



StewartBrown

Integrity + Quality + Clarity

Aged Care Sector Report



The StewartBrown March 2021 *Aged Care Financial Performance Survey* incorporates detailed financial and supporting data from **1,174 aged care homes** (95,097 beds/places) and **45,306 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 nine months ended 31 March 2021

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1. EXECUTIVE SUMMARY

Abstract

The Aged Care Financial Performance Survey (Survey) March 2021 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 nine months ended 31 March 2021.

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.

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

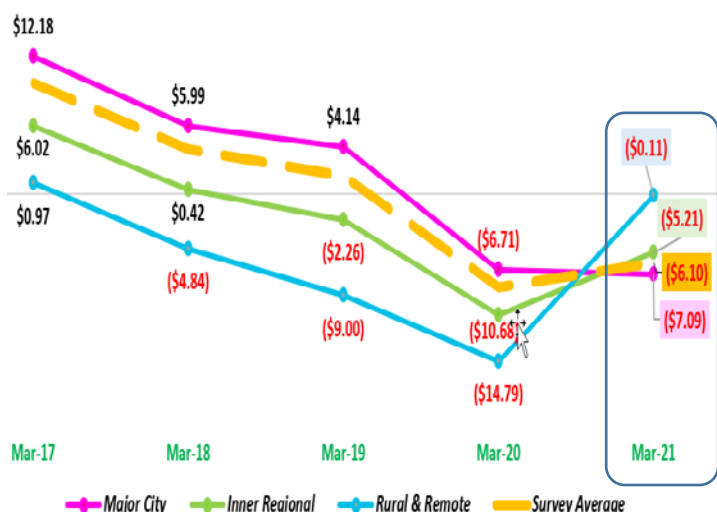
Mar-21 Survey Results

Residential Care has seen an improved financial result when compared to March 2020, attributable to the net covid-19 special funding and the 30% viability supplement for rural and remote homes. However, the average result is a **deficit of \$6.10 per bed per day** (March 2020: \$8.23 deficit per bed per day).

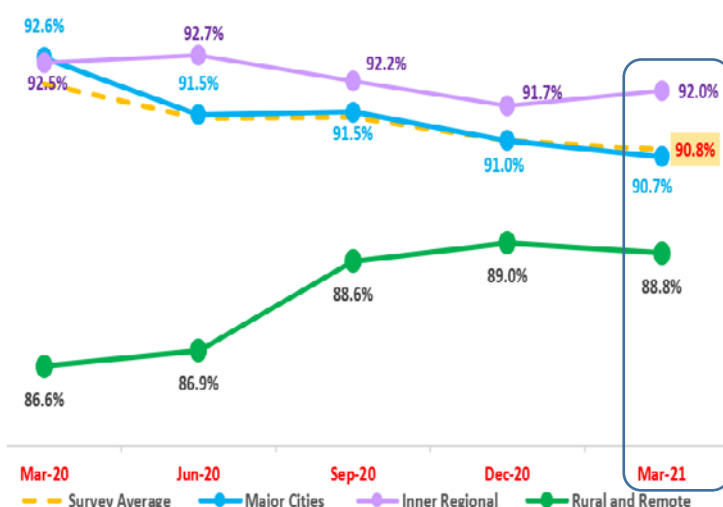
Whilst the net covid-19 funding (\$3.68 per bed day) has improved the financial performance, this is offset to a large extent through the decline in occupancy over the year, which is due in part to the covid-19 restrictions and to a larger extent the impact of additional home care packages, which have resulted in more care recipients receiving care at home for longer periods. Occupancy has declined by 1.3% in the past 12 months for all homes, and by 1.7% for mature homes (being those that are at their expected full operating capacity).

As noted in previous reports, occupancy and the financial results are significantly inter-related. Accordingly, any decline in occupancy directly affects the operating performance.

Residential Trend Result by Region (\$ pbd)



Residential Occupancy % by Region



Regional and remote homes have had a major improvement in performance which has been driven by the net covid-19 funding (\$7.32 per bed day), 30% viability supplement and improved occupancy levels (2.2% since March 2020).

The funding measures as outlined in the May 2021 Federal Budget have been designed to provide workforce initiatives, increase direct care staffing (to meet the minimum mandated minutes of care per resident per day) and increase the quality and governance structures.

From a financial sustainability perspective, the primary source of increased funding is in relation to the \$10 per bed per day (pbd) Basic Daily Fee supplement. To receive this supplement, Providers have to formally undertake to deliver good quality food and services, meet the living standards of residents and submit quarterly reports.

The level of investment in the residential aged care sector, be it new builds or major refurbishment and improvements to existing homes, continues to be a concern. Legislative uncertainty is one impact with this, but lack of financial sustainability is the key driver. Certain media commentary has suggested that Providers are achieving higher levels of profitability than the Survey results suggest. *There has been no evidence-based data to support this contention, and the upcoming ACFA Annual report for the 2020 financial year, which includes all aged care Providers, will very likely support the results of the StewartBrown June 2020 Survey (released last October).*

To improve the financial performance of residential aged care, further initiatives are required to be considered and implemented where possible:-

- Subsidy funding indexation to match the increased staff costs and the 0.5% increase in the superannuation levy from 1 July 2021. We note that the recently announced COPE (inflation) increase effective from 1 July is 1.1%, and our analysis indicates that this will be insufficient to meet the increased staff related costs including the minimum wage increase across Modern Awards of 2.5% from 1 July 2021
- Deregulation of the Basic Daily Fee (*refer Tune Review recommendation 14*)
- Restructure the accommodation pricing model to allow a deferred rental component to be deducted from RADs. If the deferred rental component was 70% of the DAP it would amount to \$13.20 per bed day (\$4,453 per bed per annum) increased revenue and provide certainty to providers in relation to a return on capital investment
- Provide GAP funding to cover the minimum wage increase of 2.5% (refer above) and further potential increase as a result of the upcoming Health Services Union claim for improved aged care wages to be heard by the Fair Work Commission in October

In-Home Care (Home Care Packages) has experienced an increase in operating performance for the year to Mar-21, with an overall increase of \$1.16 per client per day in comparison to Mar-20. The improved results have been largely due to reduced costs rather than increased revenue, and particularly staff costs (and resultant staffing hours) again reducing.

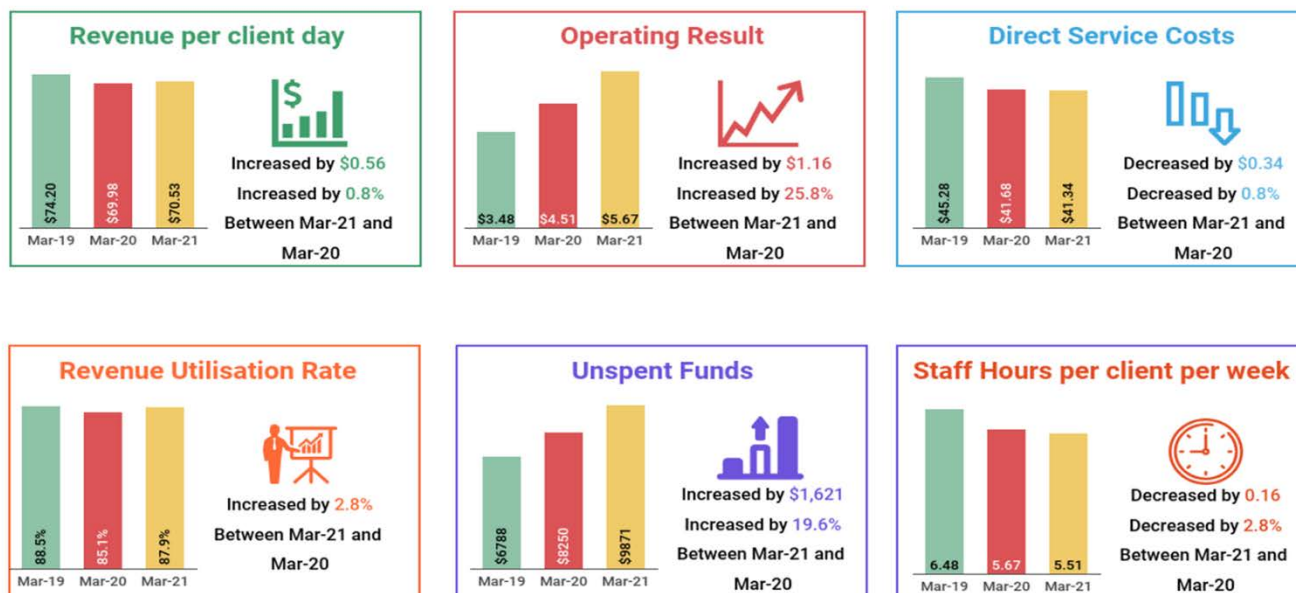
The level of Unspent Funds remains a significant issue with home care. This level has kept rising each quarter, and now averages \$9,871 per client (care recipient). In aggregate across the sector, this represents in excess of \$1.5 billion of funding that is not being utilised.

