Report and recommendations contained within. Certain recommendations are in conflict with other recommendations, and some are aspirational and open to interpretation.

It is very clear, however, that there is a unified consensus from all stakeholders that the current aged care system has many significant deficiencies and is not meeting the diverse and inclusive needs of our older Australians, their families, the workforce and broader community expectations.

Experience suggests that any reform process that involves legislation, regulation, consumer choice, individual rights, workforce initiatives, technology, research, capital and recurrent funding, in addition to many other related and inter-related considerations will take considerable time, application, specific clinical and governance skills, goodwill and transparent consultation and decisions involving all stakeholders.

In our opinion, The Final Report was silent in articulating a clear reform timeline, priority and concise pathway. This could well delay the important structural process that will underpin the new aged care system and fragment stakeholder goodwill in reaching a consensus position.

Recommendation 25: A New Aged Care Program

The recommendations regarding implementing a new *Aged Care Act*, related rights, key principles and governance structures are all very important and, as noted above, will require considerable consultation and agreement. Similarly, recommendations around quality, safety, workforce, cultural diversity, access to care, provider governance and funding all have elements of significant importance.

StewartBrown considers that Recommendation 25 “A new aged care program” to be the most crucial with respect to the critical design of an integrated aged care sector which will determine how choice and service delivery will occur in the future to meet the expected and necessary criteria of care, safety, compassion and inclusiveness.

Currently, the aged care sector is constrained by policy being conducted within silos - CHSP, HCP and residential, with independent living sitting outside these respective segments and the aged care legislative framework. This has greatly hindered the policy, funding and structural reforms that have been identified as being required in a series of major reviews and reports spanning over 15 years.

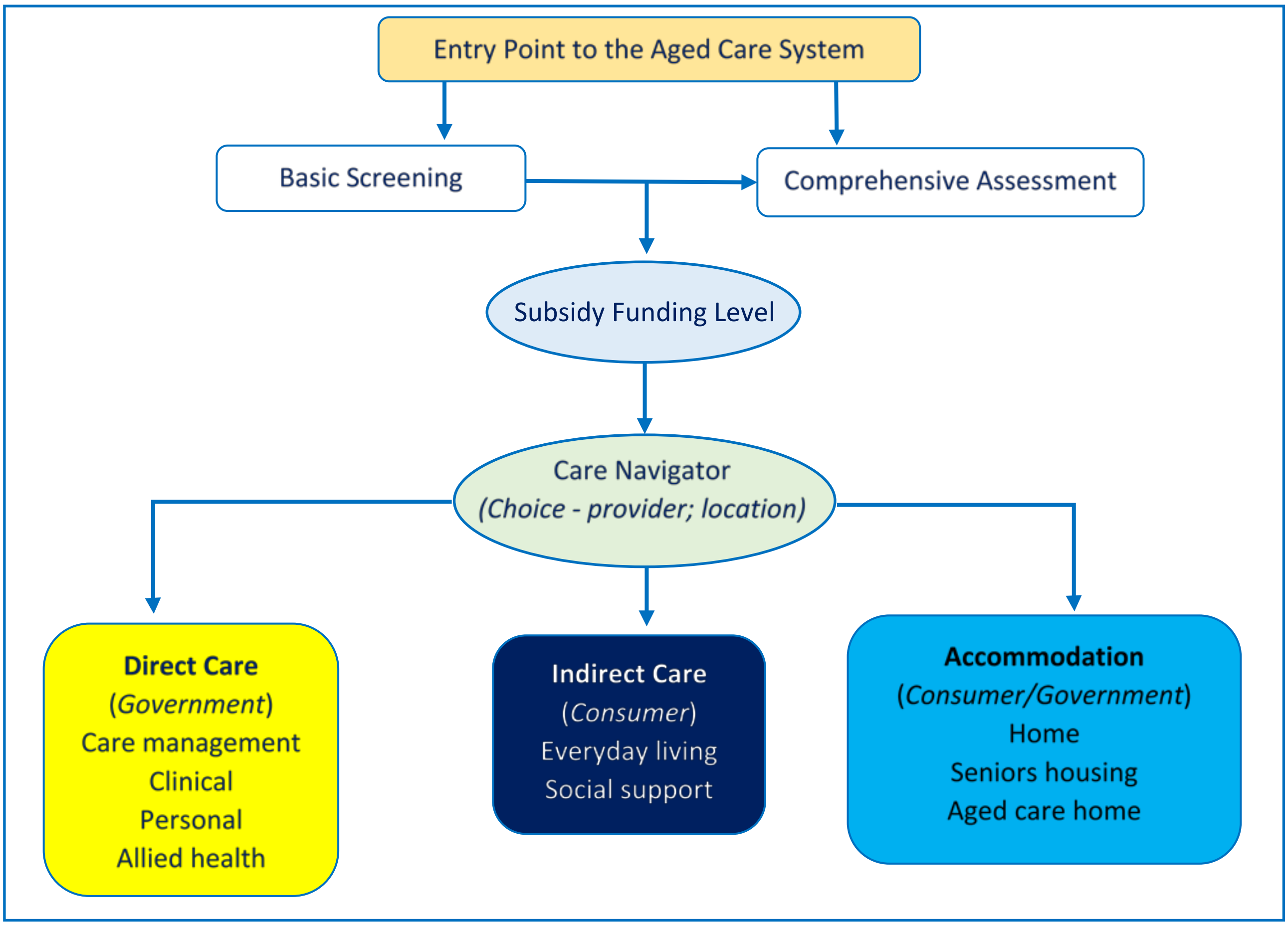
Once a single and comprehensive aged care program is implemented, the other required legislative and structural reforms, including care service delivery requirements, governance and an appropriate single funding model, can then be articulated and enacted with clarity and in an unambiguous manner.

Recommendation 25
By 1 July 2024, the System Governor should implement a new aged care program that combines the existing Commonwealth Home Support Program, Home Care Packages Program, and Residential Aged Care Program, including Respite Care and Short-Term Restorative Care. The new program should retain the benefits of each of the component programs, while delivering comprehensive care for older people with the following features:

- ✓ *Common set of eligibility criteria*
- ✓ *Entitlement to all forms of assessed support and care*
- ✓ *Single assessment process*
- ✓ *Certainty of funding based on assessed need*
- ✓ *Choice - provider; level of engagement; diversity*
- ✓ *Access to one or multiple categories of care*
- ✓ *Portability of entitlement - providers; geographic location*

Graphically, our interpretation of how the new aged care program would look is as follows:-

Recommendation 25 - One Aged Care System



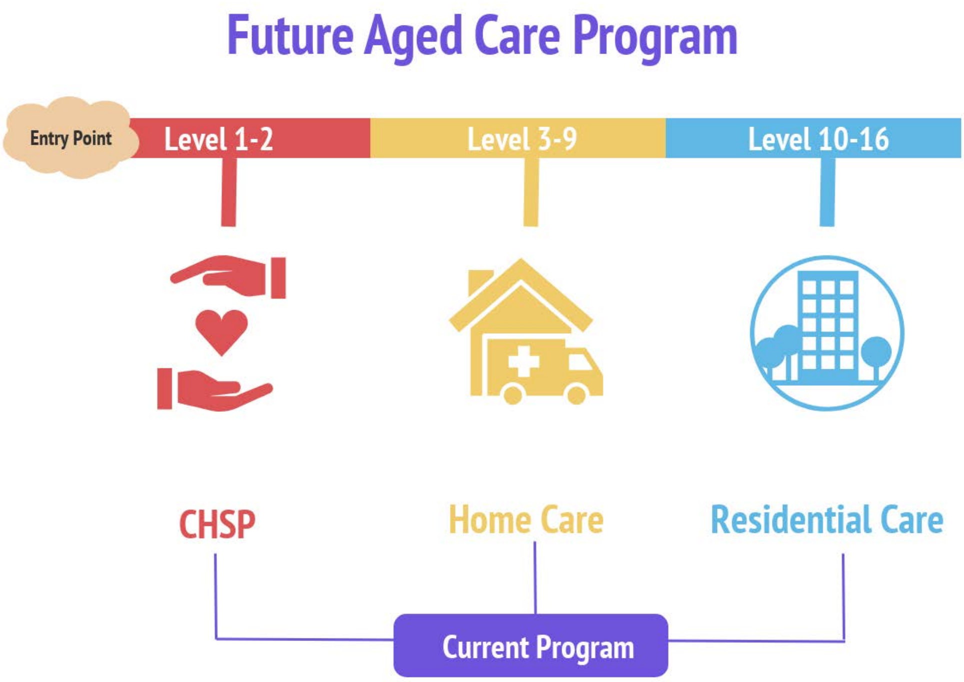
Subsidy Funding

Under the current system, each segment has separate (and disconnected) subsidy funding mechanisms for the provision of care and related service delivery. CHSP is grant funded to the provider for a diverse range of social, household and community services delivered to the largest elderly cohort. HCP is subsidy funded on a Consumer Directed Care basis with increased consumer choice of service delivery and providers, whilst residential care is funded predominantly by the ACFI subsidy directly to the provider, with less transparency as to the specific care delivery to each care recipient.

The transition of funding, as the care recipient acuity needs change, between these segments, and often within each segment, is complex and inefficient.

Under the proposed new aged care program, all care recipients would enter from common screening and assessment point, and then based on their assessed care needs, the appropriate subsidy funding level will be determined. Choice of care services, provider and location will then be integral to the program and, ultimately, where the care recipient commences receiving care services.

Fundamental to the new aged care program must involve a comprehensive and continuous assessment process (refer *Recommendation 28*) and a single funding model that encompasses all levels of care. The funding model should be designed to have funding levels that completely align with each of the assessed care needs. A simple graphical example is as follows:



Dec-20 Survey Results Commentary

Organisation (Approved Provider) financial performance continues to decline to unsustainable levels. The December 2020 results show that the average operating result per provider was a **deficit of $717k** and the average EBITDA (cash) result was a small **surplus was $921k**, which is not sufficient to maintain the standard of accommodation and care delivery.

From an investment perspective, the operating surplus return on assets ratio has marginally improved to be **negative 0.78%** for Dec-20 (Dec-19 negative 1.04%), which places significant issues around future required capital and equity. The operating EBITDA (cash) return on assets has also marginally increased from 0.71% (Dec-19) to 1.01% (Dec-20)

It has been opined by some sector commentators, generally not having specific financial expertise, that the StewartBrown Survey does not include all providers and therefore may have a weighting bias. This is despite acknowledgement of the considerable data sample size and resultant low statistical margin for error.

In response, we can state that we compare our results each year with the published ACFA results (which comprise all aged care provider results as required by legislation to be submitted to the Department). We are also aware that a significant number of providers (both for-profit and not-for-profit) who do not participate in our quarterly granular Survey have worse results, as evidenced through the Business Advisory Service (BAS) program whereby we provide the financial analysis to PwC who are the lead contractor.

A common misconception is that positive cash flows and capital developments (new builds or major refurbishment) is as a direct result of provider profitability. The relationship between profits and capital is not invariably linked, and capital development is often the result of additional equity, external borrowing, RAD inflow or use of existing funds that may not have been generated from aged care operations.

To this extent, the ACFA aggregated operating deficit for FY18 was $102 million, FY19 $276 million and our estimate for FY20 is an aggregate deficit of up to **$1 billion**.

Residential Care remains a significant and urgent risk in relation to financial viability and ongoing sustainability. Occupancy declined over the year, and as noted in previous reports, occupancy and the financial results are significantly inter-related. Accordingly, any decline in occupancy directly affects the operating performance.

Direct care staff costs represented 80.7% of the ACFI (direct care) subsidy, and the ongoing disparity between the subsidy COPE increase and staff cost increases continues to cause considerable viability concern.

The aggregate operating result for the residential care segment was a **deficit of $8.14 per bed day** ($2,746 per bed per annum), with the bottom 75% of homes (based on results and representing around 840 homes) having a deficit of $18.67 per bed day. This is a continuation of poor results over a few successive years and there is an urgent requirement for additional funding and a sustainable funding model going forward.

Investment in the residential aged care sector, be it new builds or major refurbishment and improvements to existing homes, has seen a continual downturn. The regulatory uncertainty around the likely Royal Commission recommendations and the poor financial performance of the sector are a major disincentive to investment confidence.

In-home Care (Home Care Packages) has experienced a marginal decline in operating performance for the year to Dec-20, with an overall decrease of $0.20 per client per day in comparison to Dec-19. A concerning point is that that while the results have largely been maintained, it has been on the back of falling revenues as well as reduced costs, and particularly staff costs (and resultant staffing hours). Whether this is sustainable is still open to conjecture.

The biggest single issue in relation to Home Care Packages remains in relation to the level of Unspent Funds. This level has kept rising each quarter, and now averages $9,901 per client (care recipient). In aggregate across the sector, this represents in **excess of $1.4 billion** of funding that is not being utilised.

The recently legislated changes to the subsidy payment arrangements introduced effective from March 2021 (being subsidy payments in arrears rather than in advance) and the further reforms effective from September 2021 for providers to be reimbursed for actual services provided rather than for the funding package by care recipient, will redistribute the unspent funds being held by providers to being held by the Government.

The result in terms of cash flow implications for providers will require monitoring. These changes, however, do not address the reasons as to why the unspent funds continue to grow for all package levels (Level 1 to Level 4). It is our opinion that this growth is primarily due to over-funding from the care recipient perspective, which is a separate and important distinction to the under-funding of the HCP sector, as evidenced by the large national prioritisation queue that currently exists.

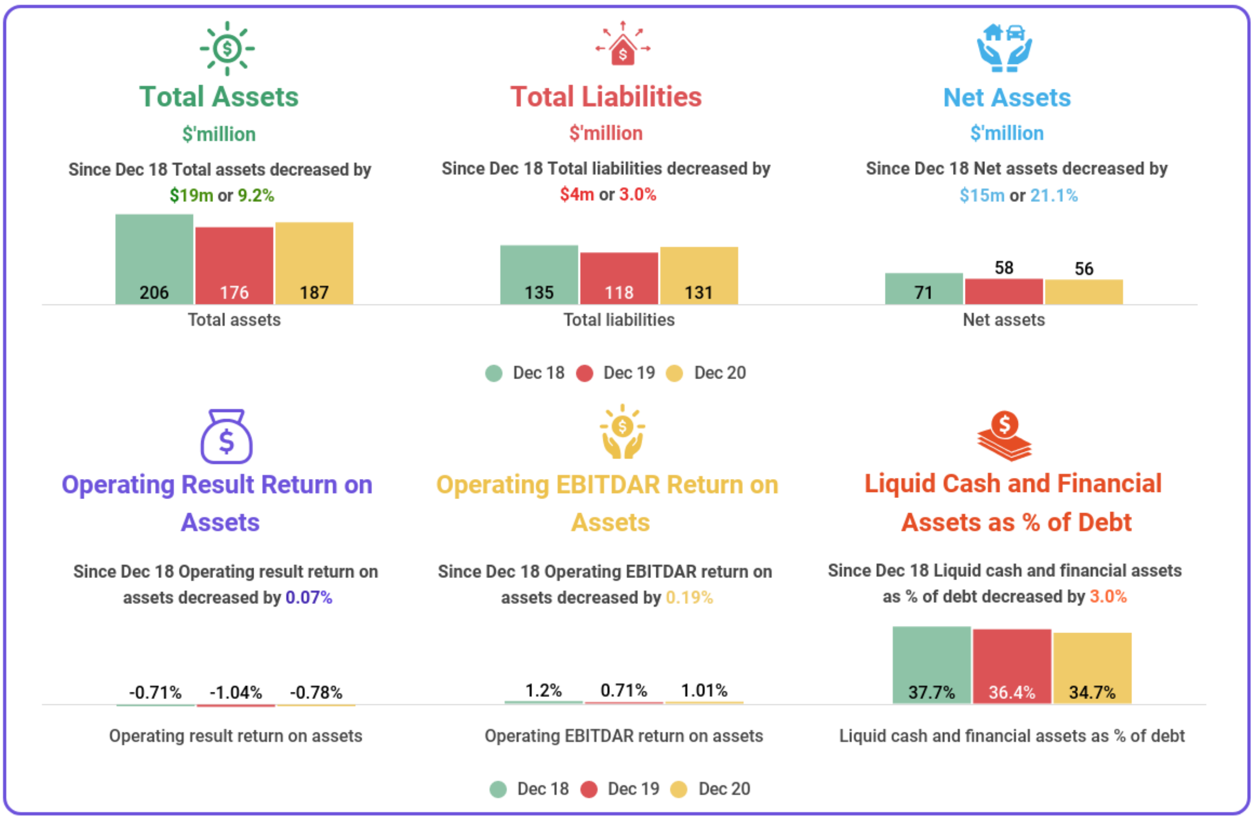
In Conclusion: the overall funding arrangements for aged care require considerable **urgent additional funding** and a substantial realignment. This cannot wait until the reforms that are driven from the Royal Commission are implemented.

Residential care is clearly and critically under-funded, both from a government and consumer perspective. The financial concerns in relation to residential care cannot be overstated.

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

2. APPROVED PROVIDER ANALYSIS

Approved Provider Trend



Abstract

This section provides a summary of financial performance for the six month period to December 2020 of aged care providers at an Approved Provider (whole organisation) level rather than at individual segment or aged care home level. For the purposes of this analysis, we have included the detailed information relating to 187 approved providers who are representative of various ownership structures, location and demographics.

The same approved provider organisations were used in the analysis of their financial position and operating performance at Dec-20 and Dec-19 to ensure comparability.

Several observations with respect to the profile of the organisations:

- Revenue increased by $1.3 million (4.9%) despite an increase in net property assets of $8.8 million (7.1%)
- Refundable loans increased by $2.4 million (4.1%)
- Net assets declined by $15 million reinforcing the overall level of deficit results incurred by the providers
- Cash and financial assets (liquid cash assets) increased by $1.6 million from Dec-19 to Dec-20
- Borrowings, other than refundable loans, increased by $2.8 million

Operating Results for six months ended 31 December 2020

Table 1: Income & Expenditure Comparison (average by approved provider)

	Survey Dec-20 187 Providers *(6 months)* *(Average)*	Survey Dec-19 187 Providers *(6 months)* *(Average)*	ACFA FY19 760 Providers *(12 months)* *(Average)*	ACFA FY18 787 Providers *(12 months)* *(Average)*
Income & Expenditure	**$'000**	**$'000**	**$'000**	**$'000**
Revenue				
Service revenue	26,917	25,613	31,277	29,226
Investment revenue	568	579	906	818
Total operating revenue	**27,485**	**26,192**	**32,183**	**30,044**
Expenses				
Employee expenses	19,271	18,379	21,043	20,286
Depreciation and amortisation	2,075	1,964	1,937	1,733
Finance costs	131	139	613	345
Other expenses	6,725	6,614	8,866	7,782
Total operating expenses	**28,202**	**27,096**	**32,459**	**30,146**
Operating surplus (deficit)	**(717)**	**(904)**	**(276)**	**(102)**
Non-recurrent income and expenses	776	558	1,104	1,200
Total surplus (deficit) (NPBT)	**59**	**(346)**	**828**	**1,098**
Operating EBITDA	**921**	**620**	**1,368**	**1,158**
Ratios				
Operating surplus return on assets (ROA)	*(0.8%)*	*(1.0%)*	*(0.3%)*	*(0.1%)*
Operating EBITDA return on assets	*1.0%*	*0.7%*	*1.4%*	*1.2%*
Operating surplus % of operating revenue	*(2.6%)*	*(3.5%)*	*(0.9%)*	*(0.3%)*
Employee expenses % of operating revenue	*70.1%*	*70.2%*	*65.4%*	*67.5%*
Depreciation as % of property assets	*3.1%*	*3.2%*	*3.2%*	*3.1%*

Brief Commentary

- **The operating result includes investment income and excludes non-recurrent other income (eg COVID subsidy, fair value revaluations, donations, fundraising etc). Non-recurrent expenses (such as COVID related expenses, fair value losses, impairment) have been offset against other non-recurrent income**
- The operating result has marginally improved, achieving an average deficit by approved providers of $717m for the six months to Dec-20 (Dec-19: deficit of $904m)
- The operating result *excluding* investment income and finance costs was a deficit by approved providers of $1.15m for Dec-20 period (deficit of $1.34 for Dec-19)
- Operating EBITDA was a surplus of $921k for the six months to Dec-20 ($620m for six months to Dec-19)
- Employee expenses as a percentage of operating revenue remained at around 70.1%

Balance Sheet Summary as at 31 December 2020

A summary of the balance sheet (average by provider average) for the Dec-20 and Dec-19 financial periods is included in the table below.