The Improved Payment Arrangements reform will be fully operative from September 2021 for providers to be reimbursed for actual services provided rather than for the funding package by care recipient. The effect of this will be to redistribute the unspent funds being held by providers to being held by the Government.

The payment arrangements reform will have positive benefits when fully implemented, however there are still a significant number of issues to be considered and resolved in the short amount of time to the commencement of Phase 2 on 1 September 2021. The result in terms of cash flow implications for providers will require monitoring.

These new payment arrangements, however, still do not address the reasons as to why the unspent funds continue to grow for all package levels (Level 1 to Level 4). It appears 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.

Home Care Packages



In Conclusion: the significant funding boost as announced in the recent Federal Budget has been welcomed by the sector. This will help ensure that there is appropriate focus on the 5 year “five pillars” aged care reform plan.

There are still considerable challenges that the sector is facing, with workforce being amongst the most critical. The ability to appropriately remunerate staff, attract new staff, retain existing staff and provide career pathways and skill development must be foremost in the reform agenda.

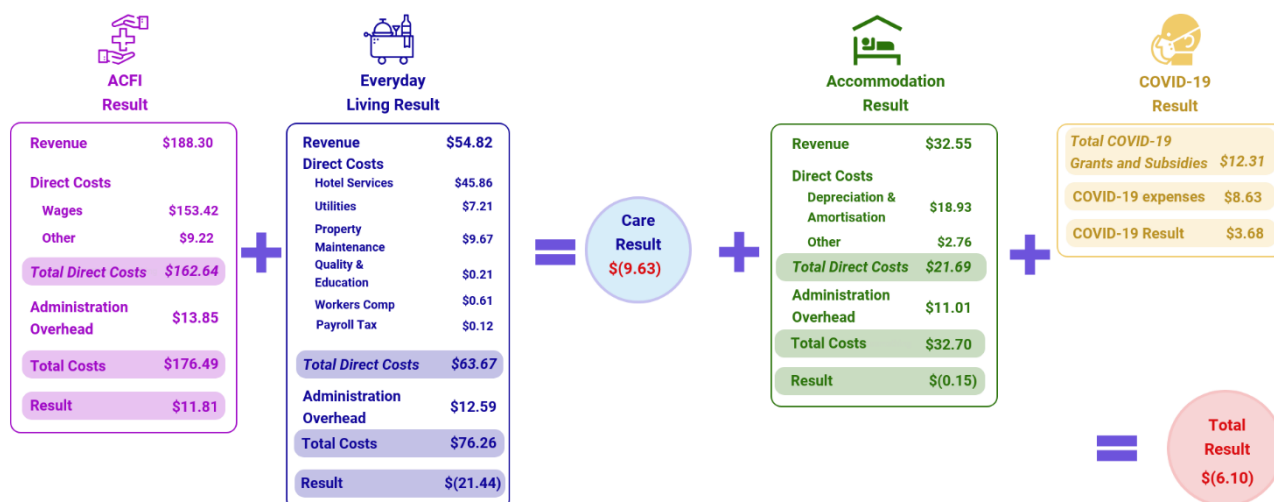
Residential aged care remains critically under-funded with the \$10 basic daily fee supplement a positive initiative, however it is required that all stakeholders understand the financial drivers as there is still commentary that is not evidence-based that deflects from a proper assessment of the financial viability of this sector.

In-home care is moving to a more financially sustainable level, with the main challenge being in relation to the consumer care needs assessment aligning to the subsidy funding. The changes in the payments arrangements will not directly address this issue and the continued exponential increase in unspent funds means that there is considerable funding that is not being directed to consumers that are still waiting to receive funding for their care needs.

Greater transparency is an important requirement to be addressed. The revised *Aged Care Financial Report* which includes far greater financial and prudential granularity will be an important component in improving the financial transparency of the sector

2. RESIDENTIAL CARE ANALYSIS

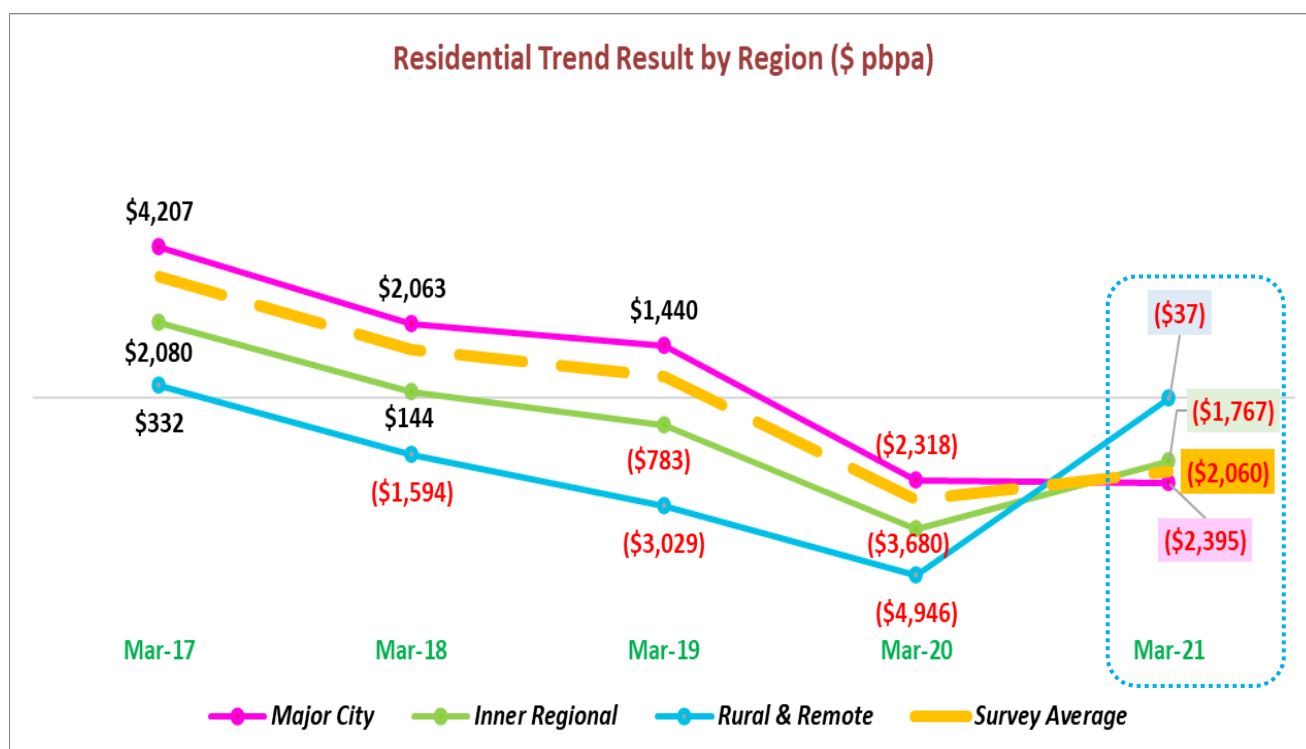
Residential Result Snapshot



Total Facility Result

The following graphs highlight the trends for the year to Mar-17 to Mar-21 respectively for the Survey Average (all aged care homes) and by geographical regions (based on the Australian Bureau of Statistics (ABS) ARIA definitions). This analysis includes the net covid-19 funding, which has not been allocated to the respective cost segments (ACFI/Everyday living/Accommodation) as Providers have separately accounted for this funding and related covid-19 expenses.

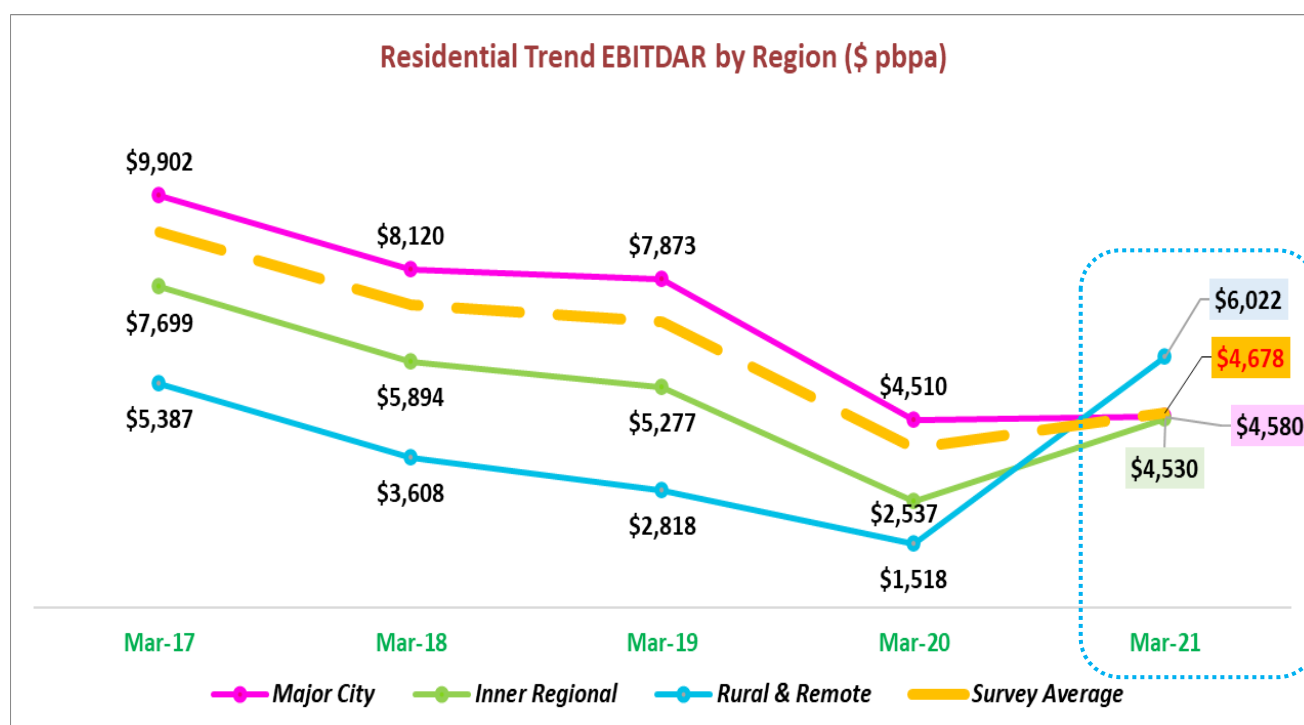
Figure 1: Total result for each geographic region and Average result trend line (expressed as \$ per bed per annum)



The overall result is a **deficit of \$2,060 per bed per annum** (March 2020 deficit \$2,835 pbpa). This improved result is as a direct result of the net covid funding surplus which amounted to \$1,242 pbpa. Rural and Remote homes, which were less impacted by the pandemic, had an improved result of \$4,909 pbpa (net covid-19 surplus \$2,426 pbpa) due to increased occupancy and the viability supplement.

Facility EBITDAR Result

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



The EBITDAR result follows the same trajectory as the Total Result. The net covid-19 funding surplus (\$1,242 pbpa) was the major contributing factor in the improved financial performance, with the overall EBITDAR result (\$4,678 pbpa) improving from March 2020 (\$3,819 pbpa) by \$859 pbpa.

EBITDAR as a measure allows comparison to be made by excluding the non-cash items of depreciation and amortisation (which vary due to the age and condition of non-current building assets and the varying depreciation rates adopted), as well as interest (revenue and expense) and taxation as these are related to the legal and equity structure of the approved provider. However, depreciation is a significant accommodation expense, and, accordingly, an EBITDAR result should be of a sufficient level to ensure both ongoing financial and investment viability as well as refurbish and replace the specific purposed aged care building.

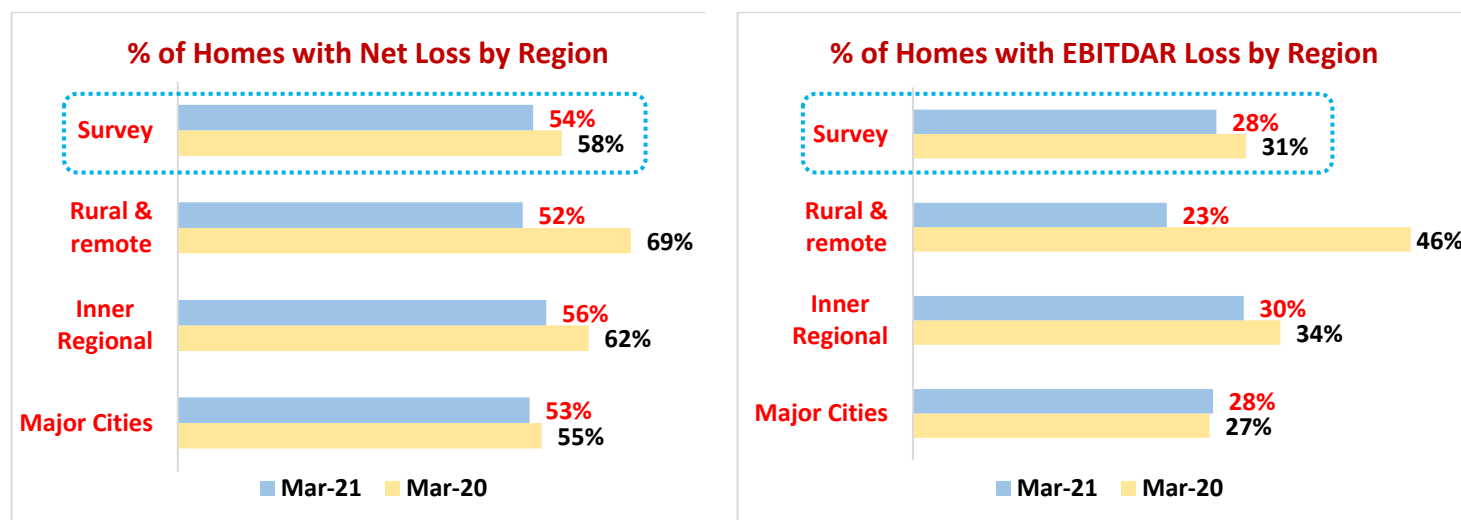
Number of Aged Care Homes operating at a Loss

The following graph highlights the percentage of aged care homes that submitted data to the Survey nationally that are operating at a loss. For the period ended Mar-21, **54% of facilities (homes) in the Survey are operating at a loss**, which is a slight decrease when compared to Mar-20 (58% of homes making operating loss in Mar-20).

The results include the net covid-19 funding surplus, and if this amount was excluded, then 60% of homes in the Survey operated at a loss for the nine months ended March 2021.

Of significance is that **28% of homes are running at an EBITDAR (cash) loss** for the Mar-21 period. Excluding the covid-19 funding surplus, there would have been 32% of homes that had an EBITDA loss.

Figure 3: Percentage of aged care homes operating at a Loss and EBITDAR loss by region



COVID-19 Funding: Financial Effect

Based on the Survey data submitted by participants, the COVID revenue exceeded the COVID expenditure by an average of \$3.68 per bed day at the aged care home level for the March 2021 nine month period.

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 major city providers were likely to be higher than those in the regional and remote locations.

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 by nature, although they form part of the overall result. For the more granular analyses we consider it relevant to measure the underlying results of aged care homes based on recurrent revenue and expenses.

Figure 4: Residential operating result comparison in relation to covid-19 funding