Table 2: Summary Balance Sheet Comparison (average by Approved Provider)

	Survey Dec-20 187 Providers *(Average)*	Survey Dec-19 187 Providers *(Average)*	ACFA FY19 760 Providers *(Average)*	ACFA FY18 787 Providers *(Average)*
Balance Sheet	**$'000**	**$'000**	**$'000**	**$'000**
Assets				
Cash and financial assets	38,863	37,301	17,410	17,843
Operating assets	6,471	6,875	12,821	12,698
Property assets	132,975	124,166	60,663	55,444
Intangibles - other	4,898	4,070	3,464	3,048
Intangibles - bed licences	3,878	3,641	4,062	4,171
Total assets	**187,085**	**176,053**	**98,420**	**93,204**
Liabilities				
Refundable loans - residential	60,750	58,361	37,408	35,551
Refundable loans - retirement living	40,688	37,126	13,592	12,795
HCP unspent funds liability	1,961	1,288	511	385
Borrowings	8,234	5,351	7,311	6,995
Other liabilities	19,293	15,720	9,415	8,446
Total liabilities	**130,926**	**117,846**	**68,237**	**64,172**
Net assets	**56,159**	**58,207**	**30,183**	**29,032**
Net tangible assets	**47,383**	**50,496**	**22,657**	**21,813**
Ratios				
Net assets proportion % total assets	*30.0%*	*33.1%*	*23.0%*	*23.4%*
Property assets proportion % total assets	*71.1%*	*70.5%*	*61.6%*	*59.5%*
Cash + financial assets % debt	*34.8%*	*36.5%*	*29.6%*	*32.0%*

Brief Commentary

- Net assets and net tangible assets have increased (6.0%)
- Liquid cash assets to debt ratio remains steady at around 34.8%, with the increase in refundable loans from residents amounting to a $2.4 million increase (4.1% increase)
- External borrowings have increased by $2.9 million (54% increase)
- Property assets have increased by $8.8 million per provider (7.1% increase) (funded from the growth in resident refundable loans and external borrowing)
- The results for the sector indicate that the operating surplus expressed as a return on assets employed by approved providers continues to not be financially sustainable

Financial Performance Analysis by Size of Provider

Organisational Benchmark by Revenue Dec 2020

	Survey Average $'000s	Revenue >$75M $'000s	Revenue $20M - $75M $'000s	Revenue $10M - $20M $'000s	Revenue <$10M $'000s
Operating Surplus / (Deficit)	($717)	($4,114)	($1,529)	($261)	($104)
Average NPBT	$59	($1,079)	($216)	($6)	$327
Operating EBITDA	$921	$7,929	$597	$307	$155
EBITDA	$1,696	$10,964	$1910	$562	$586
NPBT Return on Assets	0.06%	(0.21%)	(0.15%)	(0.01%)	1.61%
Operating Surplus Return on Assets	(0.78%)	(0.79%)	(1.06%)	(0.40%)	(0.51%)
Cash & Financial Assets % of Debt	34.70%	30.11%	31.89%	38.69%	55.19%

Organisational Benchmark by Asset Size Dec 2020

	Survey Average $'000s	Total Assets >$150M $'000s	Total Assets $50M - $150M $'000s	Total Assets $25M - $50M $'000s	Total Assets <$25M $'000s
Operating Surplus / (Deficit)	($717)	($1,953)	($348)	($141)	($81)
Average NPBT	$59	($338)	$611	($59)	$42
Operating EBITDA	$921	$2,905	$135	$89	$47
EBITDA	$1,696	$4,520	$1,094	$171	$169
NPBT Return on Assets	0.06%	(0.13%)	1.44%	(0.35%)	0.54%
Operating Surplus Return on Assets	(0.78%)	(0.77%)	(0.82%)	(0.83%)	(1.03%)
Cash & Financial Assets % of Debt	34.70%	30.42%	47.75%	67.67%	74.28%

Survey Approved Provider Profile

Table 3: Profile of Survey approved providers by total assets bands

Total Assets	<$25M	$25M - $50M	$50M-$150M	> $150M	Total
Number of Approved Providers	38	44	50	55	187
	20%	*24%*	*27%*	*29%*	*100%*
Number of residential care aged care homes	107	60	102	661	930
	12%	*6%*	*11%*	*71%*	*100%*
Number of residential operating places	2,087	4,357	9,232	54,758	70,434
	3%	*6%*	*13%*	*78%*	*100%*
Number of Home Care (HCP) clients	1,273	1,707	1,828	30,686	35,494
	4%	*5%*	*5%*	*86%*	*100%*

Brief Commentary

- Large providers, as designated by total assets, have a much larger operating deficit than the smaller providers
- Conversely, the large providers have a higher operating EBITDA due to a significant higher average depreciation charge
- All asset category groupings had a negative operating deficit return on assets
- The larger providers have a lower liquid cash assets ratio as a percentage of debt (resident refundable loans + external borrowings + government acquittal funds payable)

Table 4: Profile of Survey approved providers by revenue bands

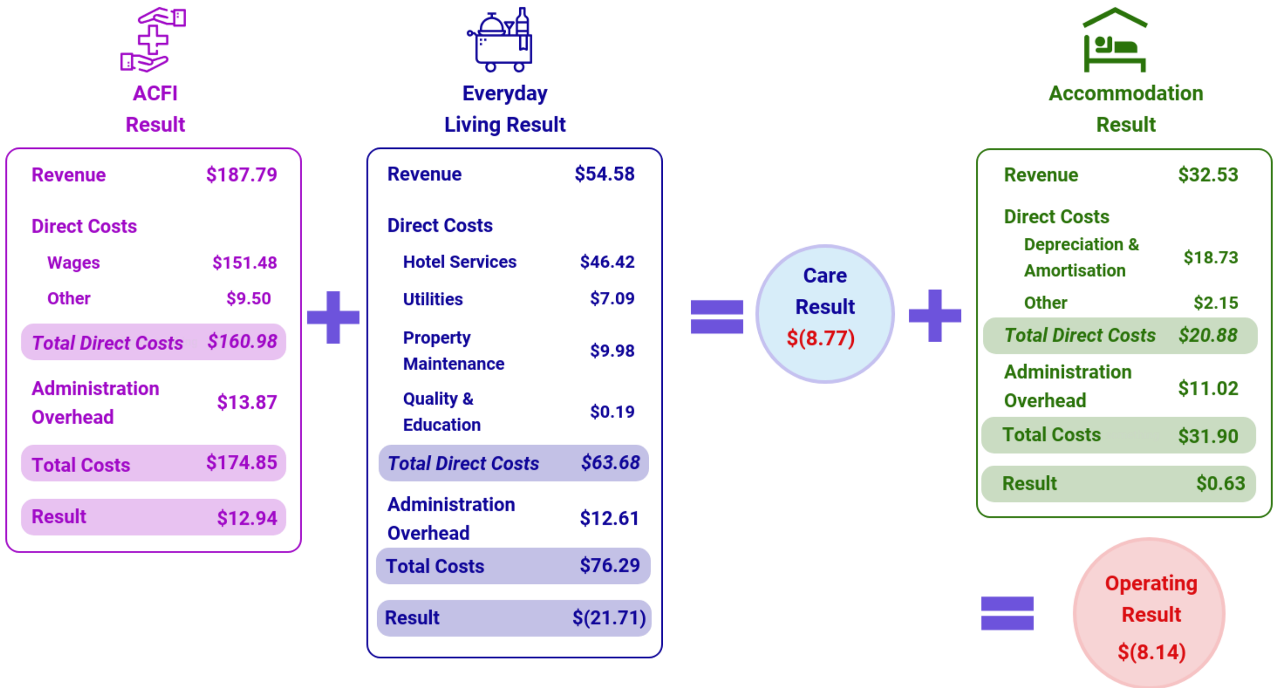
Operating revenue range ***($million per annum)***	<$10M	$10M - $20M	$20M-$75M	> $75M	Total
Number of Approved Providers	61	47	44	35	187
	33%	*25%*	*24%*	*19%*	*100%*
Number of residential care aged care homes	131	74	139	586	930
	14%	*8%*	*15%*	*63%*	*100%*
Number of residential operating places	3,797	6,336	12,318	47,983	70,434
	5%	*9%*	*17%*	*68%*	*100%*
Number of Home Care (HCP) clients	1,026	1,182	5,301	27,985	35,494
	3%	*3%*	*15%*	*79%*	*100%*

Brief Commentary

- The financial metrics based on revenue shows similar results trends as for categorisation by total assets
- Based on the comparison between large provider operating results with those of the smaller providers, there is little evidence to support further extensive provider consolidation as a firm basis to improve the financial sustainability of the aged care sector

3. RESIDENTIAL CARE ANALYSIS

Residential Result Snapshot



Operating Result

The residential care sector has experienced a further decline in the Operating Result (at an aged care home level), noting that for the first time in many quarters care expenses have been increasing at the same rate (4.2%) as care revenue (4.2%).

The Operating Result as shown below has decreased from a deficit of $6.43 per bed day (pbd) for the six months to Dec-19 to a **deficit of $8.14 pbd** for the six months to Dec-20, a decline of $1.71 pbd.

The majority of the comparisons and trend analysis in this report are year-on-year (YoY) as it reflects a better perspective on the movements in financial performance for a similar period. Dec-20 results *exclude COVID-19 subsidies and expenses* to allow trend analysis to be consistent. Any comparisons made against the Dec-19 results also exclude the 9.5% one-off government grant remitted through an increase in the ACFI subsidy.

Table 5: Summary Profit & Loss Results for Dec-20 and Dec-19

	Survey *Average* Dec-20 *1,119 homes*	Survey *Average* Dec-19 *1,060 homes*	Survey *Average* Jun-20 *1,113 homes*
ACFI			
Revenue	$187.79	$180.30	$181.42
Expenditure			
Labour costs	$151.48	$145.90	$148.20
Other direct costs	$9.50	$8.57	$8.78
Administration	$13.87	$13.53	$13.64
	$174.85	$168.01	$170.62
ACFI RESULT (A)	**$12.94**	**$12.30**	**$10.80**
EVERYDAY LIVING			
Revenue	$54.58	$53.29	$53.89
Expenditure			
Catering	$32.50	$30.76	$31.73
Cleaning	$9.14	$8.48	$8.65
Laundry	$4.16	$4.02	$4.12
Payroll tax - hotel services	$0.12	$0.11	$0.11
Overhead allocation (workcover & education)	$0.71	$0.65	$0.81
Utilities	$7.09	$7.02	$7.05
Routine maintenance & motor vehicle	$9.98	$10.37	$10.53
Administration	$12.61	$12.29	$12.41
	$76.29	$73.71	$75.41
EVERYDAY LIVING RESULT (B)	**($21.71)**	**($20.42)**	**($21.52)**
CARE RESULT (C) *(A + B)*	**($8.77)**	**($8.13)**	**($10.72)**
ACCOMMODATION			
Revenue			
Residents	$13.04	$13.63	$13.51
Government	$19.49	$18.88	$19.06
	$32.53	$32.51	$32.57
Expenditure			
Depreciation	$18.73	$18.11	$18.49
Property rental	$1.05	$0.67	$1.08
Other	$1.10	$1.30	$1.28
Administration	$11.02	$10.74	$10.84
	$31.90	$30.81	$31.69
ACCOMMODATION RESULT (D)	**$0.63**	**$1.70**	**$0.88**
OPERATING RESULT ($ per bed day) *(C + D)*	**($8.14)**	**($6.43)**	**($9.84)**
OPERATING RESULT ($ per bed per annum)	**($2,746)**	**($2,210)**	**($3,371)**
EBITDAR ($ per bed per annum)	**$3,924**	**$4,245**	**$3,333**

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

Revenue

- Increase of 4.2% in ACFI revenue ($7.49 pbd) for Survey *Average* which aligns with the COPE increase of 1.4%
- Increase in Everyday Living revenue by $1.29 pbd for Survey *Average* mostly due to CPI increase in the Basic Daily Fee.

Expenses

- Decrease in total care labour costs of $5.58 pbd coinciding with a slight change in carer profiling per day in total care hours (total direct care hours - 3.21 per resident per day)
- Increase in accommodation expenditure by $1.09 pbd due to slightly higher depreciation charge, property rental and administration costs

Operating Results

- ACFI result declined by $0.64 pbd (5.2%)
- Everyday Living result declined by $1.29 pbd (6.3%)
- Accommodation result improved by $1.07 pbd
- Operating result was a deficit of $8.14 pbd (Dec-19 deficit $6.43 pbd)
- Operating EBITDAR decreased by $2,210 per bed per annum to $2,746 pbpa

Additional Trends

- Occupancy for mature homes declined to 92.4% (Dec-19 93.9%) whilst occupancy for all homes decreased to 91.0% from 92.3% at Dec-19
- Supported resident ratio decreased by 0.5% from 46.9% at Dec-19 to 46.4% at Dec-20
- Increase in average full Refundable Accommodation Deposit (RAD) held and received during the year by around $19k from $380k to $399k
- Proportion of Full RADs received from incoming residents is at 20.3%, with Full DAPs at 58.1% and Combination payments at 21.6%

Table 6: Summary KPI Results for Dec-20 Survey

Residential Homes - Summary Results	**Dec-20** *1,119 Homes*	**Dec-19** *1,060 homes*	**Difference** *(YoY)*	**FY20** *1,113 homes*
OPERATING RESULT ($pbd)	**($8.14)**	($6.43)	($1.71)	($9.84)
OPERATING RESULT ($pbpa)	**($2,746)**	($2,210)	($536)	($3,371)
EBITDAR ($pbpa)	**$3,924**	$4,245	($321)	$3,333
Average Occupancy *(all homes)*	**91.0%**	92.3%	(1.3%)	91.4%
Average Occupancy *(mature homes)*	**92.4%**	93.9%	(1.5%)	93.6%
Average ACFI ($pbd)	**$187.79**	$180.30	$7.48	$181.42
Direct care hours per resident per day	**3.29**	3.25	0.04	3.21
ACFI services costs as a % of ACFI	**85.7%**	85.7%	0.0%	86.5%
Supported ratio	**46.4%**	46.9%	(0.5%)	46.8%
Average Full RAD/Bond held	**$398,722**	$380,066	$18,656	$386,631
Average Full RAD taken during period	**$436,479**	$424,209	$12,270	$433,252

Trend Analysis

The following graphs highlight the trends for the year to Dec-16 to Dec-20 respectively for the Survey *Average* (all aged care homes) and by geographical remoteness (based on the Australian Bureau of Statistics (ABS) ARIA definitions). This analysis indicates that the financial performance has declined in all geographic segments, with the rural & remote located homes being particularly vulnerable.

Figure 4: Operating Result for each geographic area and Average result trend line (expressed as $ per resident bed day)

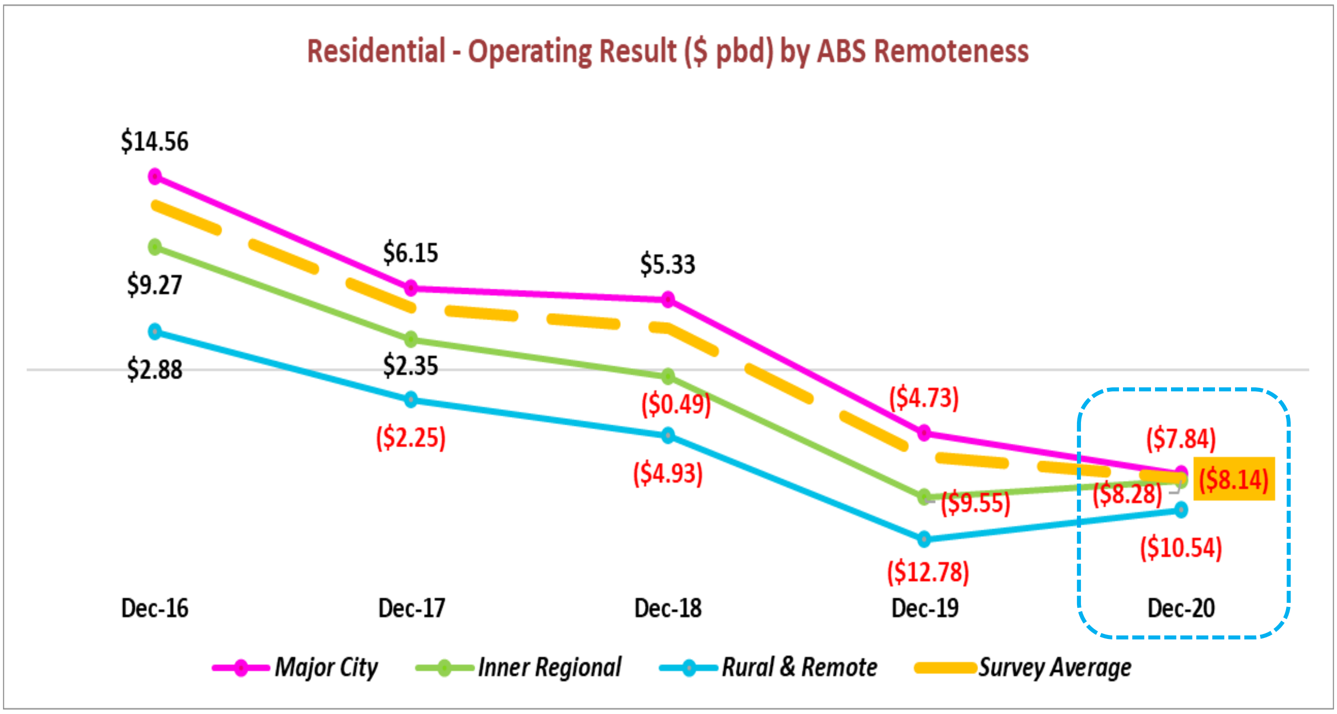
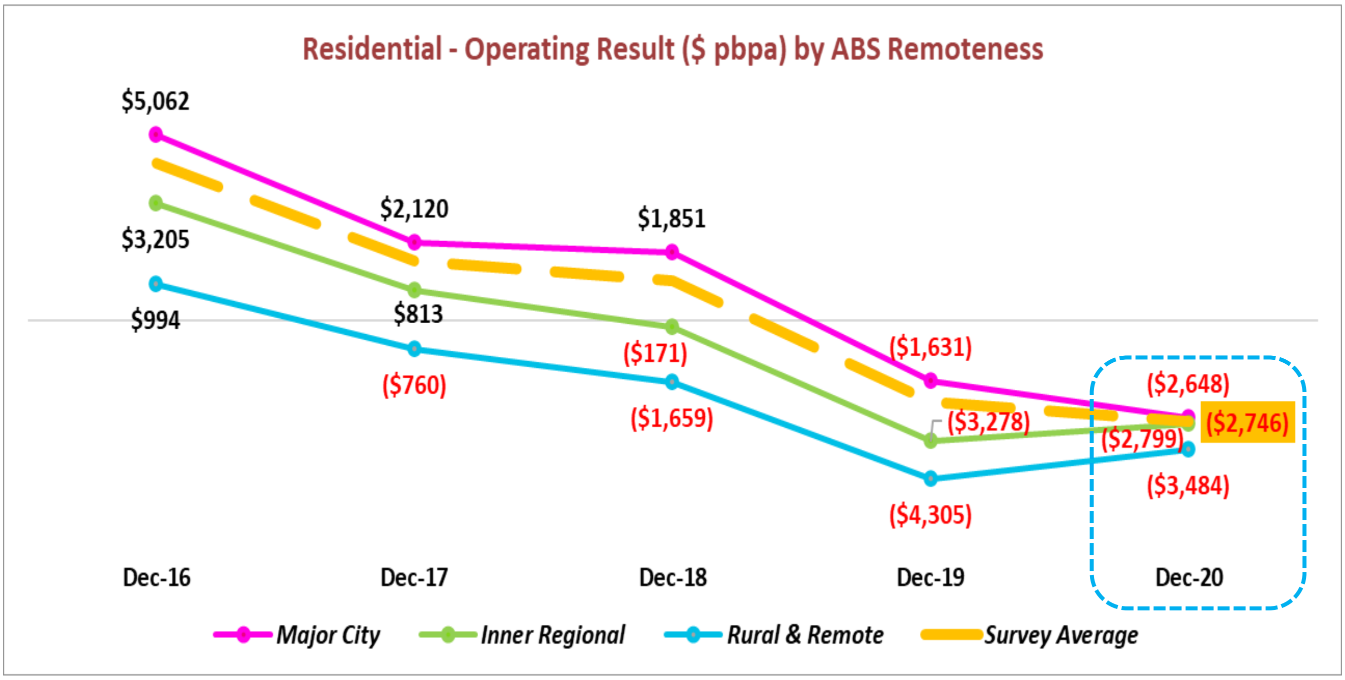


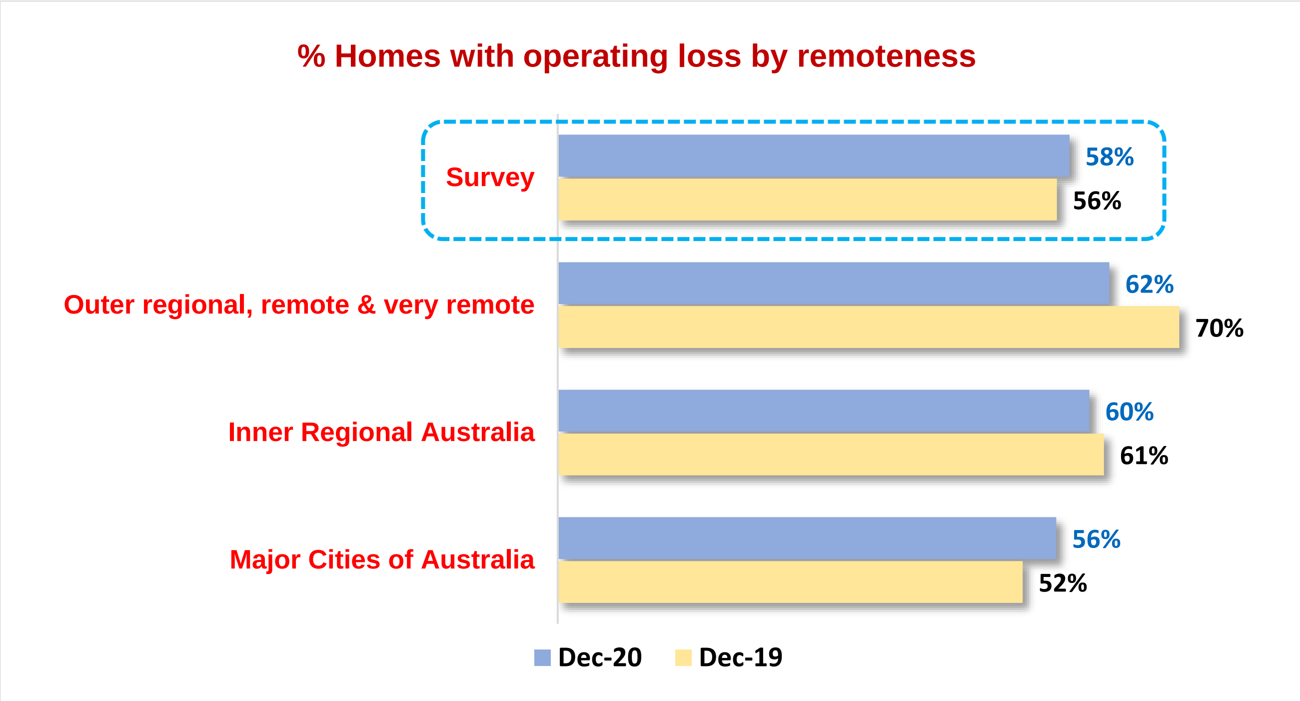
Figure 5: Operating Result for each geographic area and Average result trend line (expressed as $ per bed per annum)



Number of Aged Care Homes making an Operating Loss

The following graph highlights the percentage of aged care homes that submitted data to the survey nationally that are operating at a loss. As at Dec-20, 58% of providers in the survey average are operating at a loss, which is a slight improvement when compared to Dec-19. Notably, 62% of providers in outer regional, remote and very remote locations are operating at a loss this financial year.

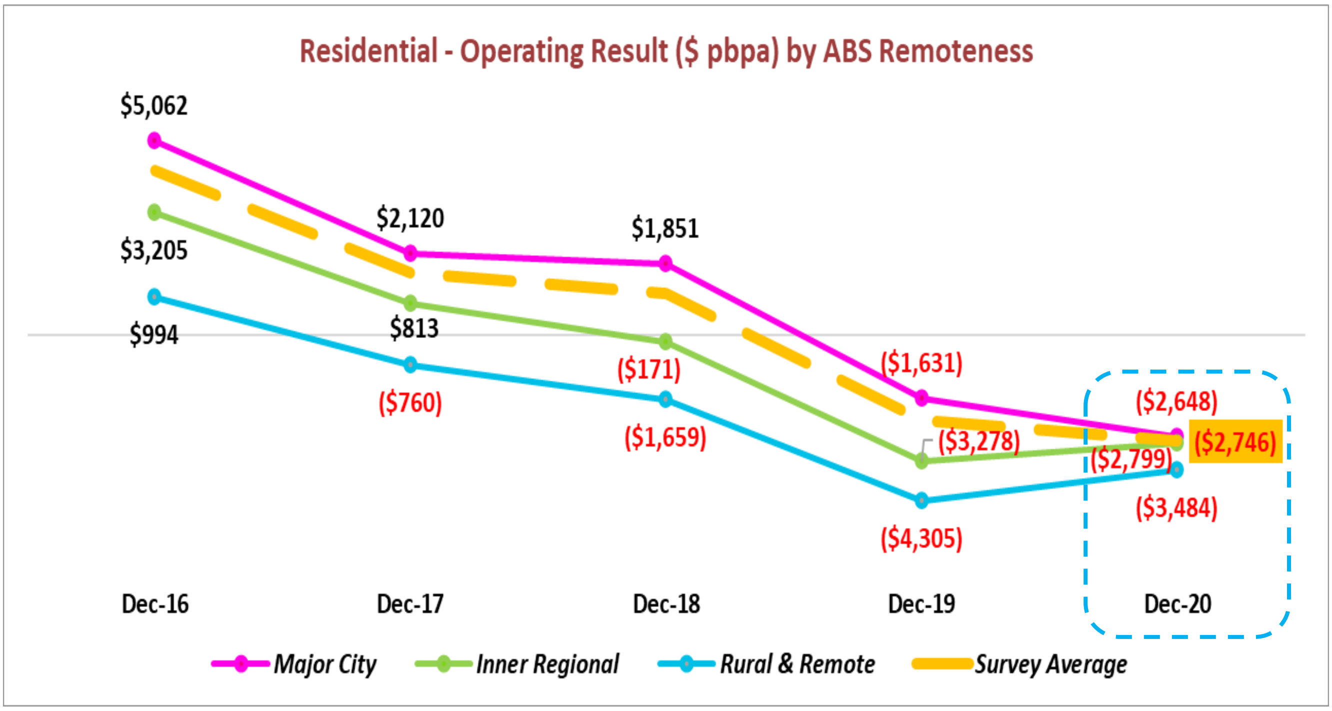
Figure 6: Analysis of aged care homes making an operating loss by ABS remoteness in total Survey



EBITDAR Result

The graph below shows the Operating EBITDAR (Earnings Before Interest, Taxation, Depreciation, Amortisation and Rent) trend for the FY16 to Dec-20.

Figure 7: EBITDAR Result for each geographic area and Average result trend line (expressed as $ per bed per annum)



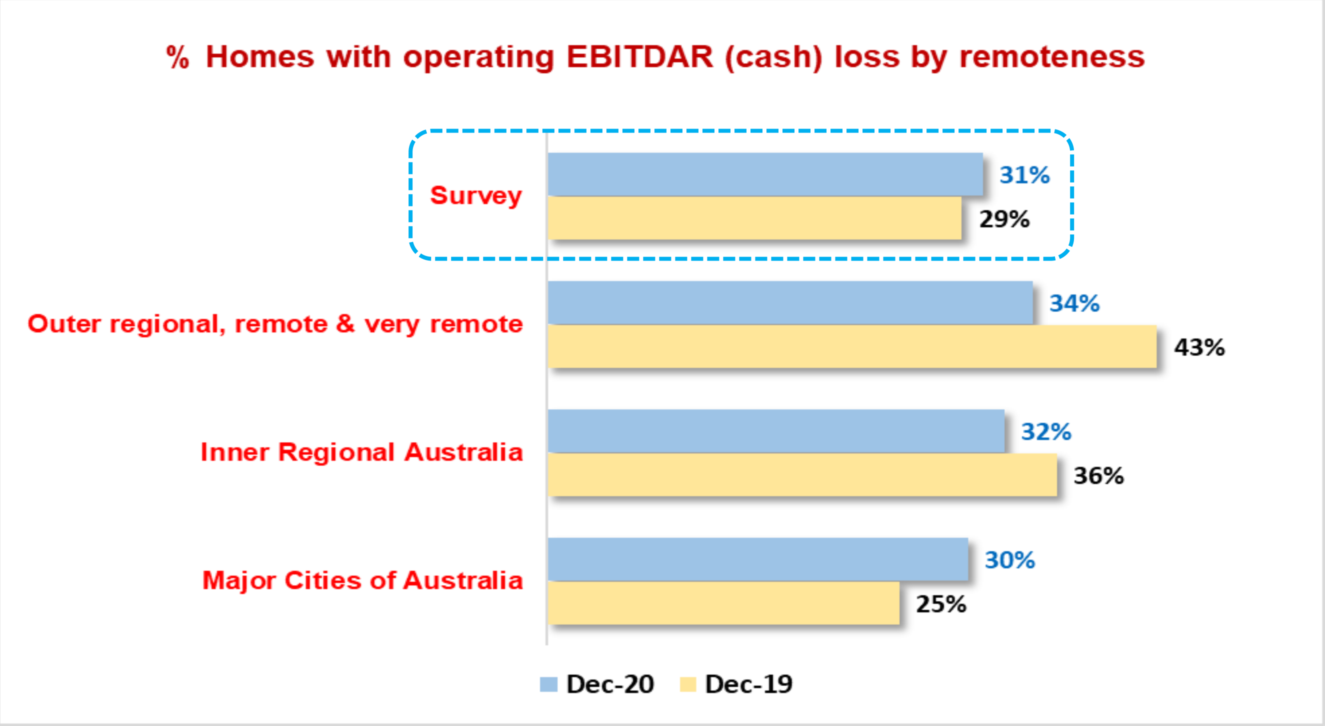
Number of Aged Care Homes making an EBITDAR Loss

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

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

Based on current settings, it is expected that the number of homes with an EBITDA deficit would increase to 36% in FY21 and 37% in FY22.

Figure 8: Analysis of aged care homes making an EBITDAR loss by ABS remoteness in total Survey



Results by Geographic Location

At a regional level the financial performance results deteriorate further where the average operating loss for inner regional aged care homes averaged **$8.28 per bed day** ($2,799 per bed per annum) and for rural and remote aged care homes averaged **$10.54 per bed day** ($3,484 per bed per annum). These results are unsustainable. The following graphs highlight the financial issues that these homes currently face.

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

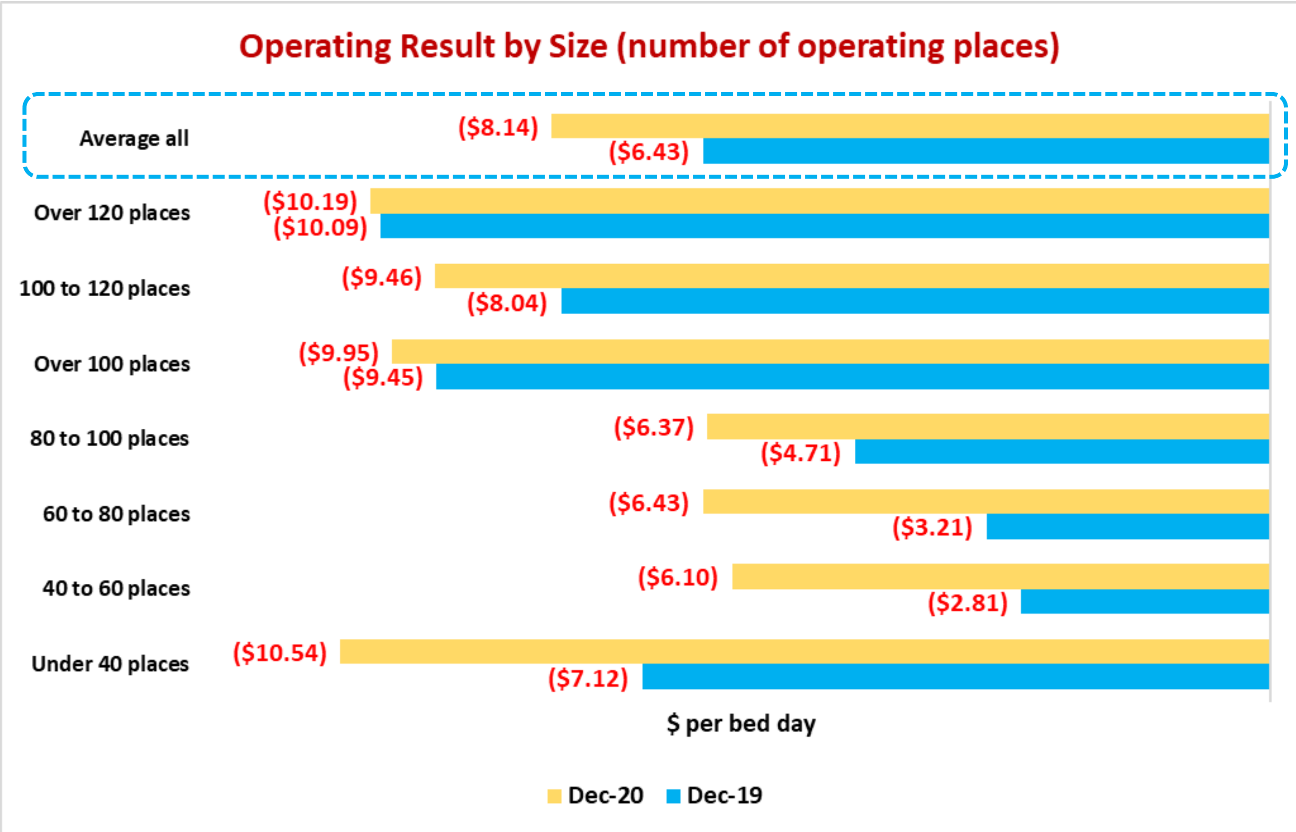
Table 7: Operating result comparison by ABS remoteness geographic regions

Summary Results by Region	Major Cities *735 homes*	Inner Regional *276 homes*	Rural & Remote *108 homes*
OPERATING RESULT ($pbd)	($7.84)	($8.28)	($10.54)
OPERATING RESULT ($pbpa)	($2,648)	($2,799)	($3,484)
EBITDAR ($pbpa)	$4,195	$3,532	$2,682
Average Occupancy	92.5%	92.6%	90.6%
Average ACFI $pbd	$189.74	$182.93	$185.43
Direct care hours per resident per day	3.32	3.22	3.31
ACFI services costs as a % of ACFI	85.7%	85.6%	86.6%
Supported ratio	45.7%	47.6%	51.0%
Average Full RAD/Bond held	$430,382	$320,052	$293,936
Average Full RAD taken during period	$471,016	$365,471	$339,237

Analysis of Results by Size of Aged Care Home

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

Figure 9: Operating result comparison by size of aged care home (expressed as $ per resident bed day)



We are also starting to see providers downsizing new builds from what was the preferred size of upwards of 100 places to homes that are somewhere between 70 and 90 places.

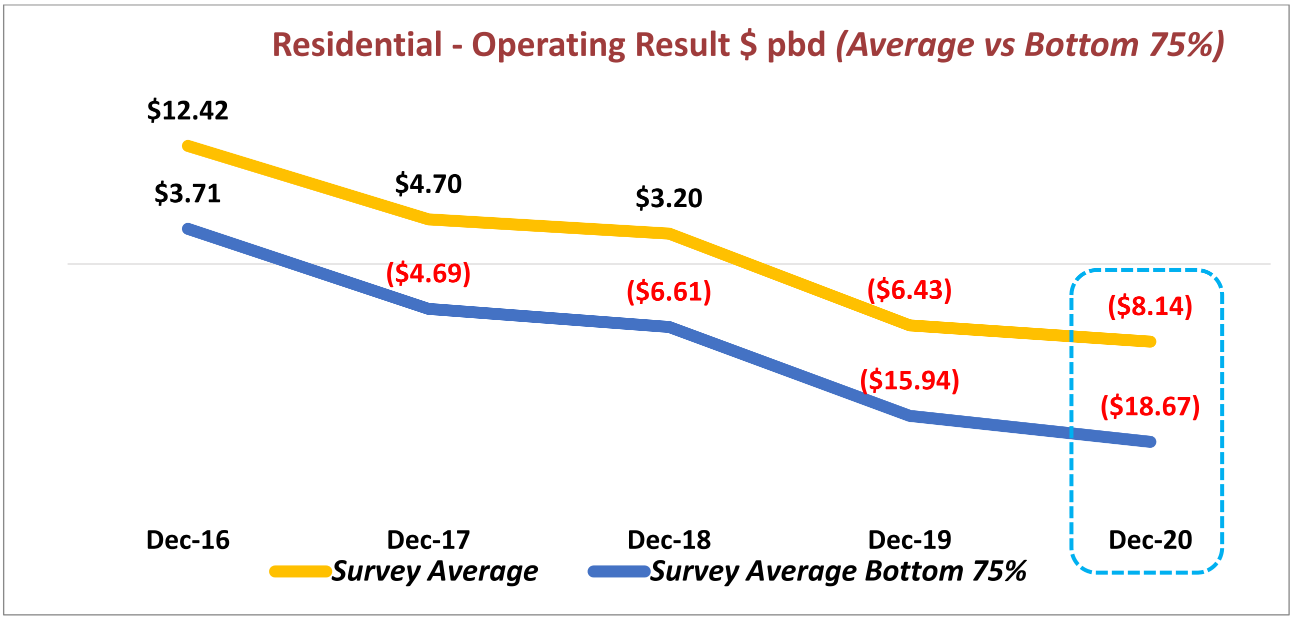
There are several reasons for this apart from the financial results we observe in the graph above. Other factors to consider include:

- Shorter lengths of stay meaning it takes longer to initially reach the mature occupancy state than in the past, and once it is reached, a smaller home caters for more residents in a given year than a larger home would have in times past when the average length of stay was longer
- More vertical builds where there is integration between independent and assisted living and residential aged care. In these cases, care is provided into the persons apartment through as user pay services or a home care package and the entry into residential aged care may not occur or only occur when absolutely necessary

Major Cause of Financial Concern - *Bottom 75%*

The operating results of the *Bottom 75%* of aged care homes continue to decline to now record an average loss of $18.67 per bed day (a further decline of $2.73 per bed day compared to Dec-19). The *Bottom 75%* comprises 835 aged care homes and represent a very large cohort within the sector.