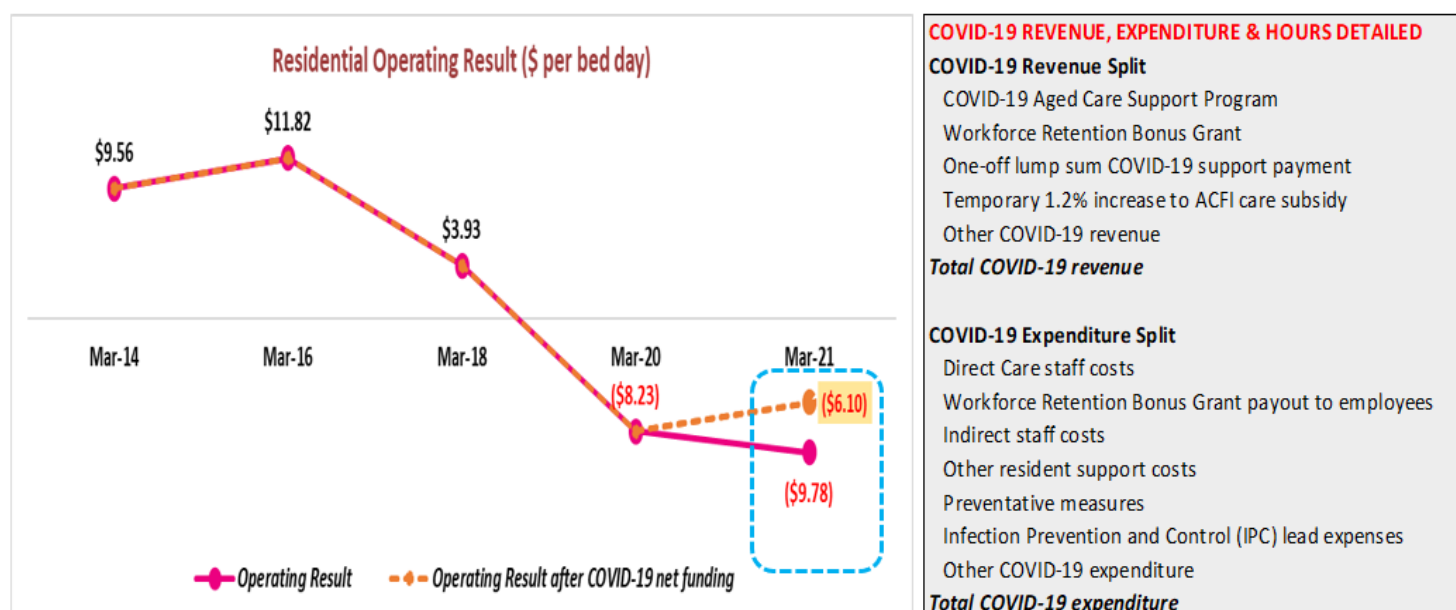
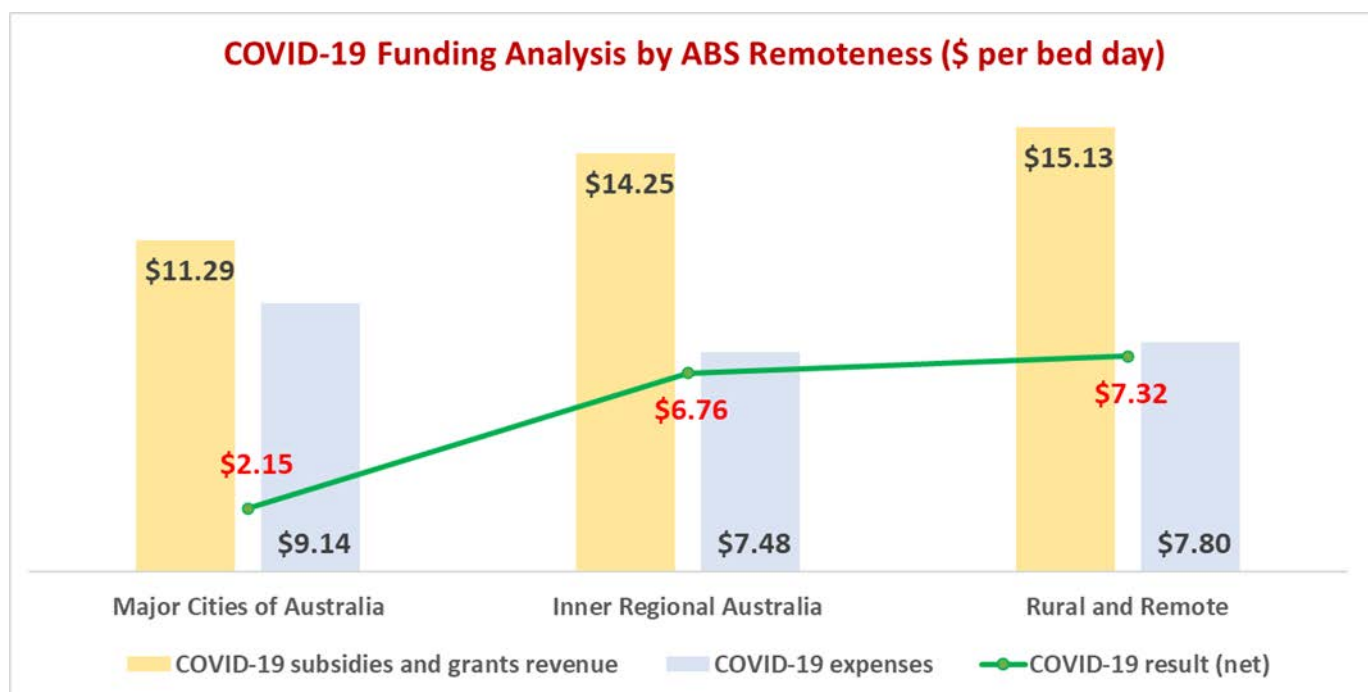


Figure 5: Covid-19 funding and expenses comparison by geographic region



Recurrent Operating Result Analysis

The Operating Result (which excludes non-recurrent revenue and expenditure and net covid-19 funding surplus) is a **deficit of \$9.78 per bed day** for the nine months to Mar-21 (Mar-20: deficit of \$8.23 pbd) which represents a decline of \$1.56 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.

Summary of Results (year-on-year)

Revenue

- Increase of 4.2% in ACFI revenue (\$7.55 pbd) for Survey
- Increase in Everyday Living revenue by \$1.40 pbd for Survey *Average* mostly due to CPI increase in the Basic Daily Fee
- Accommodation revenue (DAPs and subsidy) remained fairly steady (increase of \$0.30 pbd)

Expenses

- Increase in total direct care labour costs of \$4.73 pbd which is a 3.4% increase (total direct care minutes increased by 0.99 minutes to 176.47 minutes per resident per day)
- Other resident care expenses increased by \$1.93 pbd (10.9%) which relates to increased medical and quality/safety purchases
- Catering costs increased by \$1.17 pbd (reflective of the greater scrutiny around food quality)
- Increase in accommodation expenditure by \$1.59 pbd due to slightly higher depreciation charge, property rental and administration costs

Operating Results

- ACFI result improved by \$0.31 pbd (2.6%)
- Everyday Living result declined by \$0.56 pbd (2.7%)
- Accommodation result declined by \$1.30 pbd
- Operating result was a deficit of \$9.78 pbd (Mar-20 deficit \$8.23 pbd)
- Operating EBITDAR decreased by \$383 per bed per annum to \$3,436 pbpa

Additional Trends

- Occupancy for mature homes declined to 92.5% (Mar-20 94.1%) whilst occupancy for all homes decreased to 90.8% from 92.1% at Mar-20
- Supported resident ratio increased by 0.6% from 46.4% at Mar-20 to 47.0% at Mar-21
- Increase in average full Refundable Accommodation Deposit (RAD) received during the year by around \$19.5k from \$427k to \$447k
- Proportion of full RADs received from incoming residents is at 23.4%, with Full DAPs at 53.2% and Combination payments at 23.4%. The DAP % will likely drop by around 10% as new residents make their election with some converting to a full RAD

Table 1: Summary KPI Results for Mar-21 Survey

Residential Homes - Summary Results	Mar-21 1,081 Homes	Mar-20 1,040 Homes		Difference (YoY)	FY20 1,113 Homes
OPERATING RESULT (\$pbd)	(\$9.78)	(\$8.23)	↓	(\$1.56)	(\$9.84)
OPERATING RESULT (\$pbpa)	(\$3,302)	(\$2,835)	↓	(\$467)	(\$3,371)
EBITDAR (\$pbpa)	\$3,436	\$3,819	↓	(\$383)	\$3,333
Average Occupancy (<i>all homes</i>)	90.8%	92.1%	↓	(1.3%)	91.4%
Average Occupancy (<i>mature homes</i>)	92.5%	94.1%	↓	(1.7%)	93.6%
Average ACFI (\$pbd)	\$188.30	\$180.75	↑	\$7.55	\$181.42
Total care minutes per resident per day	183.67	182.68	↑	0.99	181.41
ACFI services costs as a % of ACFI	86.4%	86.3%	↑	0.1%	86.6%
Supported ratio	47.0%	46.4%	↑	0.6%	46.8%
Average Full RAD/Bond held	\$402,557	\$384,073	↑	\$18,484	\$386,631
Average Full RAD taken during period	\$446,558	\$427,037	↑	\$19,521	\$433,252