Figure 10: Operating result comparison by size of aged care home (expressed as $ per resident bed day)



ACFI (Direct Care) Result

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

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

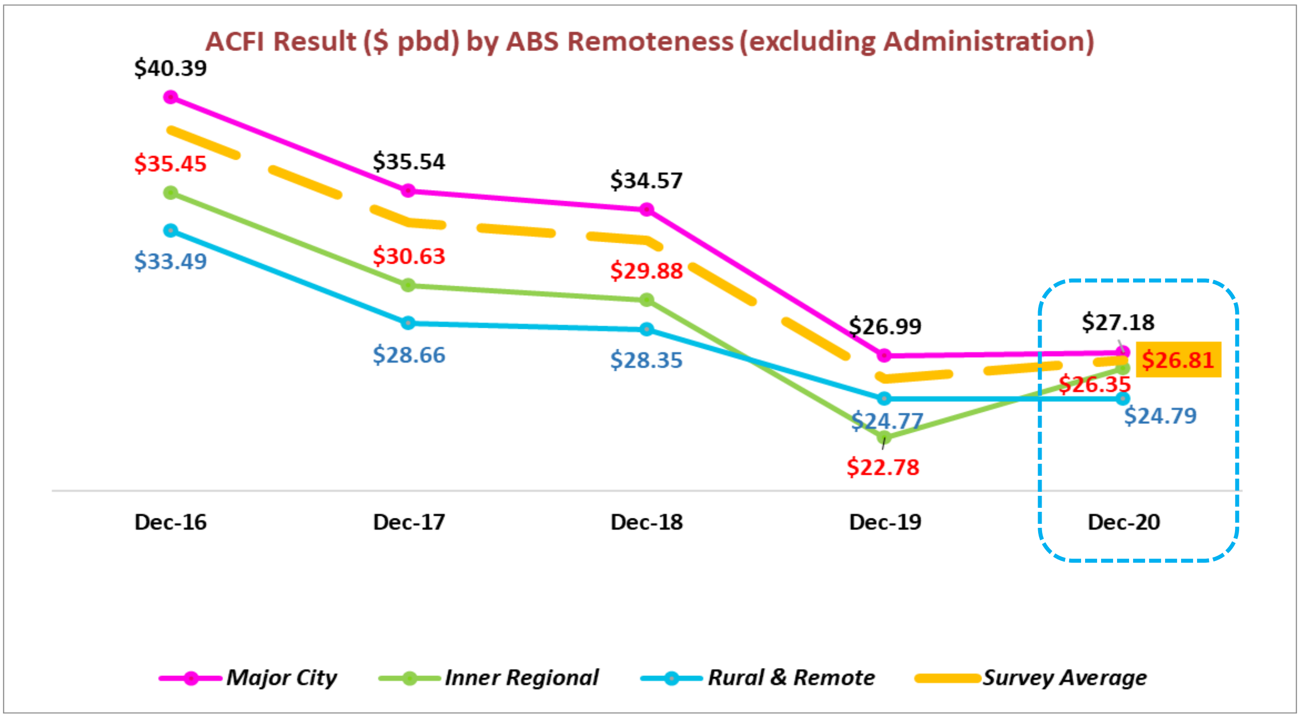
The following graph illustrates how the ACFI result is determined.

Figure 11: Components of the ACFI (direct care) result

The ACFI result (surplus) continues to decline in all geographic regions, with a slight increase occurring in the six months to Dec-20. Direct care costs increased by $6.84 per bed day as compared to Dec-19.

Direct care staffing costs average $151.48 per day and represents 80.7% of ACFI revenue (80.9% Dec-19).

Figure 12: ACFI (direct care) result for Survey average and by ABS remoteness (expressed as $ per resident bed day)

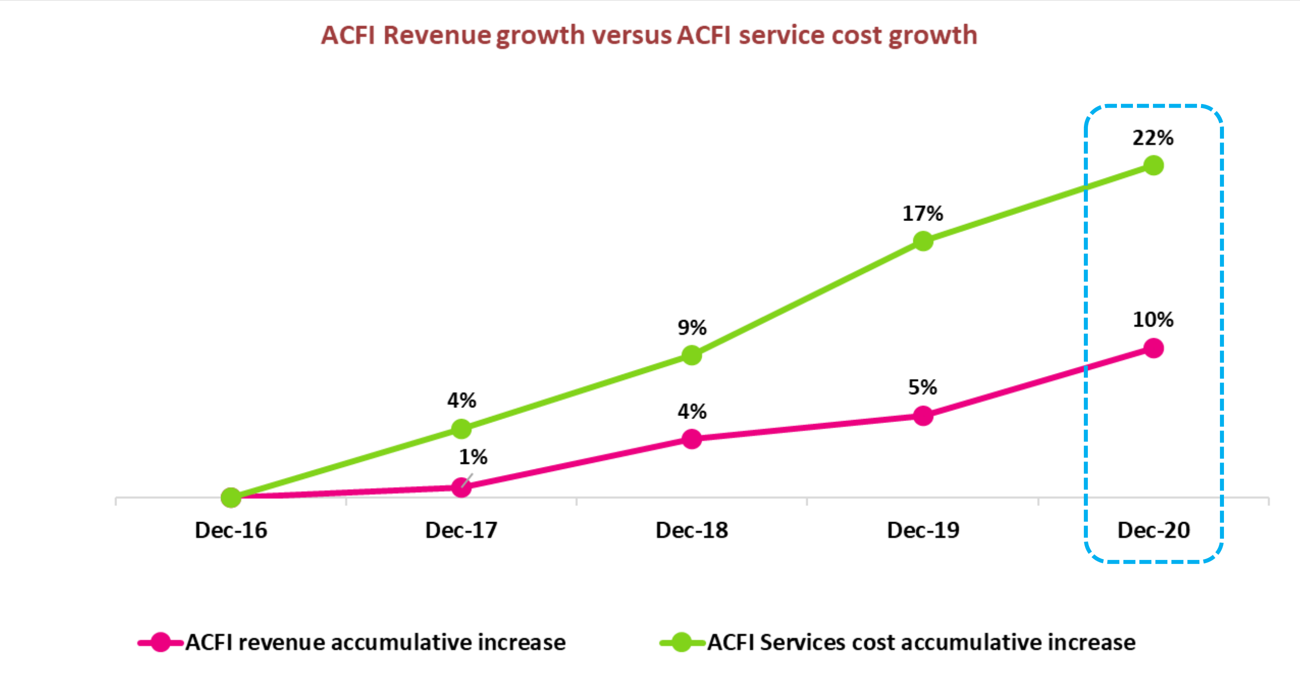


ACFI Revenue and Direct Care Costs Trend

The relationship between ACFI subsidy received (based on resident assessed acuity) and direct care costs is important in maintaining a sustainable care operating financial model. The following graph indicates that the direct care costs are now rising at a greater rate than the corresponding ACFI subsidy: this gap is likely to increase as staff cost increases (average of 3.0% annually) are greater than ACFI COPE (inflation) increases (1.4% for Dec-20).

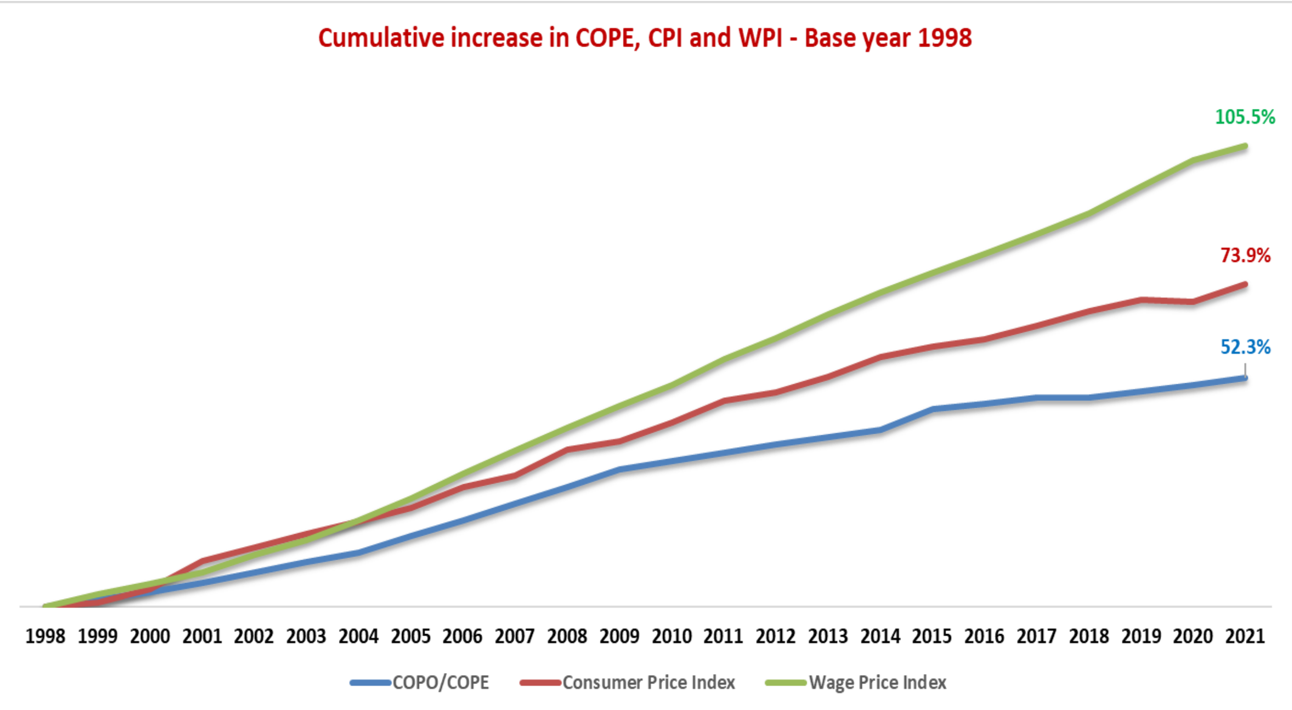
The cumulative effect is that the direct care costs are increasing at a much greater percentage (and actual amount is real terms) which is the reason for the declining ACFI result. Since the 2017 financial year this differential continues to increase exponentially and will have a significant impact on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

Figure 13: Cumulative increases in ACFI subsidy, Direct Care costs as compared to CPI



As can be seen in the graph below, the misalignment between the indexation of the two main revenue streams (care subsidy – COPE and Basic Daily Fee – CPI) have been lower than the indexation of the major cost of residential aged care providers and that is the cost of labour.

Figure 14: Indexation rates for Care subsidies (COPE) and Basic Daily fee (CPI) compared to Wage Price Index (Health)



This difference in indexation rates is the main cause of the underlying structural deficit affecting residential aged care providers.

In the past, providers were able to overcome this structural deficit by increasing their revenue streams at a rate greater than indexation while maintaining cost controls on the rate of wage increases. They achieved this by admitting residents with higher acuity and through the ageing in place of existing residents so that average ACFI levels rose at a rate greater than the indexation rate. In more recent times, the average ACFI across the sector has plateaued and it is now difficult for many homes to increase revenue streams at a rate greater than the indexation.

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* is included in the table below.

Table 8: Direct Care staffing metrics for Survey Average

Hours by Staff Category - hours worked per resident per day

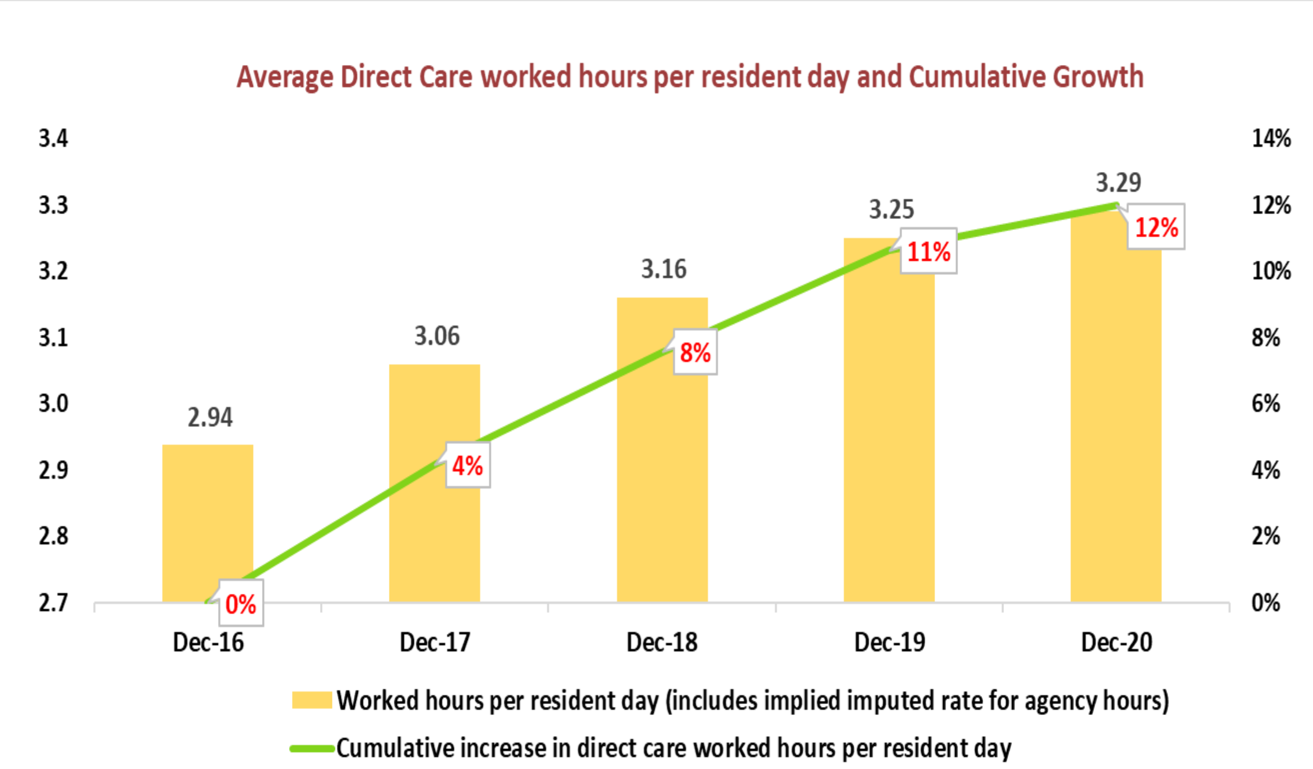
	Survey Average			*Survey Average*
	Dec-20	***Dec-19***		***Jun-20***
Care management	0.13	0.12	↑	0.12
Registered nurses	0.43	0.40	↑	0.41
Enrolled & licensed nurses	0.28	0.29	↓	0.29
Other unlicensed nurses & personal care staff	2.21	2.23	↓	2.18
Allied health & lifestyle	0.22	0.18	↑	0.19
Imputed agency care hours implied	0.02	0.03	↓	0.02
Total Care Hours	**3.29**	**3.25**	↑	**3.21**

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 hours have increased for the Survey *Average* by 1.2%
- 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 sometimes being greater than the increase in hours in percentage terms
- Increases in staffing hours have occurred during a time of significant financial pressures for many providers and at a time when the acuity levels of residents have not been increasing at the same rate as in recent years

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

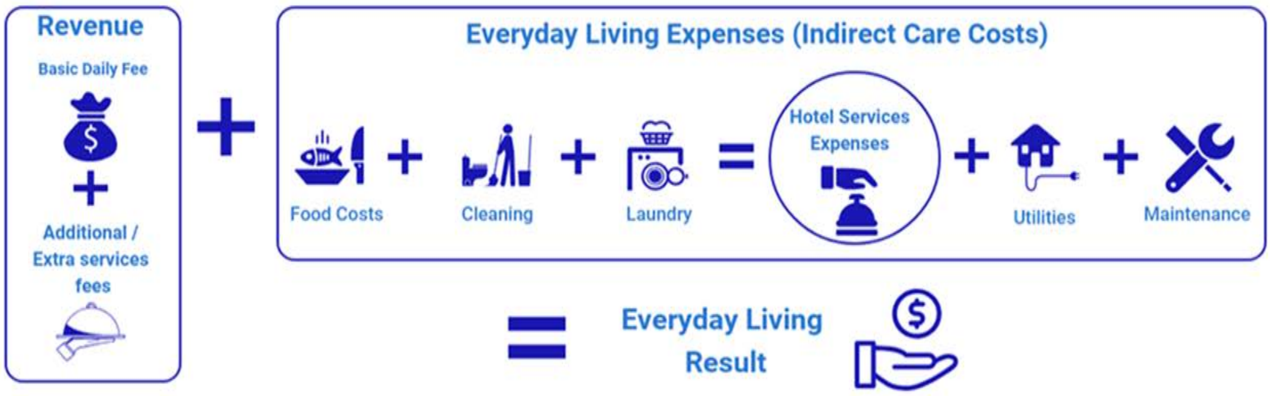
Table 9: Direct Care staffing trend analysis



Everyday Living (Indirect Care) Result

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

Figure 15: Components of the Everyday Living (indirect care) result



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

With a supported resident ratio averaging 46.8% across all aged care homes, this will continue to be an issue for providers in addressing the introduction of additional services.

For the year to Dec-20 the direct costs of providing everyday living services exceeded the revenue by $9.10 pbd (Dec-19 $8.13 pbd). However, with an allocation of administration costs (including procurement, payroll, rosters, accounts, quality control, insurances, human resources and corporate costs) the deficit (loss) further increases.

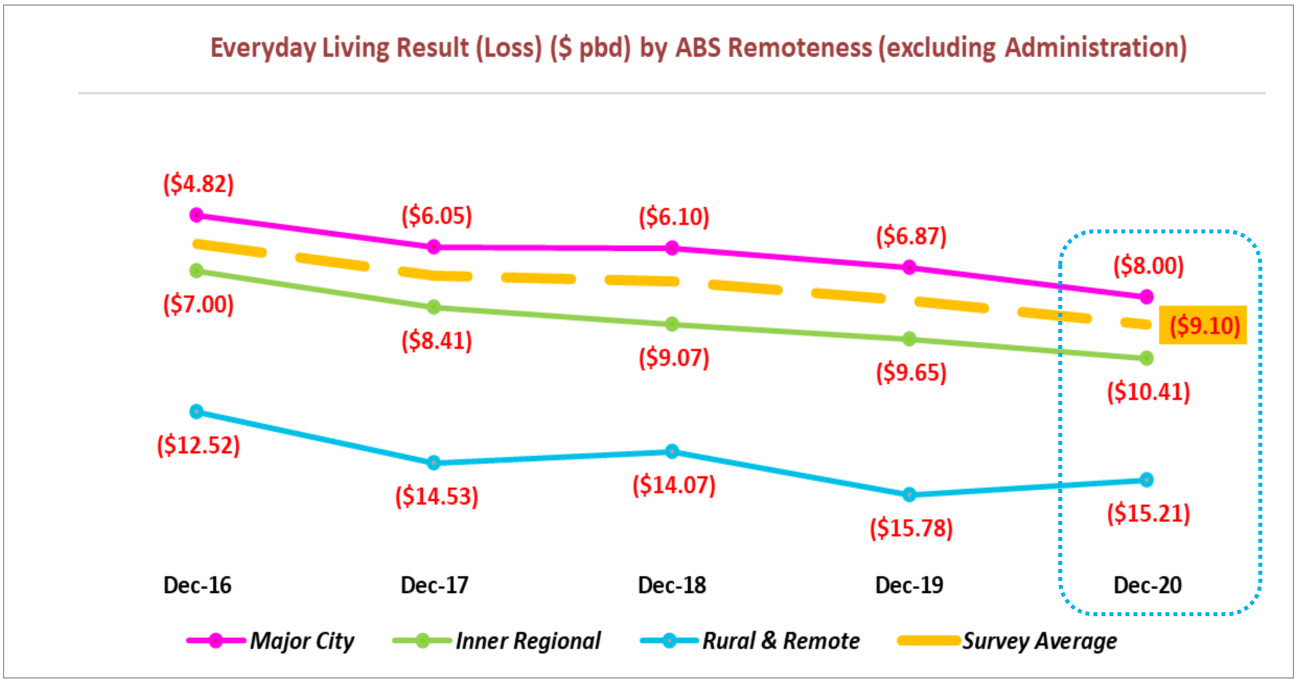
Table 10: Everyday living revenue and expense summary (expressed as $ per resident bed day)

	Dec-20 *1,119 homes*	Dec-19 *1,060 homes*	*YoY* *Movement*	Jun-20 *1,113 homes*
Basic daily fee	52.15	51.41	↑	51.67
Other resident income	2.43	1.88	↑	2.22
Everyday Living revenue	**$54.58**	**$53.29**		**$53.89**
Hotel services	45.91	43.27	↑	44.63
Allocation of W/Comp to hotel services	0.51	0.46	↑	0.49
Utilities	7.09	7.02	↑	7.05
Maintenance costs (regular) and motor vehicles	9.98	10.48	↓	10.64
Quality and education allocation to everyday living	0.19	0.20	↓	0.19
Administration	12.61	12.29	↑	12.41
Everyday living expenses	**$76.29**	**$73.71**		**$75.41**
Everyday Living Result	**($21.71)**	**($20.42)**	↑	**($21.52)**

Everyday Living Result Trend Analysis

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

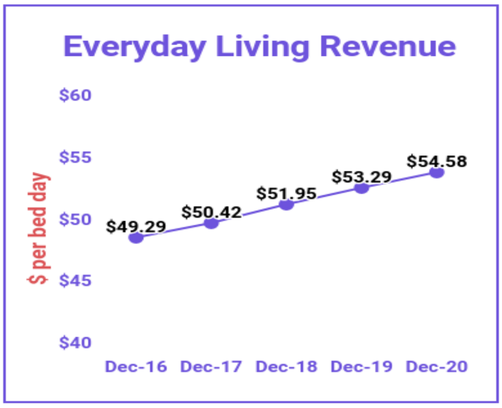
Figure 16: Trend in the Everyday Living Result from Dec-16 to Dec-20 by Survey Average and geographic region



The Everyday Living Result has declined since Dec-16 by an average of $6.14 per bed day.