Table 2: Summary Revenue & Expense results for Mar-21 and Mar-20

	Survey Average		Survey Average
	Mar-21	Mar-20	FY20
	1,081 Homes	1,040 Homes	1,113 Homes
ACFI			
Revenue	\$188.30	\$180.75	\$181.42
Expenditure			
Direct care labour costs	\$142.94	\$138.20	\$138.71
Other direct costs	\$19.70	\$17.77	\$18.36
Administration	\$13.85	\$13.27	\$13.58
	\$176.49	\$169.24	\$170.65
ACFI RESULT (A)	\$11.81	\$11.50	\$10.77
EVERYDAY LIVING			
Revenue	\$54.82	\$53.42	\$53.89
Expenditure			
Catering	\$32.33	\$31.16	\$31.73
Cleaning	\$9.24	\$8.54	\$8.65
Laundry	\$4.18	\$4.09	\$4.12
Other hotel services expense	\$0.11	-	-
Payroll tax	\$0.12	\$0.11	\$0.12
Overhead allocation (workcover & education)	\$0.81	\$0.76	\$0.78
Utilities	\$7.21	\$7.05	\$7.05
Routine maintenance & motor vehicle	\$9.67	\$10.53	\$10.64
Administration	\$12.59	\$12.06	\$12.34
	\$76.27	\$74.30	\$75.43
EVERYDAY LIVING RESULT (B)	(\$21.44)	(\$20.88)	(\$21.54)
CARE RESULT (C) (A + B)	(\$9.63)	(\$9.37)	(\$10.76)
ACCOMMODATION			
Revenue			
Residents	\$13.06	\$13.61	\$13.51
Government	\$19.49	\$18.63	\$19.06
	\$32.55	\$32.25	\$32.57
Expenditure			
Depreciation	\$18.93	\$18.35	\$18.49
Property rental	\$1.03	\$0.96	\$1.08
Other	\$1.72	\$1.24	\$1.28
Administration	\$11.01	\$10.54	\$10.79
	\$32.69	\$31.10	\$31.64
ACCOMMODATION RESULT (D)	(\$0.15)	\$1.15	\$0.93
OPERATING RESULT (\$ per bed day) (C + D)	(\$9.78)	(\$8.23)	(\$9.85)
OPERATING RESULT (\$ per bed per annum)	(\$3,302)	(\$2,835)	(\$3,371)
EBITDAR (\$ per bed per annum)	\$3,436	\$3,819	\$3,333

Results by Geographic Location

Homes in all geographical locations are continuing to operate with losses. The increase in the basic daily fee supplement of \$10 per bed day to be introduced in July 2021 will provide some relief unless it is required to support improvements (through additional expenditure) in food quality. However, our forecast projections for FY22 indicate an average operating loss for the sector of \$1.31 pbd based on the current funding settings and full retention of the \$10 pbd supplement.

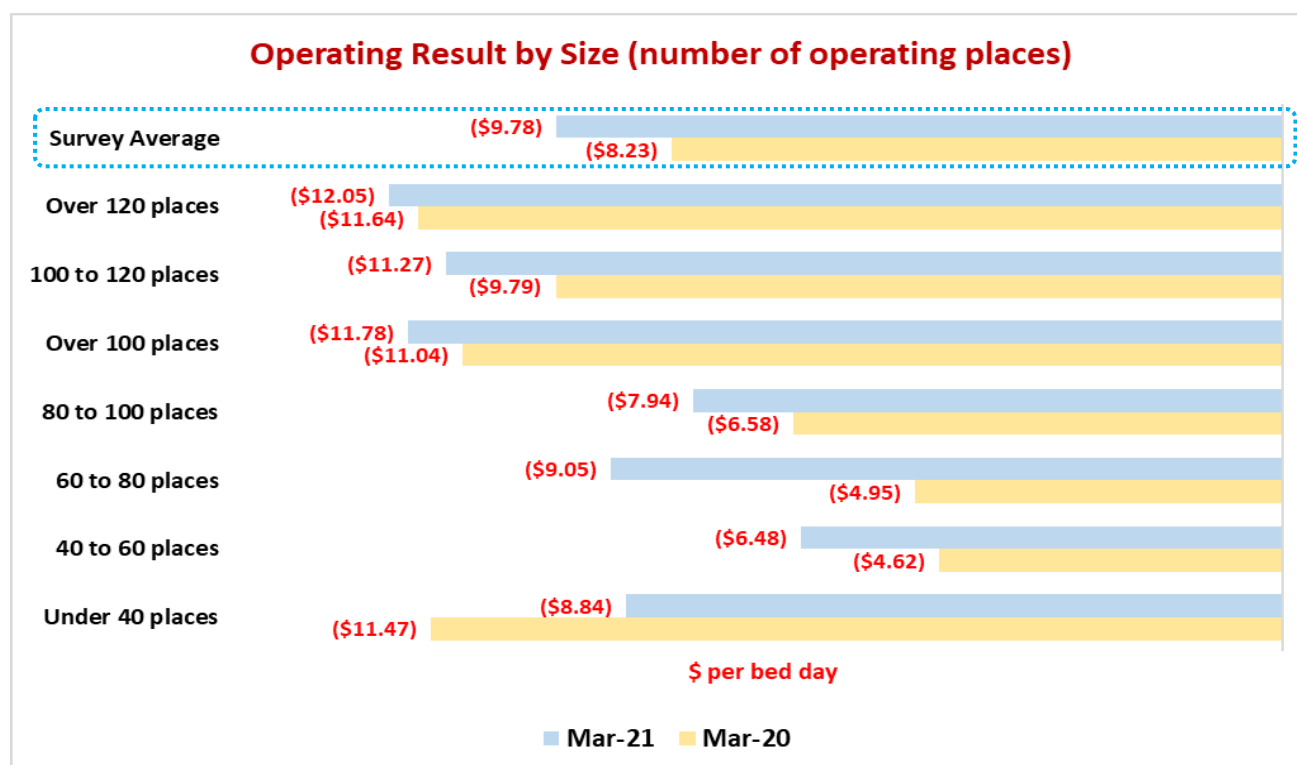
Table 3: Operating result comparison by geographic region

Summary Results by Region	Major Cities 695 Homes	Inner Regional 279 Homes	Rural & Remote 107 Homes
OPERATING RESULT (\$pbd)	(\$9.25)	(\$11.98)	(\$7.43)
OPERATING RESULT (\$pbpa)	(\$3,122)	(\$4,059)	(\$2,463)
EBITDAR (\$pbpa)	\$3,853	\$2,237	\$3,595
Average Occupancy	92.5%	92.8%	90.8%
Average ACFI \$pbd	\$190.50	\$182.97	\$185.96
Total care minutes per resident per day	184.43	181.32	184.76
ACFI services costs as a % of ACFI	86.2%	87.0%	85.9%
Supported ratio	46.6%	47.1%	52.8%
Average Full RAD/Bond held	\$432,206	\$327,301	\$306,057
Average Full RAD taken during period	\$485,768	\$369,584	\$358,920

Analysis of Results by Size of Aged Care Home

The following graph indicates a continued 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 6: 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 following graph illustrates how the ACFI result is determined.

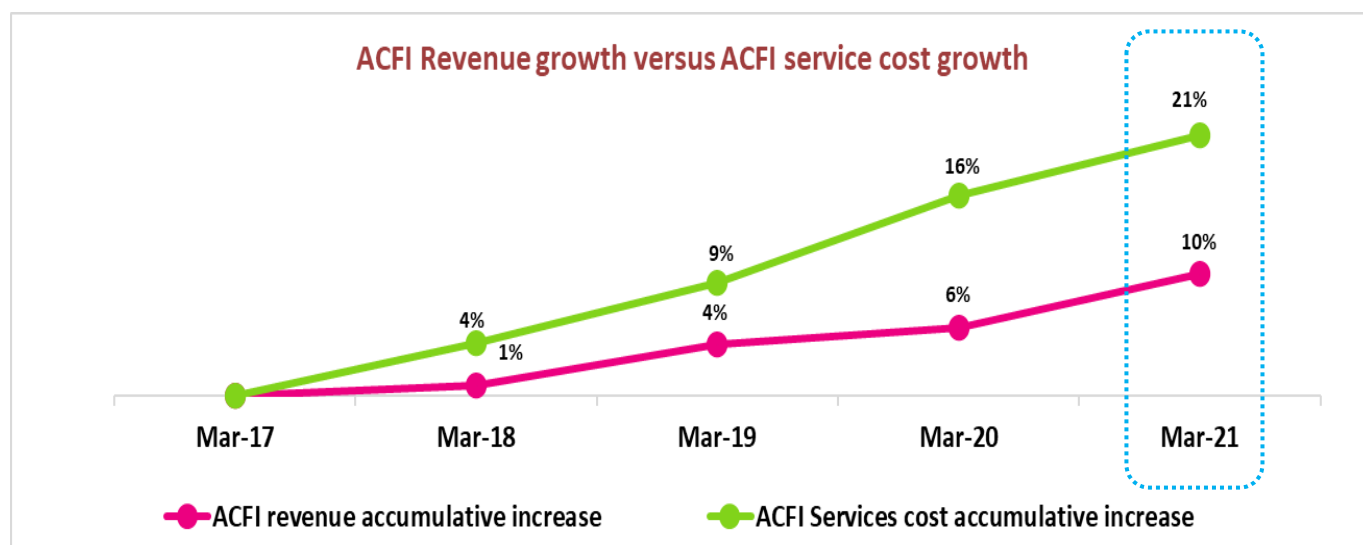
Figure 7: Components of the ACFI (direct care) result



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 demonstrates that the direct care costs are continuing to increase 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 (1.1% for 2021/22 fiscal year).