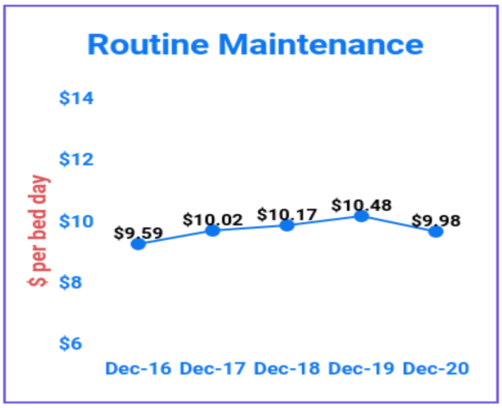
It is clear that the increase in the Basic Daily Fee has not kept pace with cost increases, particularly in catering, cleaning and laundry costs. As noted above, providers have had difficulty in introducing effective additional services to overcome this shortfall so that these costs are being subsidised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

Figure 17: Trend analysis of everyday living costs by component

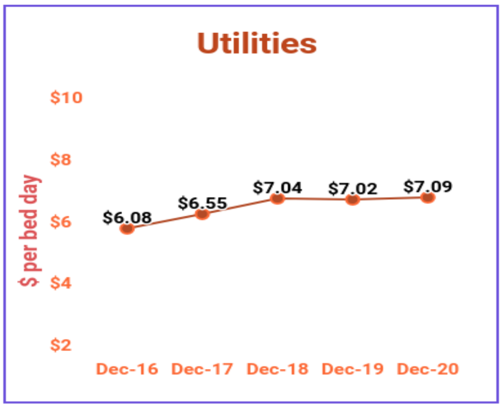


Since Dec-16 Everyday Living Revenue increased by $5.29 per bed day or 10.73%

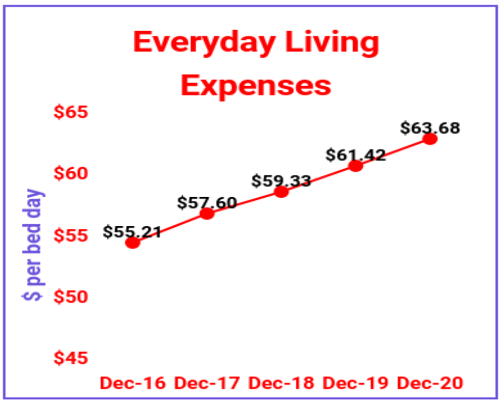
Hotel services costs increased by $7.07 per bed day or 17.97%



Routine Maintenance costs increased by $0.39 per bed day or 4.07%



Utility costs increased by $1.01 per bed day or 16.61%



Total Everyday Living Expenses have increased by **$8.47** per bed day or **15.34%** during the same period that revenue increased by only **$5.29** per bed day

Accommodation Result

StewartBrown continue to note the importance for aged care homes in achieving a surplus from their Accommodation Result. This is due to this result being essential for the continued refurbishment, major maintenance and upkeep of the building and surroundings in line with current and future consumer expectations. The returns on providing accommodation should also provide sufficient incentives for providers to invest in new building stock.

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

The Accommodation Surplus for Dec-20 was $0.63 per bed day (Dec-19 $1.70 pbd) which represents $3,930 per room per annum. The increase in the percentage of new residents paying a Daily Accommodation Payment (DAP) rather than a RAD has been a contributing factor.

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

Figure 18: Residential Care Accommodation Result Trend

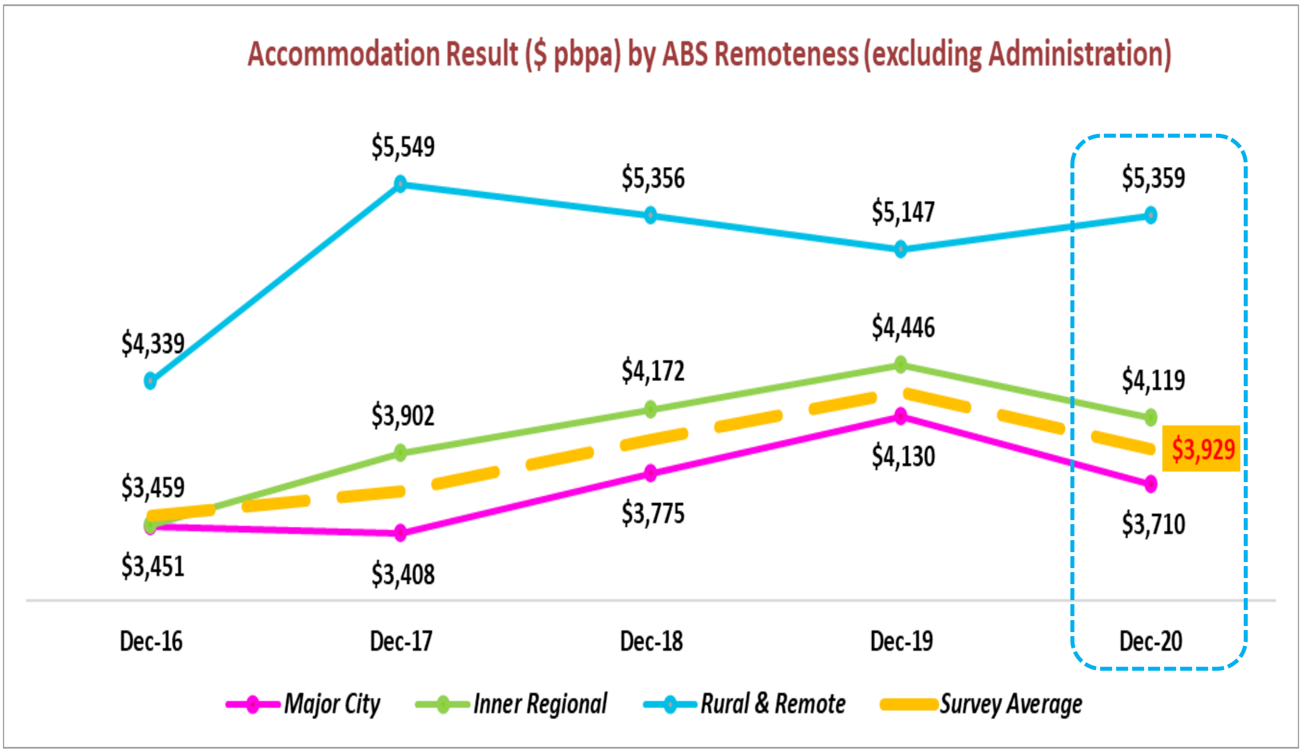


Figure 19: Accommodation Result components

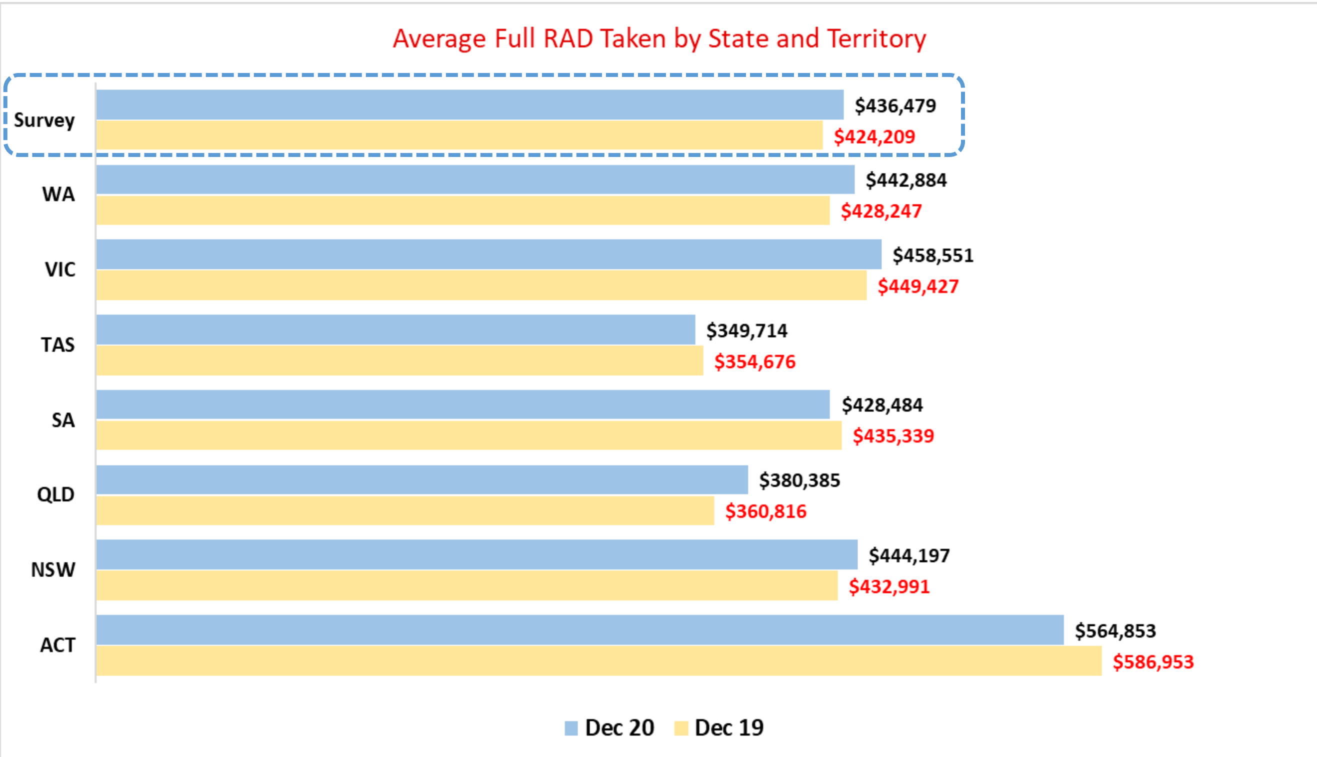
	Dec-20 *1,119 homes*	Dec-19 *1,060 homes*	*YoY Movement*	Jun-20 *1,113 homes*
Accommodation revenue	**$32.53**	**$32.51**	↑	**$32.57**
Accommodation expenses				
Depreciation	18.73	18.11	↑	18.49
Refurbishment	0.25	0.21	↑	0.22
Other accommodation costs	1.89	1.75	↑	2.15
Administration	11.02	10.74	↑	10.84
Accommodation expenses	**$31.90**	**$30.81**		**$31.70**
Accommodation Result	**$0.63**	**$1.70**	↓	**$0.87**
Accommodation result $ per bed per annum	**$3,930**	**$4,263**	↓	**$4,012**
Depreciation charge $ per bed per annum	**$6,316**	**$6,209**	↑	**$6,332**

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 reasonable increase in accommodation pricing year on year to Dec-20. The amount of full Refundable Accommodation Deposits (RADs) received during the period rose by a national average of $12,270 (2.9%) to $436,479. This increase in RADs has been achieved despite a downturn in the housing market in many areas, the COVID-19 pandemic and general pessimism within the sector and community generally.

Figure 20: Average Refundable Accommodation Deposits Received for Dec-20 and Dec-19



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

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

A higher accommodation price should not directly correlate to a higher standard of direct care.

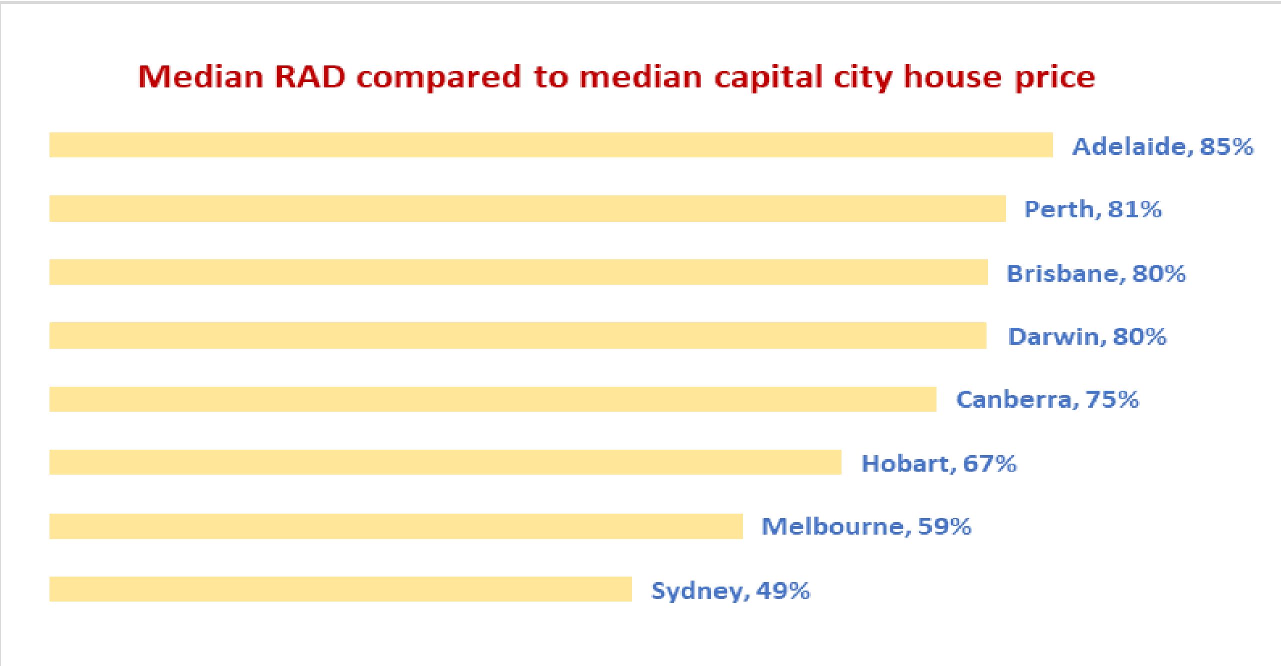
Accommodation pricing strategies need to be more targeted to the appropriate return on the asset (building plus land value) and cognisant with local house or unit prices in the respective geographic area. The accommodation pricing strategy should also consider other factors such as:

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

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

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

Figure 21: Median advertised accommodation pricing (RADs) compared to median housing price by State



Administration Costs

Administration costs have continued to increase at a rate higher than CPI. One of the main drivers for the increasing compliance requirements, and this has now been exacerbated by costs associated with fulfilling information requests, making submissions and attending hearings in relation to the Royal Commission.

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

Figure 22: Administration costs trend over time since Dec-15 (expressed as $ per bed day)

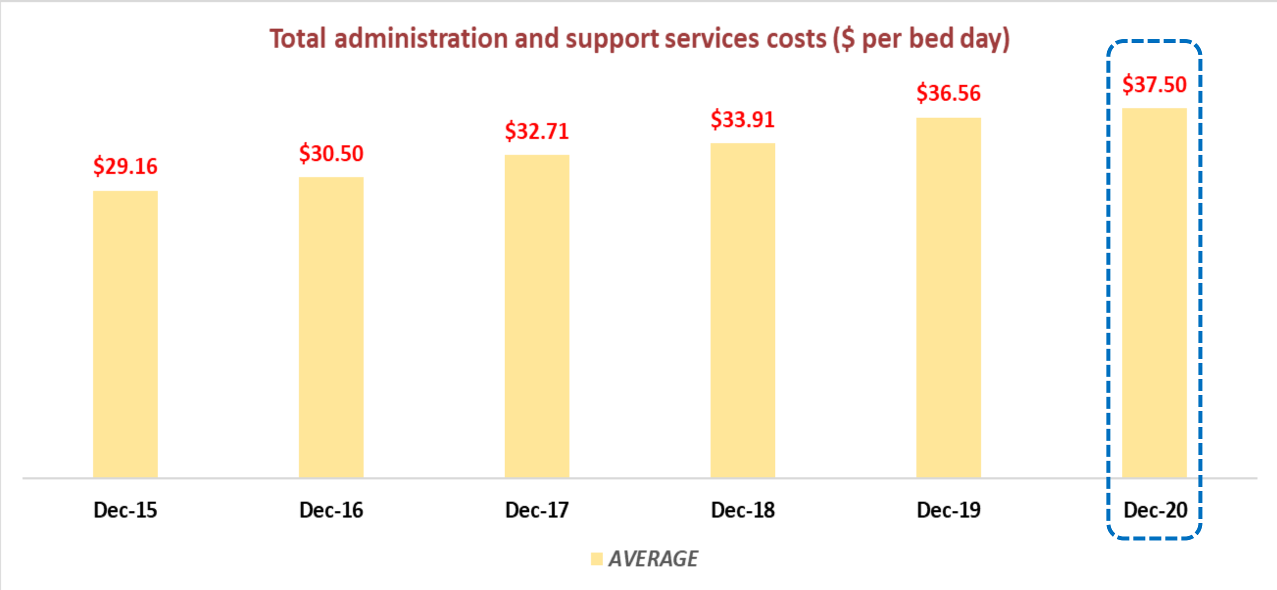


Table 11: Administration cost summary for Survey Average for Dec-20 and Dec-19 periods

	Dec-20 *1,119 homes*	Dec-19 *1,060 homes*	*YoY Movement*	Jun-20 *1,113 homes*
Administration (corporate) recharges	23.22	22.28	↑	21.98
Labour costs - administration	7.25	7.14	↑	7.33
Other administration costs	5.47	5.49	↓	6.12
Workers compensation	0.27	0.41	↓	0.32
Payroll tax - administration staff	0.04	0.03	↑	0.05
Quality & education - labour costs	0.04	0.04	-	0.04
Quality and education - other	0.02	0.02	-	0.02
Insurances	1.20	1.14	↑	1.03
Total Administration Costs	**$37.50**	**$36.56**	↑	**$36.89**

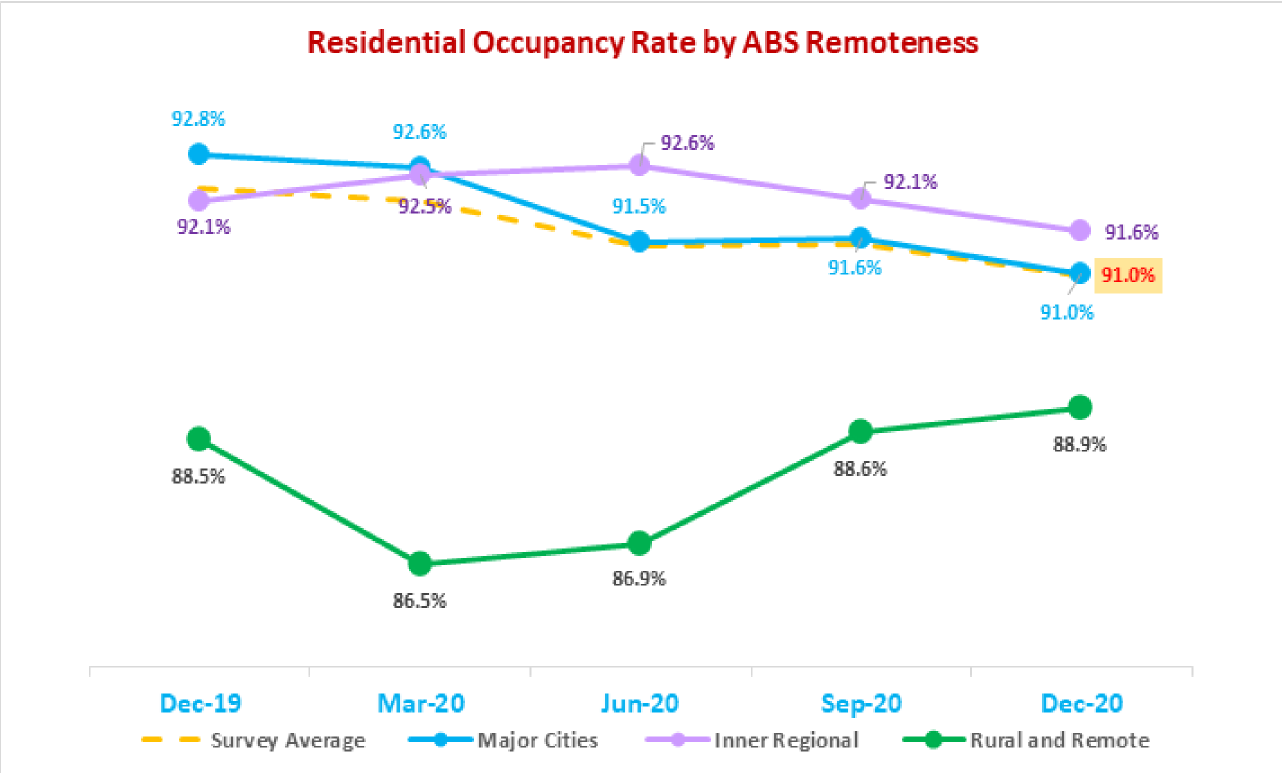
Occupancy

The occupancy percentage has suffered a significant decline to be 91.0% nationally (92.4% at Dec-19)

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

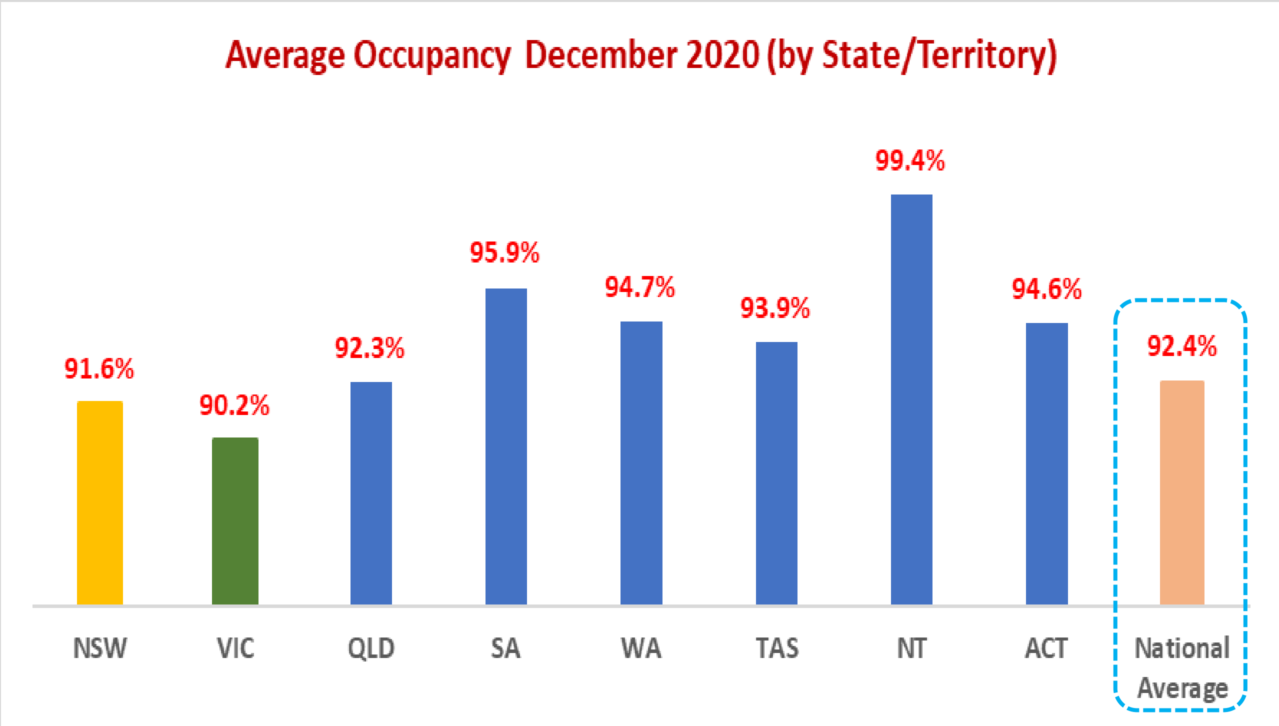
A trend analysis of occupancy levels at the national average and by geographic regions is included in the graphs below.

Figure 23: Residential occupancy percentages for all aged care homes (national) and by geographic regions



The effects of the COVID-19 pandemic on occupancy will have been felt to some degree in these figures, but occupancy had been declining prior to the outbreaks. The effects of the second major outbreak in Victoria, and to a lesser extent NSW have affected the occupancy levels in the September and December 2020 quarters.

Figure 24: Residential average occupancy percentages for Dec-20 and by geographic regions



FY21 and FY22 Residential Care Forecast

Forecast Assumptions

We have calculated the projected ACH Results for FY21 and FY22 using the following assumptions:

- ✓ Based on Dec-20 actual ACH Results as per the StewartBrown Survey
- ✓ Average occupancy of 92.4% in both periods
- ✓ ACFI indexation of 1.40% pa
- ✓ Increase of $0.25 per bed day (average) for additional optional services each year
- ✓ Other revenue increases in line with pension/ CPI increase (1.5% pa)
- ✓ Adjusted for Wage increases of 2.2% pa
- ✓ Utilities increase of 1.5% pa
- ✓ Depreciation assumed to remain stable
- ✓ Adjusted for other expenditure increases at CPI of 1.6%

Figure 25: FY21 and FY22 Forecast % of homes with operating loss by ABS remoteness

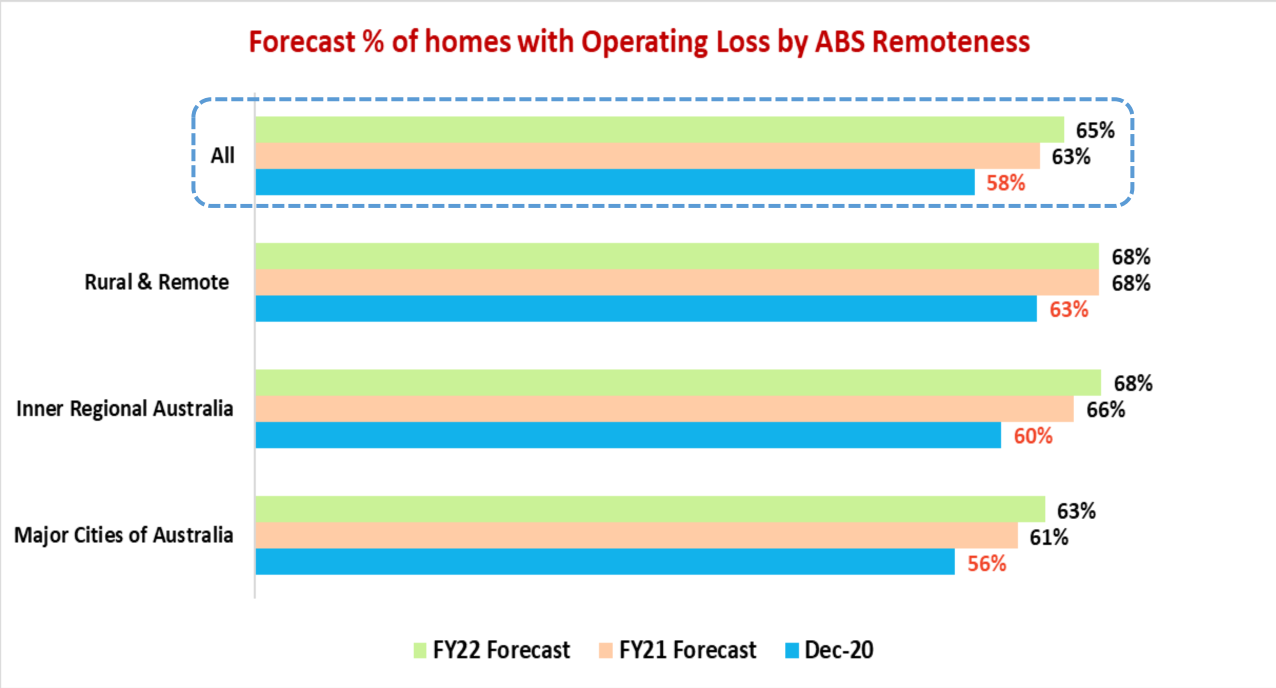
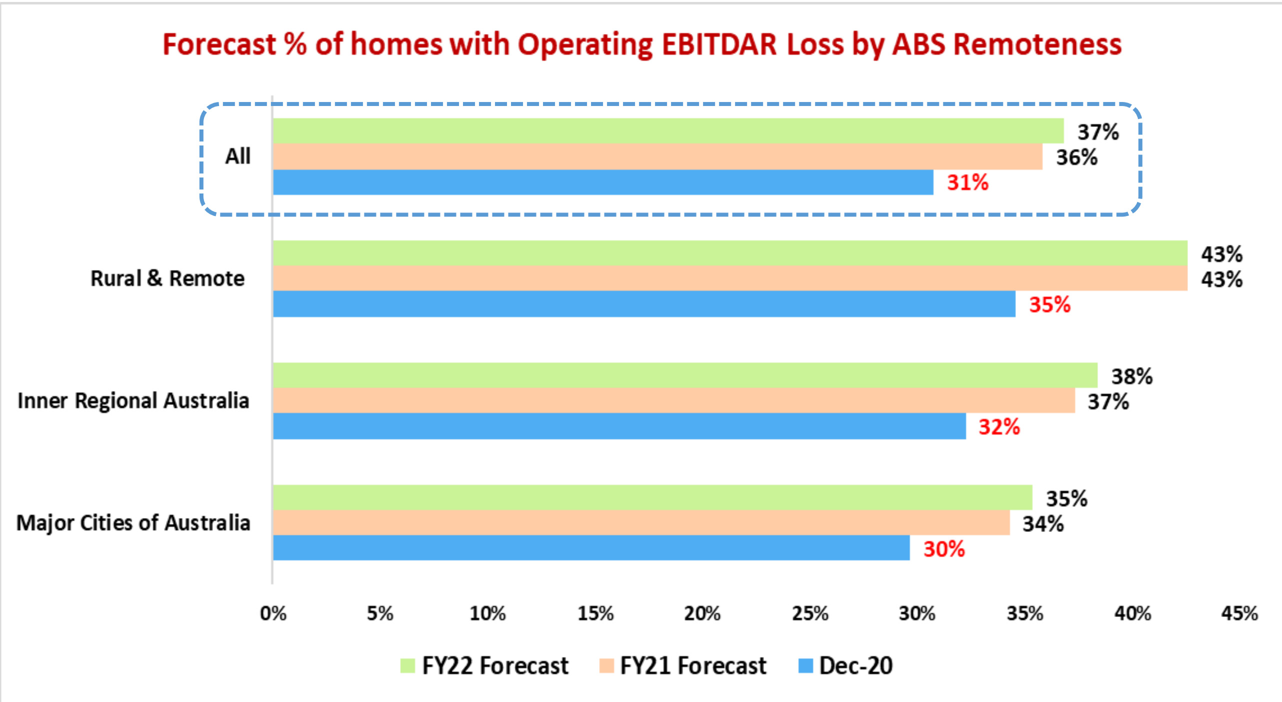


Figure 26: FY21 and FY22 Forecast % of homes with EBITDAR loss by ABS remoteness



4. HOME CARE ANALYSIS

Overview

Compared to Dec-19, there has been a decrease in revenue per client day together with a tightening of expenses across direct care costs, care management and advisory, and administration and support. This has led to slight decrease ($0.20 pcpd) in the operating result for the period for the Survey *Average* (All Programs).

Unspent funds are high and continue to increase across all band levels. The average unspent funds per client is now $9,901 compared to Dec-19, which was $7,904 per client. In aggregate, across the sector this represents in excess of $1.48 billion nationally. Most of this balance of unspent funds relates to home care package subsidies and if these are not being utilised for direct care delivery, they could be diverted toward those care recipients on the national prioritisation queue that do not yet have access to in-home care funding.

Revenue utilisation continues to decrease and there is a continued decline of staff hours, with the average for the six months to Dec-20 at 5.5 staff hours per client per week. Some of this is likely due to technology impacts and administration hours falling, however, the key decrease is in the direct service provision of staff hours. Together with an increase in unspent funds and a decrease in revenue utilisation, it appears that a broader decrease in staff hours is being driven by client needs.

<u>Revenue</u>

- Revenue per client per day (pcpd) average for Survey participants decreased by 1.1% (being $0.80 pcpd)
- Revenue utilisation decreased by 1.2% for Survey *Average* (84.2% of funding received compared to 85.4% at Dec-19)
- Higher average unspent funds per client has increased by $1,997 per client (to average $9,901 per client) which would represent an aggregate in excess $1.4 billion nationally

<u>Expenses</u>

- Total expenses <u>decreased</u> slightly for Survey *Average*
- Direct service costs decreased by $0.21 pcpd (59.4% of total revenue compared to 59.0% at Dec-19)
- Cost of direct service and brokered/sub-contracted as a percentage of total revenue has decreased by 1.9% to 59.8% for Survey *Average*
- Case management cost as a percentage of revenue has remained consistent (10.3% of revenue)
- Administration and support costs represent 23.3% of revenue

<u>General Observations</u>

- Average operating profit per client day decreased by $0.20 pcpd to $4.53 pcpd ($4.73 Dec-19; $3.59 FY20)
- Staff hours per client per week reduced by 0.19 hours (average 5.50 hours per week)

Table 12: Summary KPI Results for Dec-20 Survey (all programs)

HCP Summary Results	Dec-20 *43,082 Packages*	Dec-19 *34,339 Packages*		Difference *(YoY)*	FY20 *42,821 Packages*
Total revenue $ per client per day	$71.06	$71.86	↓	($0.80)	$71.08
Operating result per client per day	$4.53	$4.73	↓	($0.20)	$3.59
EBITDA per client per annum	$1,832	$1,887	↓	($56)	$1,502
Average total Internal Staff hours per client per week	5.50	5.69	↓	(0.19)	5.45
Median growth rate	5.97%	12.00%	↓	(6.0%)	21.28%
Revenue utilisation rate for the period	84.2%	85.4%	↓	(1.2%)	84.8%
Average unspent funds per client	$9,901	$7,904	↑	$1,997	$8,841
Cost of direct care & brokered services as % of total revenue	59.4%	59.0%	↑	0.4%	59.8%
Case management & coordination costs as % of total revenue	10.3%	10.2%	↑	0.1%	10.8%
Administration & support costs as % of total revenue	23.3%	23.6%	↓	(0.3%)	23.7%
Profit Margin	6.4%	6.6%	↓	(0.2%)	5.1%

Financial Performance Measures

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

Figure 27: Comparison of Operating Result for Survey Average for periods Dec-20 and Dec-19

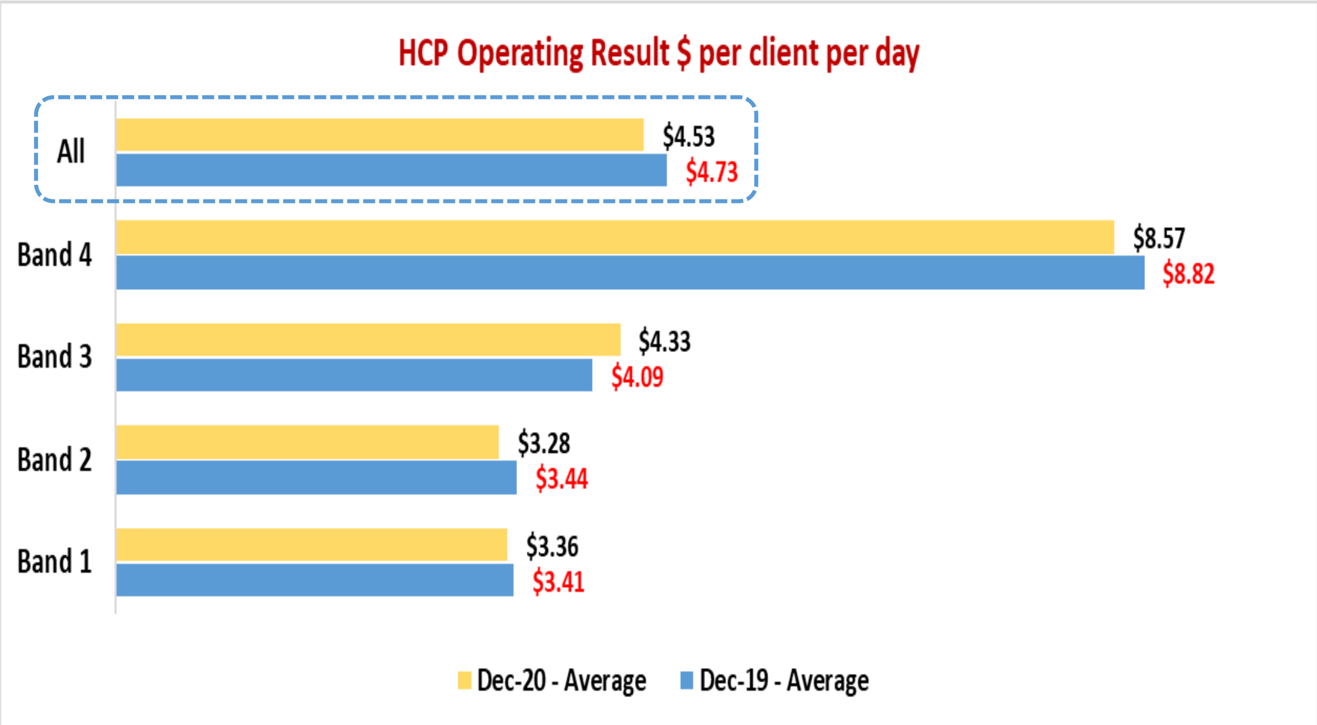
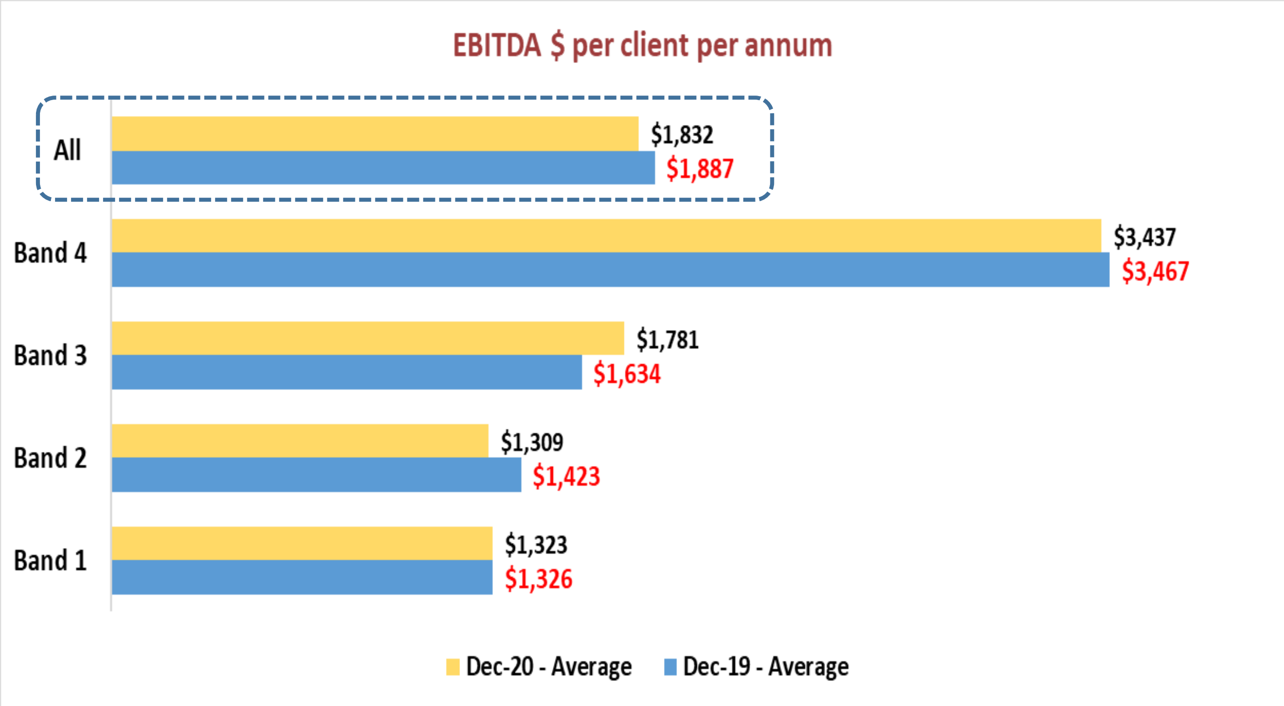