Figure 8: Cumulative increases in ACFI subsidy and direct care costs



Direct Care Staffing Hours

Direct Care staffing metrics include care staff costs and care staff hours. In anticipation of the reporting requirements in relation to the minimum mandated hours the analysis has been modified to separately sub-total the direct care staff (which excludes care management) and provide the minutes per resident per day on this basis.

A summary of the direct care staff hours by category per resident per day for the Survey is included in the table below.

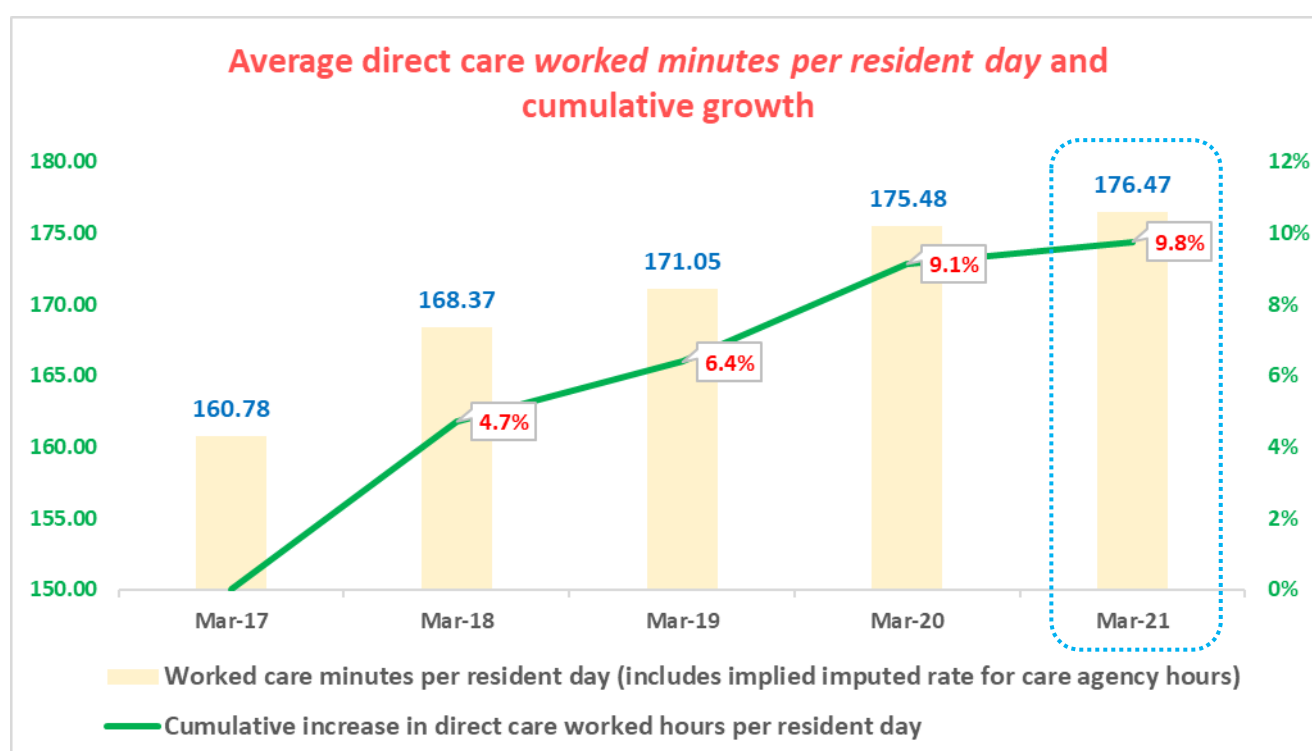
Table 4: Direct care staff hours analysis

	Survey Average			Survey Average
	Mar-21	Mar-20		FY20
Registered nurses	0.44	0.40	↑	0.41
Enrolled & licensed nurses	0.29	0.29	-	0.29
Other unlicensed nurses & personal care staff	2.20	2.21	↓	2.19
Imputed agency care hours implied	0.02	0.03	↓	0.02
Total Direct Care Hours	2.94	2.93	↑	2.91
Care management	0.12	0.12	↑	0.12
Allied health	0.13	0.13	-	0.12
Diversional/Lifestyle/Activities	0.08	0.06	↑	0.07
Total Care Hours	3.27	3.23	↑	3.21
Total direct care minutes per resident day	176.47	175.48	↑	174.54

Staffing hours per care recipient

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.

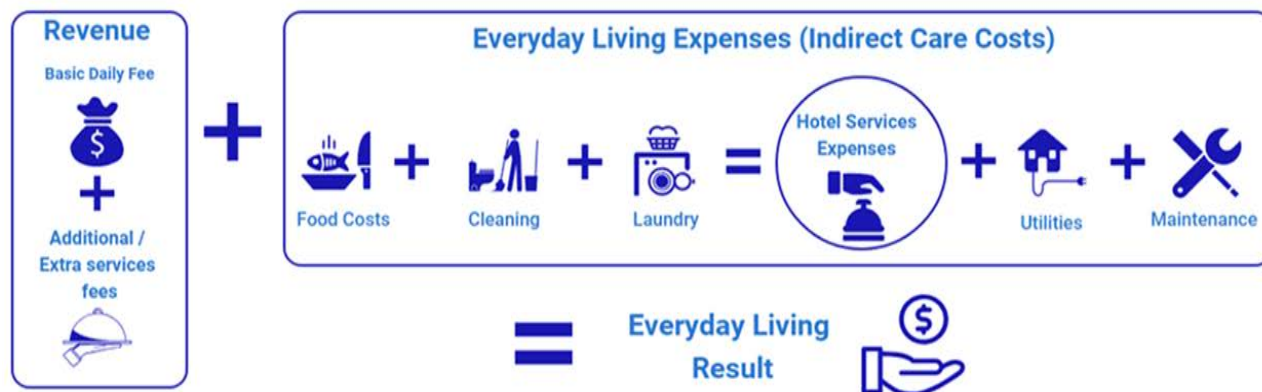
Figure 9: Direct care minutes per resident per day trend analysis



Everyday Living (Indirect Care) Result

The respective components of the Everyday Living result is illustrated in the following graphic.

Figure 10: Components of the Everyday Living (indirect care) result



For the year to Mar-21 the direct costs of providing everyday living services exceeded the revenue by **\$8.85 pbd** (Mar-20 \$8.82 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 to be **\$21.44 pbd**.

Table 5: Everyday living revenue and expense summary (expressed as \$ per resident bed day)

	Mar-21 1,081 Homes	Mar-20 1,040 Homes	YoY Movement	FY20 1,113 homes
Basic daily fee	52.18	51.50	↑	51.67
Other resident income	2.64	1.92	↑	2.22
Everyday Living revenue	\$54.82	\$53.42		\$53.89
Hotel services	45.86	43.78	↑	44.50
Allocation of W/Comp to hotel services	0.61	0.57	↑	0.59
Payroll tax - everyday living	0.12	0.11	↑	0.12
Utilities	7.21	7.05	↑	7.05
Maintenance costs (regular) and motor vehicles	9.67	10.53	↓	10.64
Quality and education allocation to everyday living	0.21	0.19	↑	0.19
Everyday living expenses	\$63.67	\$62.24		\$63.09
Everyday living result (before Administration)	(\$8.85)	(\$8.82)		(\$9.20)
Administration	12.59	12.06	↑	12.34
Everyday Living Result	(\$21.44)	(\$20.88)	↑	(\$21.54)

Accommodation Result

The Accommodation result for Mar-21 including an administration allocation was a **loss of \$0.15 pbd** (compared to Mar-20 surplus of \$1.15 pbd).