Figure 28: Comparison of EBITDA for Survey Average for periods Dec-20 and Dec-19

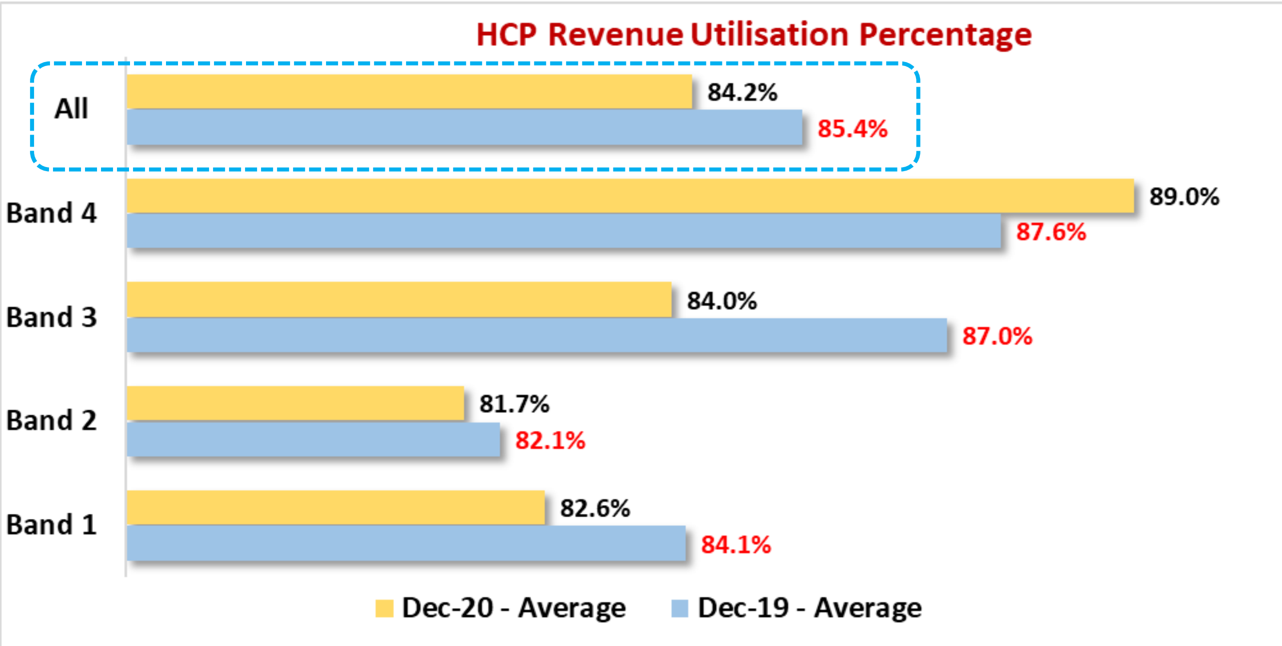


Revenue Utilisation

Revenue utilisation has decreased by 1.2% for Survey *Average* (84.2% of funding received compared to 85.4% at Dec-19). This continues to affect profitability due to the fixed overhead costs not being spread over increased revenues and variable costs remaining proportional to revenue levels.

As noted in previous reports, there requires an ongoing improvement in revenue utilisation to be a strategic priority particularly given the changes to the payment arrangements that will be introduced in the second half of the 2021 financial year.

Figure 29: Revenue Utilisation comparison for Dec-20 and Dec-19



Unspent Funds

As noted by the Government in the recent reform consultations in relation to the funding model, the continued increase in the quantum of unspent funds per client is a major issue. The average unspent funds per care recipient has risen from $7,904 at Dec-19 (FY20 $8,841) and averages $9,901 per client as at Dec-20.

Of particular note is that the levels of unspent (unutilised) funds is increasing in each package level. Level 2 packages have an annual subsidy of around $9,000 per annum, and care recipients remain in the package for approximately 2 years and the average length of current recipients within the package is around 1.4 years.

However, if we assume the care recipients were receiving the subsidy for two years, this equates to a total aggregate subsidy received of $18,000, and the unspent portion is over $9,545 which represents 53% of the subsidy funding has not been utilised.

StewartBrown estimates the unspent funds liability at the end of the Dec-20 period to be in aggregate in excess of **$1.4 billion**. Most of this balance of unspent funds relates to home care subsidies and if these are not being utilised for direct care delivery, they could be diverted toward those care recipients on the national prioritisation queue that do not yet have access to in-home care funding.

Figure 30: Survey Average Unspent Funds per client as at Dec-20 and Dec-19

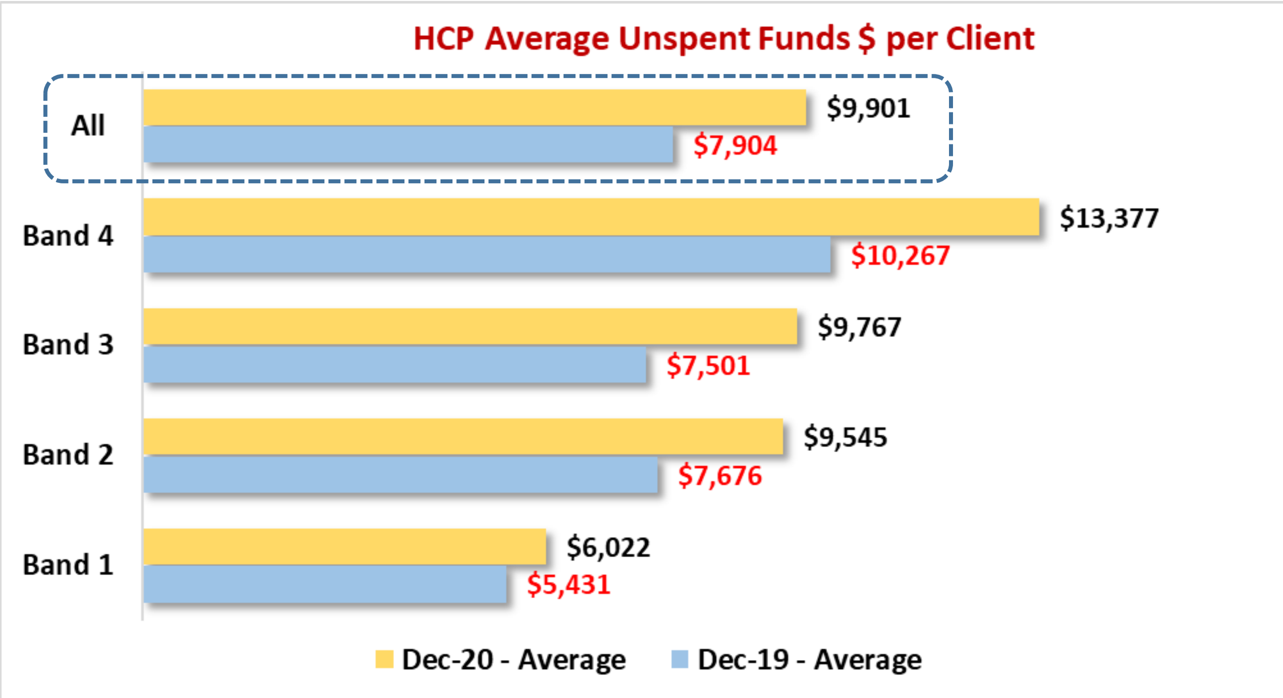
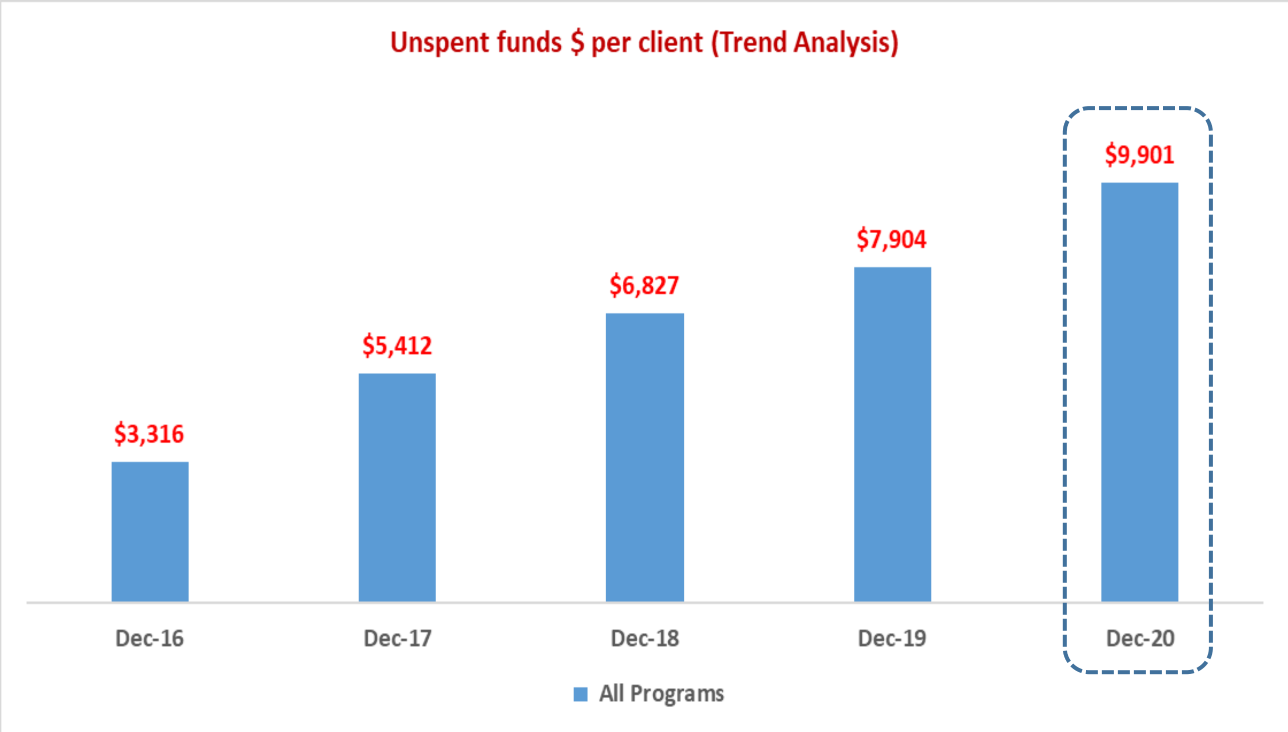


Figure 31: Survey Average Unspent Funds per client trend analysis from Dec-16 to Dec-20



Comment

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

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

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

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

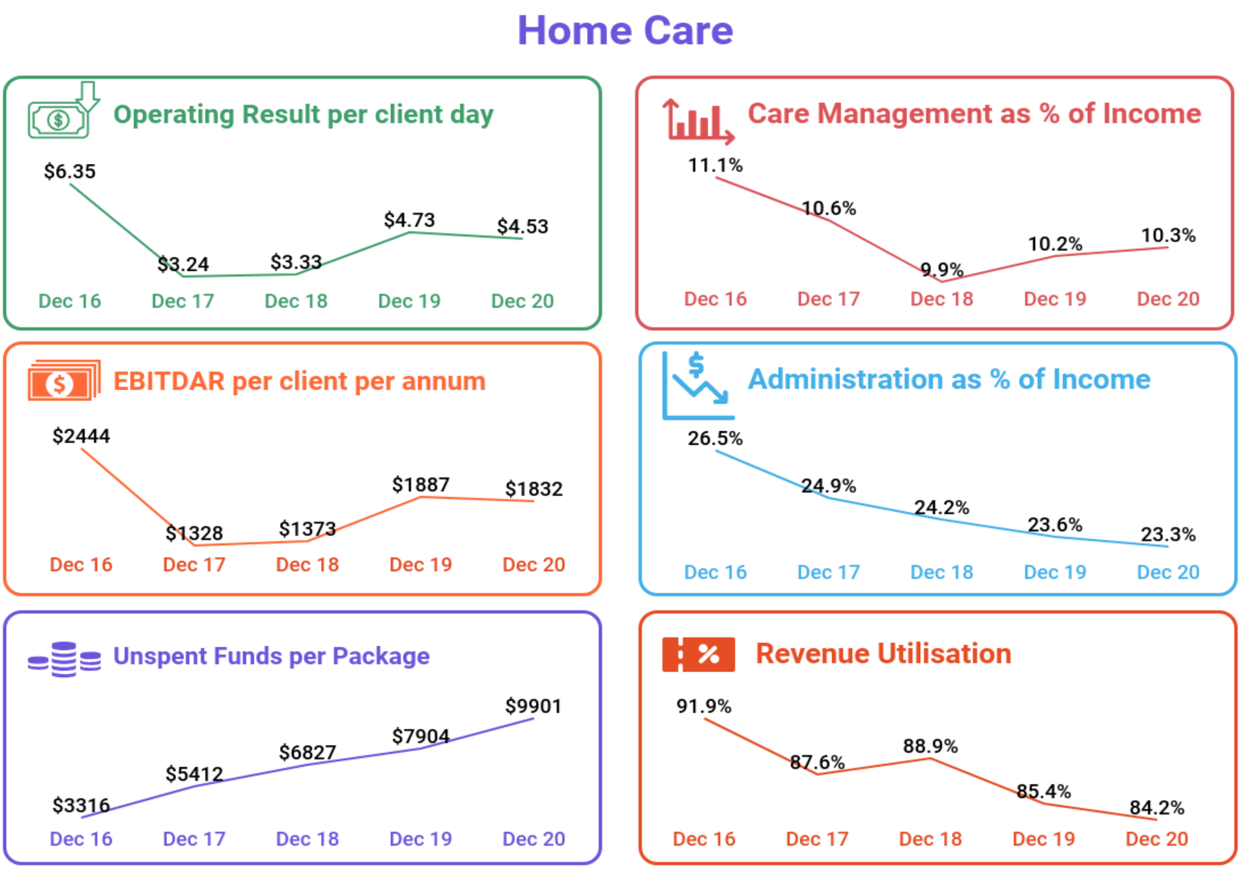
Another related issue is that due to the high level of unspent funds per care recipient, there is a reluctance by some providers to levy (and consumers to be charged) a client contribution (basic daily care fee), as it would effectively only add to the quantum of unspent funds. In the home care survey conducted on behalf of the Department of Health earlier this year, and based on information on the My Aged Care website, it was found that only 34% of providers had indicated that they were charging the Basic Daily Fee to home care recipients. There have been instances where the means-tested fee also has not been levied for the same reason.

This practice distorts the overall funding model and discourages the notion of consumers "co-contributing" to their care needs. The Government has now implemented the changes to the payment arrangements for home care which commenced from 1 March 2021 when the full amount of subsidies will change from being paid in advance to being paid in arrears.

From 1 September 2021, payments will continue to be paid in arrears, but will based on actual care and services delivered in the previous month. In their September 2021 claim (lodged in October 2021) providers will need to submit a total dollar amount per care recipient to Services Australia. A detailed invoice by service type is not required.

From that point onwards, the Government will manage unspent funds on behalf of the client whereby any unspent funds accrued after 1 September 2021 will be held by the Government until the client needs it.

Key Performance Indicator Trends Summary



State Analysis

Figure 32: HCP operating result ($ per client per day) by State/Territory

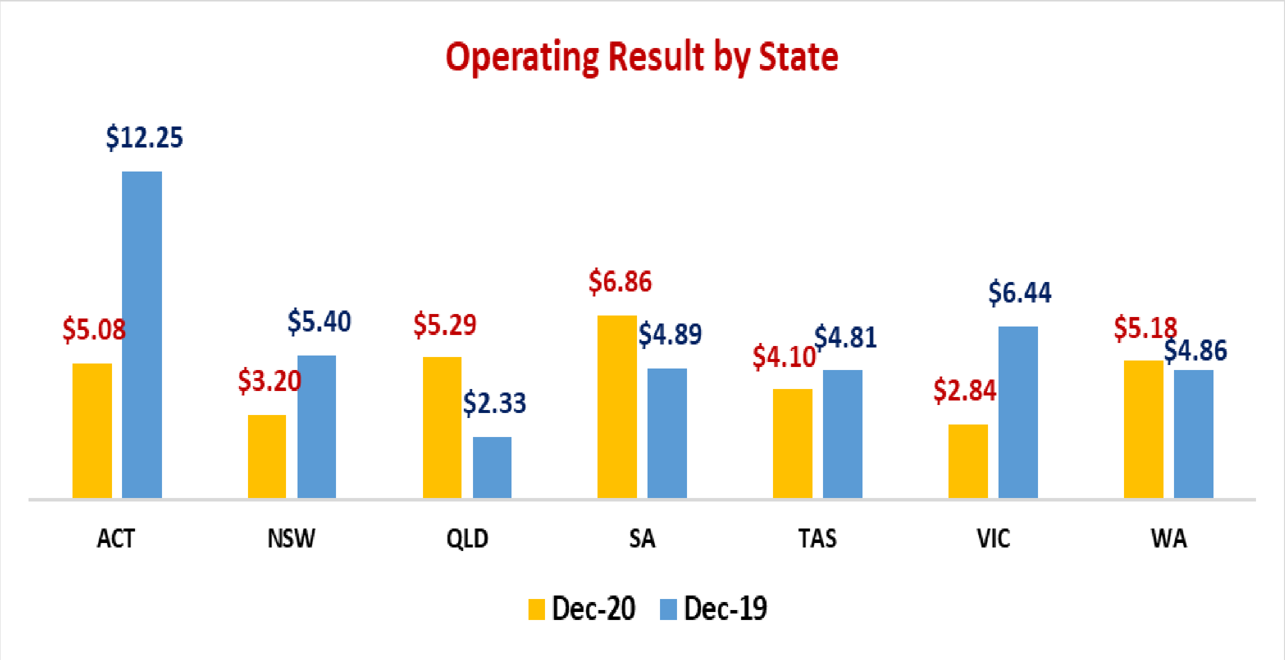
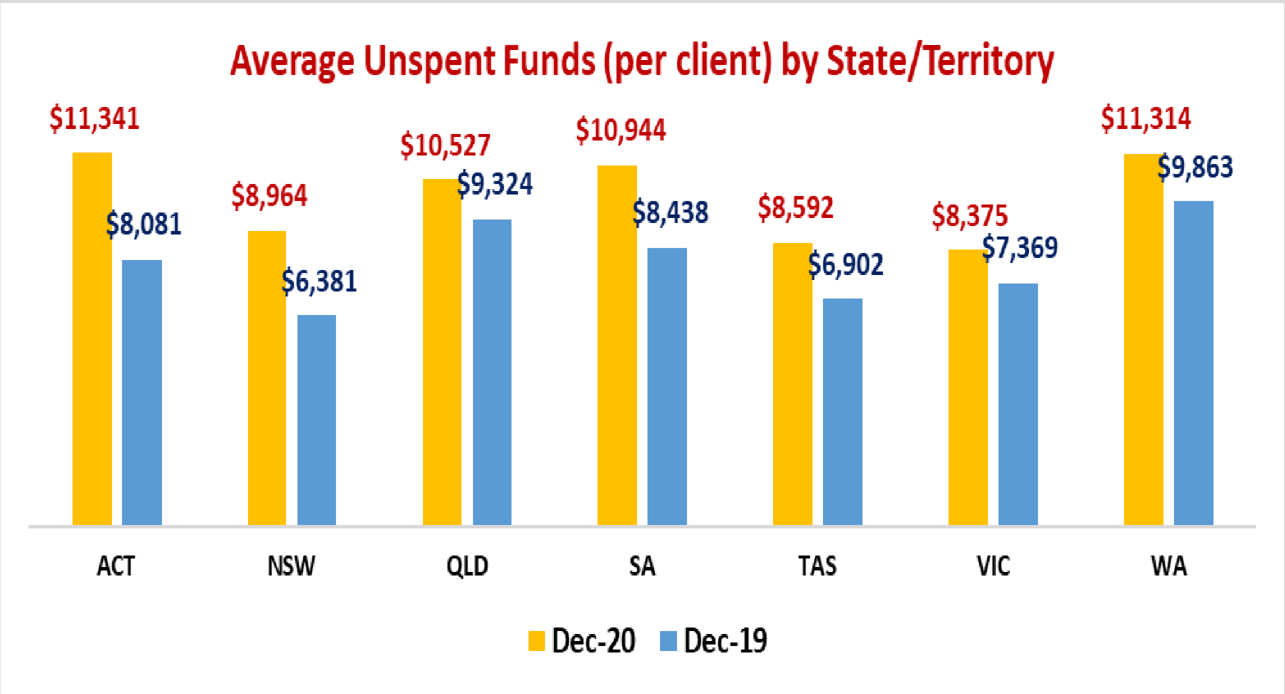


Figure 33: HCP average unspent funds by State/Territory



Staff Hours Worked per Care Recipient

Direct service hours per care recipient per week (including agency staff) has declined to 3.95 hours (on average) for Dec-20 period compared to 4.44 hours for Dec-19.