Achieving a sustainable accommodation result is the principal driver to ensuring a sustainable financial performance and encouraging investment in the sector. Both the direct care subsidy (ACFI) and everyday living revenue (basic daily fee and additional services) are highly regulated with little or no margin available. The accommodation pricing regime also has inbuilt inflexibility and inequality.

The inequality exists from both the consumer and provider perspective in that if the accommodation was paid by way of a RAD, the foregone financial return (generally interest earned) by the consumer is very minor in the current and, likely lengthy, low interest rate environment. Assuming a RAD of \$446,000 (Australian average) an average investment return to the consumer would be around \$34 per week, which is effectively the rental they pay for aged care accommodation.

If, however, the consumer does not have access to funds to pay a RAD they then pay a DAP for their rental accommodation in an aged care home, and this currently is \$352 per week based on the same RAD equivalent.

The converse applies to the return for a provider. The table below includes a calculation for an imputed DAP in the circumstance that a RAD was paid. The calculation assumes that the rental for a RAD is 70% of the equivalent DAP (to provide an incentive to pay a RAD) and this would improve the provider's accommodation revenue by over \$4,450 per bed per annum. If implemented, this reform would return the aged care sector to being in surplus (on average) rather than the current deficit position.

Table 6: Accommodation result summary for Mar-21 and Mar-20

	Mar-21 1,081 Homes	Mar-20 1,040 Homes	YoY Movement	FY20 1,113 homes
Accommodation revenue	\$32.55	\$32.25	↑	\$32.57
Accommodation expenses				
Depreciation	18.93	18.35	↑	18.49
Refurbishment	0.27	0.21	↑	0.22
Property rental	1.03	0.96	↑	1.08
Other accommodation costs	1.46	1.03	↑	1.06
Administration	11.01	10.54	↑	10.79
<i>Accommodation expenses</i>	\$32.69	\$31.10		\$31.64
Accommodation Result	(\$0.15)	\$1.15	↓	\$0.93
Accommodation Result \$ per bed per annum	(\$50)	\$396	↓	\$422
<i>Imputed DAP (based on RAD holdings x 70%) (\$pbpa)</i>	4,453	5,286	↓	5,265
Accommodation Result with imputed DAP (\$pbpa)	\$4,404	\$5,682		\$5,688
Depreciation charge \$ per bed per annum	\$6,389	\$6,327	↑	\$8,436

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 Mar-21.

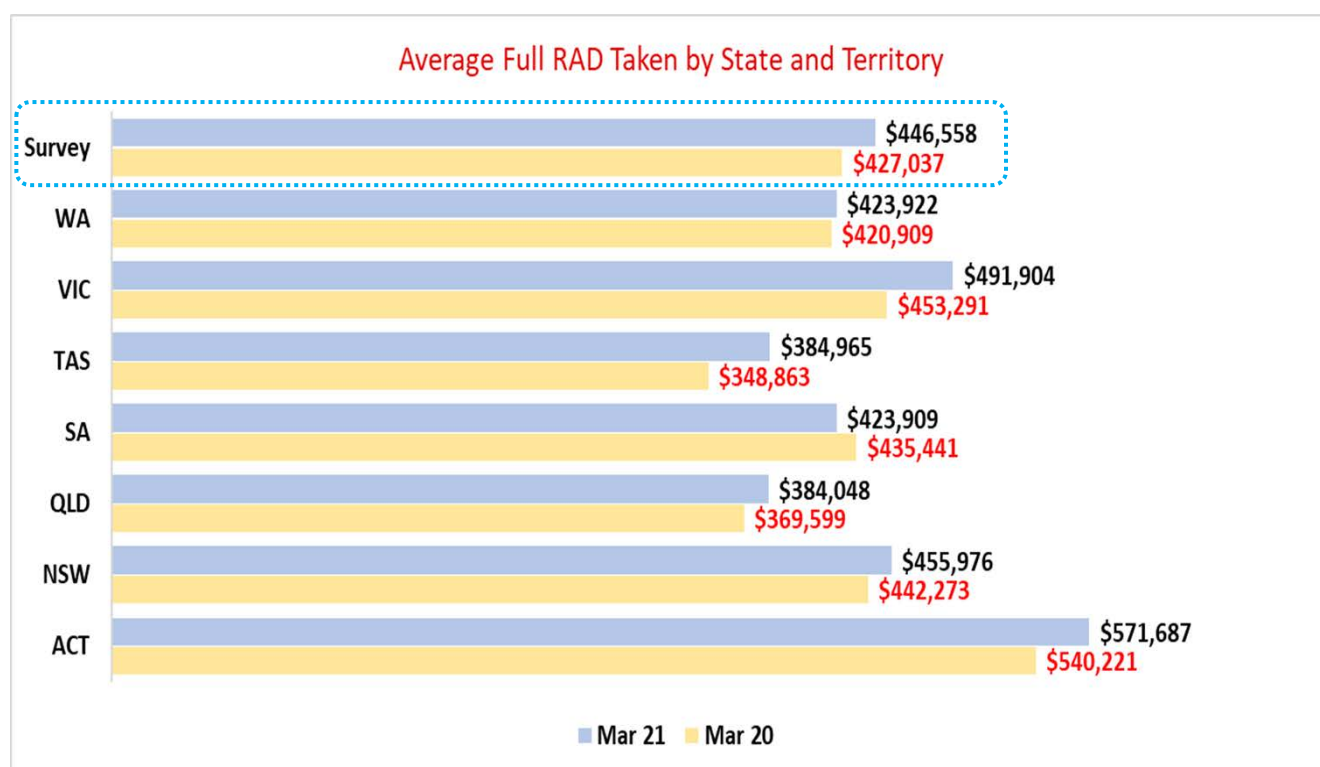
The amount of full Refundable Accommodation Deposits (RADs) received during the period rose by a national average of \$19,521 (4.6%) to \$446,558.

Feedback from both providers and consumers indicates that there is still a lack of understanding within the community 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.

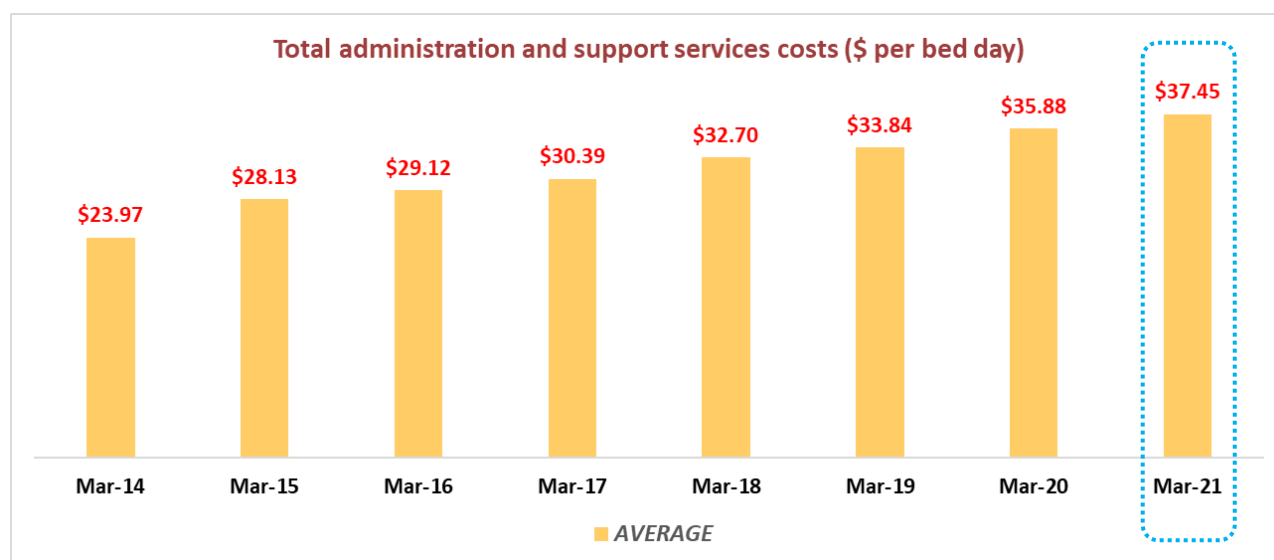
Figure 11: Average Refundable Accommodation Deposits Received for Mar-21 and Mar-20



Administration Costs

Administration costs have continued to increase at a rate higher than CPI. It is likely that administration costs will continue to increase for the remainder of this calendar year due to increased compliance costs associated with the new quality standards, prudential compliance, more detailed reporting to Government and greater scrutiny on direct care staffing costs and care service delivery by consumers and stakeholders.