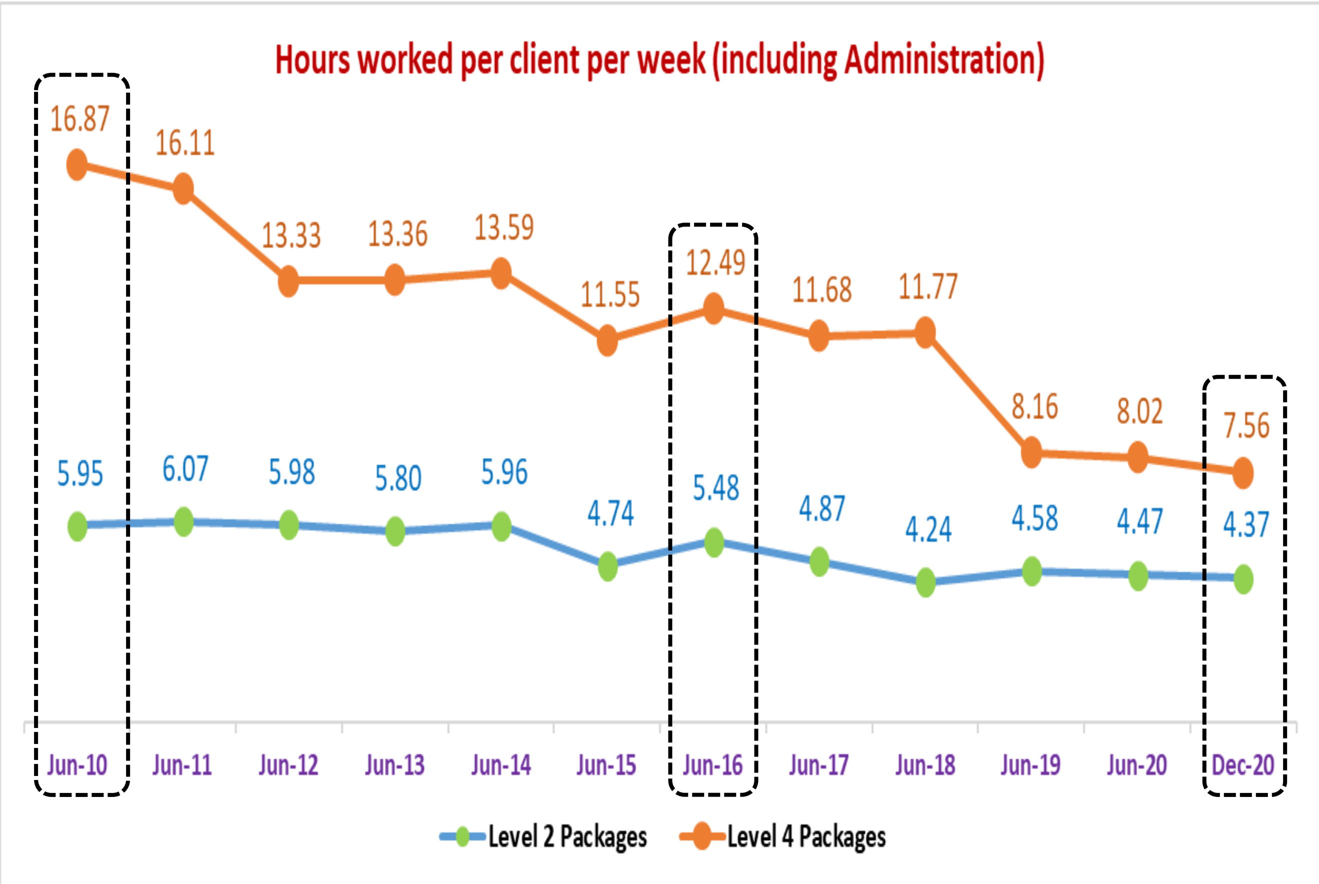
It is important to note that the staffing hours are for direct care service delivery by providers to clients (care recipients). These hours do not include sub-contract services which may include home maintenance, cleaning, social support and allied health. Sub-contractors as well as providers perform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

Table 13: Home Care Staff Hours per care recipient per week for Jun-20 and Jun-19 (Survey Average and First 25%)

Survey *(Average)*

Internal staff hours worked per client week	Dec-20	Dec-19		*Difference*	FY20
Direct service provision	3.84	4.23	↓	(0.39)	3.93
Agency	0.11	0.21	↓	(0.10)	0.23
Case management & coordination	1.06	0.80	↑	0.26	0.81
Administration & support services	0.49	0.45	↑	0.04	0.48
Total Staff Hours	**5.50**	**5.69**	↓	**(0.20)**	**5.45**

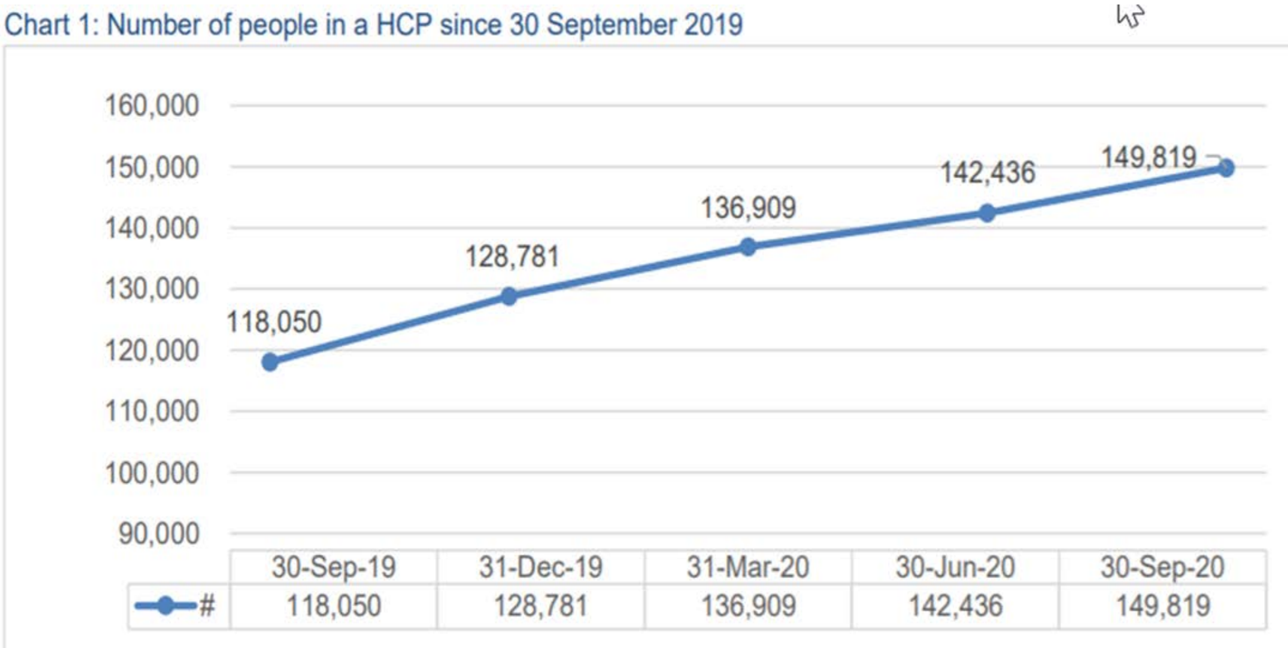
Figure 34: Trend analysis - hours worked per client per week for all staff for Band 2 and band 4 package levels



The graph above also shows the reduction in overall staff hours, particularly for those high care packages, but even in the low care packages there has been a decline in hours and this has come mainly since the introduction of package allocations to the consumer rather than the provider.

Package Growth

Figure 35: Home Care Package growth



The Government has made several announcements to increase the number of home care packages in the aged care system.

- On 8 July 2020 the Government announced that $347.4 million over 5 years would be spent on an additional 6,105 home care packages (2,035 at level 1, 2 and 3) in 2020-21. These packages commenced being rolled out in July 2020
- The 23,000 packages announced in the 2020-21 Budget are in addition to the 6,105 packages already announced in July (5,000 at level 1, 8,000 at level 2 and 4 and 2,000 at level 4). These packages commenced roll out in November 2020 (so not evident in the quarter to Sep-20 data). With the addition of the July 2020 announcement, total Government outlay in the 2020-21 Budget is $1.9 billion
- On 16 December 2020 the Government announced an additional 10,000 packages (2,500 at each level) costing a total of $850.8 million over 4 years (to FY24). These additional home care packages will be released with rollout from January 2021 to June 2021.

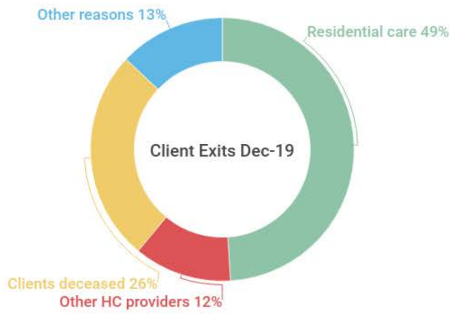
Despite the above release of packages into the system, the quarterly growth rates have stabilised since Mar-20 at 5.2%. We are seeing a slow-down in the growth of consumers with a home care package. There were 42,900 home care packages released in the September 2020 quarter at an average of 3,300 per week. It is anticipated the growth rates will continue if not increase as the releases of additional packages are rolled out.

Whilst the addition of new Home Care Packages is welcomed, in isolation it does not address issues surrounding the utilisation of packages whereby the amount of unspent package funds for each care recipient is, on average, over $9,900 and equates to over $1.4 billion in total.

Home Care Statistic Trends

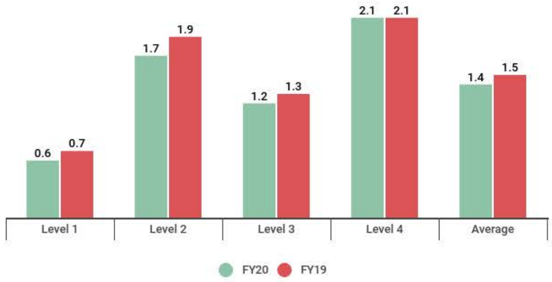
Reasons for Client Exits

Reasons for Client Exits



Average Age of Home Care Clients

Average Length of Time in a Package



5. GLOSSARY

Residential - Operating Result

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

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
−
Administration

CARE Result

ACFI
+
Everyday Living
−
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
- Interest paid on outgoing bonds

=

Care
+
Accommodation

Operating (Facility) Result

Accommodation Result

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

ACFA

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

ACFI revenue

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

ACFI Result

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

ACH Result

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

ACH EBITDAR

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

Administration Costs

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

Aged Care Home

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

***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 homes would be the total amount submitted for that line item divided by the total occupied bed days for all aged care homes in the Survey.

For home care all *averages* are calculated using the total of the raw data submitted for any one-line item and then dividing that total by the total client days for the programs in the group. For example, the average for sub-contracted and brokerage costs across all programs would be the total amount submitted for that line item divided by the total client days for all programs in the Survey.

Average **by line item**

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

Bed day

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

Benchmark

We consider the benchmark to be the average of the *First 25%* in the group of programs being examined. For example, if we are examining the results for aged care homes (facilities) / programs in Band 4, then the benchmark would be the average of the *First 25%* of the aged care homes (facilities) / programs in Band 4.

Benchmark Bands

Residential Care

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

Band 1 - Over $195
Band 2 - Between $180 and $195
Band 3 - Between $165 and $180
Band 4 - Under $165

Home Care

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

Band 1 - Under $47
Band 2 - Between $47 and $67
Band 3 - Between $67 and $87
Band 4 - Over $87

Care Result

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

Dollars per bed day

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

Dollars per client day

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

EBITDAR

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

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

EBITDAR per bed per annum

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

NPBT

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

Facility

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

Facility EBITDAR

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

Everyday Living Result

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

Home Care Packages (HCP)

Home Care results (NPBT) are distributed for the Survey period from highest to lowest by $ per client per day ($pcd). This is then divided into quartiles - the *First 25%* is the first quartile, second 25%, third 25%, fourth 25% and the average of each quartile is reported. The *First 25%* represents the quartile of programs with the highest NPBT result.

Residential Care

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

Location - City

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

Location - Regional

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

Survey

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

6. CONTACT DETAILS

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

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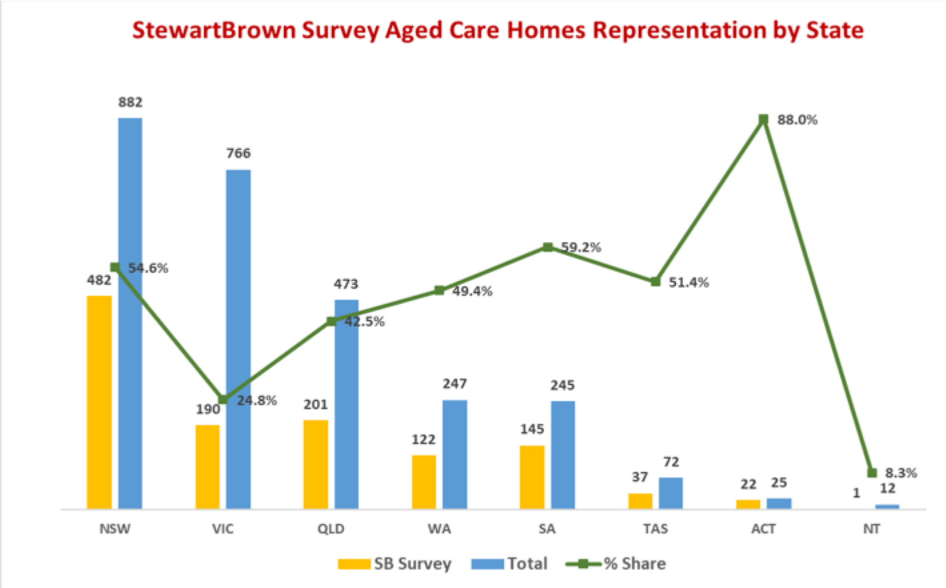
7. APPENDIX A: SURVEY DATA SET AND METRICS

Residential Data Set - December 2020 Survey

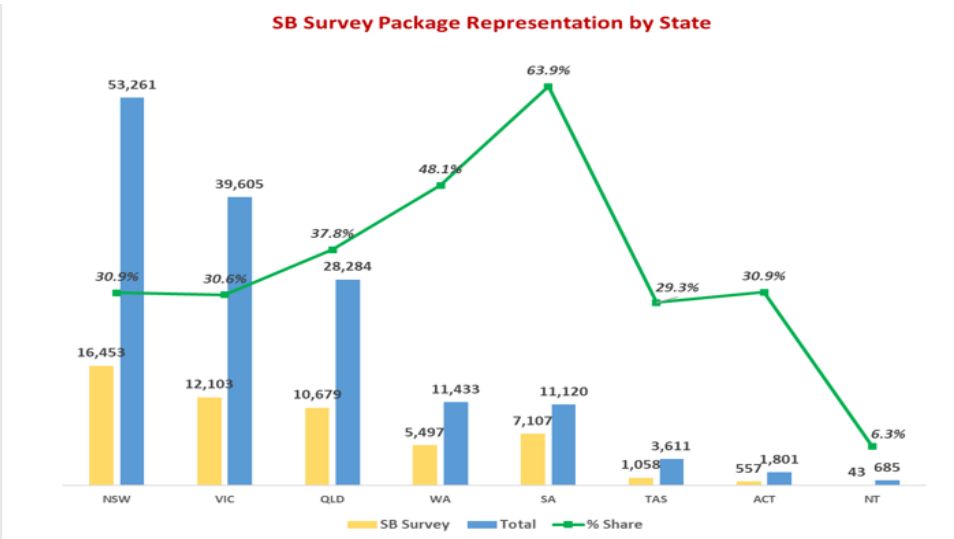
Number of Residential Homes in Survey	Total
StewartBrown Residential Survey	
Homes included	1,119
Homes excluded	81
Survey total	**1,200**
GEN Aged Care Data Service Listing (30 December 2020)	
Total	**2,722**
Coverage % = (A)/(B)	**44.1%**



State/territory	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
SB Survey	482	190	201	122	145	37	22	1	1,200
Total	882	766	473	247	245	72	25	12	2,722
% Share	*54.6%*	*24.8%*	*42.5%*	*49.4%*	*59.2%*	*51.4%*	*88.0%*	*8.3%*	*44.1%*

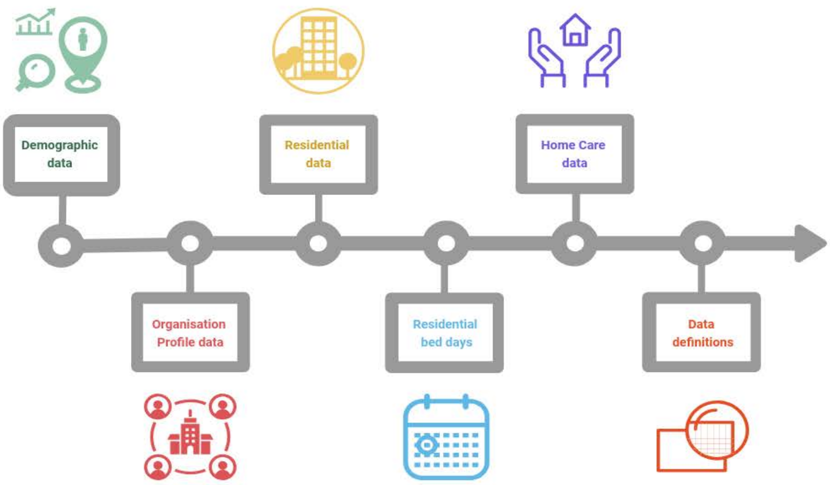
Home Care Data Set - December 2020 Survey

Number of Home Care Packages in Survey	Total
StewartBrown Home Care Survey	
Package included	43,082
Package excluded	10,416
Survey total	**53,498**
GEN Aged Care Data Service Listing (30 September 2020)	
Total	**149,819**
Coverage % = (A)/(B)	**35.7%**



State/territory	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Unknown	Total
SB Survey	16,453	12,103	10,679	5,497	7,107	1,058	557	43	0	53,498
Total	53,261	39,605	28,284	11,433	11,120	3,611	1,801	685	19	149,819
% Share	*30.9%*	*30.6%*	*37.8%*	*48.1%*	*63.9%*	*29.3%*	*30.9%*	*6.3%*	*0.0%*	*35.7%*

Data Collection Process



- Each tab (spreadsheet) requires an extensive level of input
- Each row must be completed
The only tabs not completed are where it is not applicable
- There is a significant amount of non-financial data collected, including staff hours worked
- The Organisational Profile data are cross referenced to the audited General Purpose Financial Statements
- The Data Definitions are important - these must be strictly adhered to as it ensures accurate comparability

Data Cleansing Process

01 All data fields are entered

02 Missing data is requested from the participants)

03 The $ dollar data fields are converted in $ per bed day and $ per client day

04 The results are compared to the previous 4 quarters

05 All outliers are then referred back to the providers

06 The data tables are then uploaded to the software

07 The software program performs a further cleansing process

08 Any further outliers are referred back to the participant(s)

09 All results outside the range that have abnormal results are excluded

10 Each participant receives their individual reports

11 One week allows any participant to advise of any potential omission

12 The Sector and Participants reports are then prepared