Figure 12: Administration costs trend over time since Mar-14 (expressed as \$ per bed day)



Occupancy

The occupancy percentage has suffered a significant decline to be 90.8% nationally (92.1% at Mar-20) for all homes (which include homes with sanctions or financial results that are outside the data limits).

A more relevant comparison is the occupancy for mature homes, this occupancy based on the number of operational (available) places, which excludes off-line places due to refurbishment or other strategic reasons.

With this metric, occupancy has declined from 94.13% (Mar-20) to 92.47% for the nine months to Mar-21. This decline of 1.66% is significant compared to the previous 5 years and has been impacted by the effects of covid-19 to a certain extent and the large increase in the number of home care packages available to a greater extent.

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

Figure 13: Residential occupancy percentages for all aged care homes by geographic region

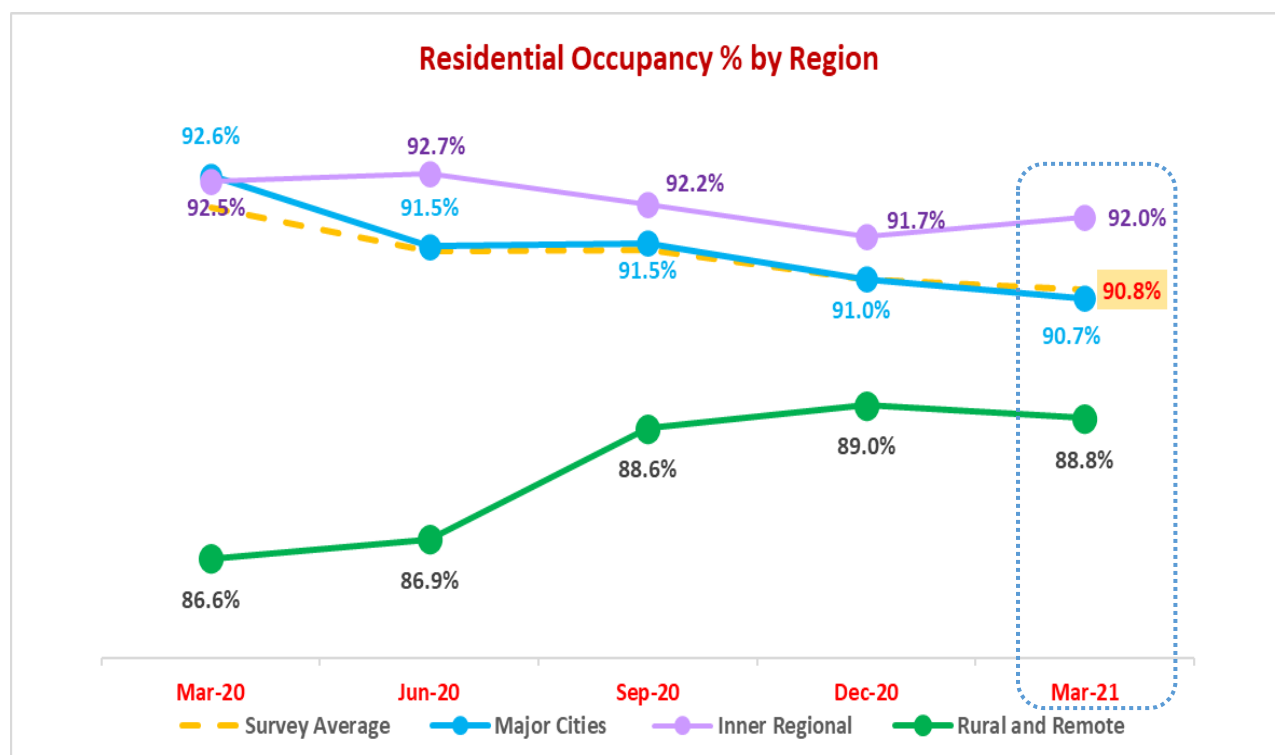
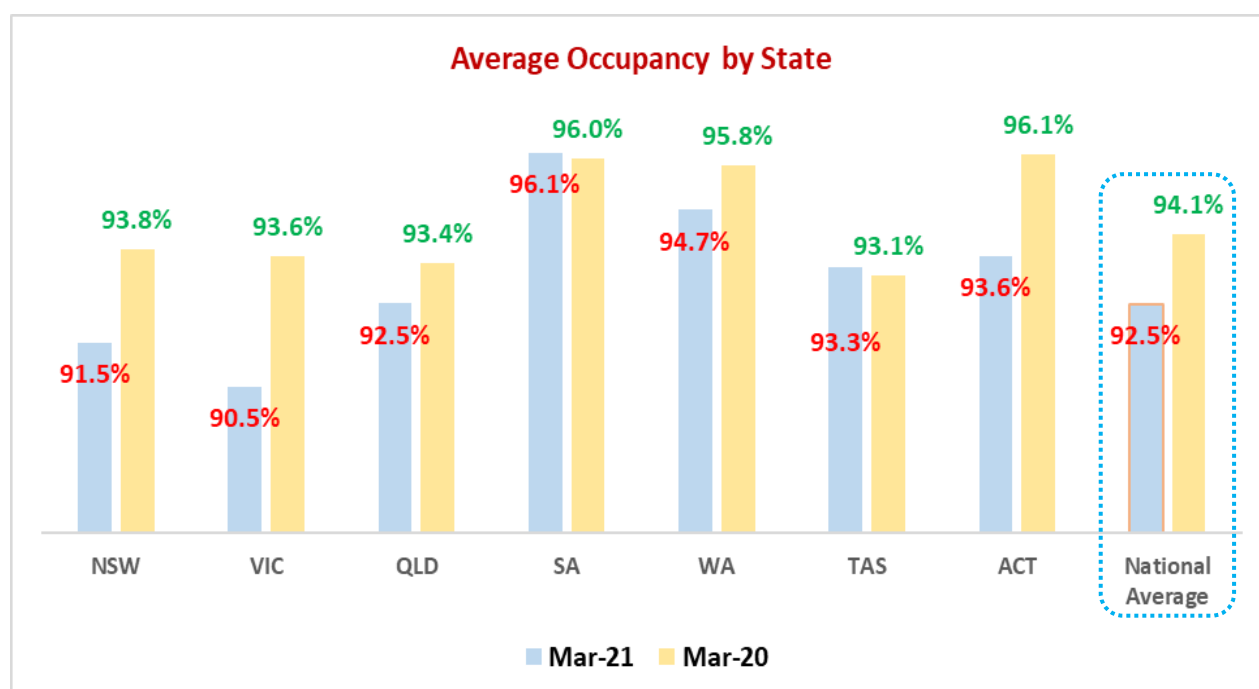


Figure 14: Residential average occupancy percentages for Mar-21 and Mar-20 by geographic regions



3. HOME CARE ANALYSIS

Overview

The results for the nine months ended March 2021 are characterised by improved operating result, being \$5.67 per client per day (\$2,070 per client per annum); continued increase in unspent funds to average \$9,871 per client (Mar-20: \$8,250 per client); revenue utilisation improved to be 87.9% (from 85.1%) but still low; and total staff hours has reduced to average 5.51 hours per client per week (5.67 Mar-20).

The major significant issue that the sector faces, however, is with the implementation of the Improved Payment Arrangements reform. This is covered later in this report.

Summary of Results (year-on-year)

Revenue

- Revenue per client per day (pcpd) average for Survey participants increased by 0.8% (being \$0.56 pcpd)
- Revenue utilisation increased by 2.8% for Survey Average (87.9% of funding received compared to 85.1% at Mar-20)
- Higher average unspent funds per client has increased by \$1,621 per client (to average \$9,871 per client) which would represent an aggregate in excess **\$1.5 billion nationally**

Expenses

- Total expenses decreased slightly for Survey participants
- Direct service costs decreased by \$0.34 pcpd (58.6% of total revenue compared to 59.6% at Mar-20)
- Cost of direct service and brokered/sub-contracted as a percentage of total revenue has decreased by 1.0% to 58.6% for Survey
- Case management cost as a percentage of revenue has increased slightly by 0.1% to be 10.5% of revenue
- Administration and support costs represent 22.2% of revenue which is down from Mar-20 with administration and support costs being 23.0% of revenue

Table 7: Summary KPI results for Mar-21 and Mar-20 Mar-21 and Mar-20 (all programs)

HCP Summary Results	Mar-21 43,210 Packages	Mar-20 38,730 Packages		Difference (YoY)	FY20 42,821 Packages
Total revenue \$ per client per day	\$70.53	\$69.98	↑	\$0.56	\$71.08
Operating result per client per day	\$5.67	\$4.51	↑	\$1.16	\$3.59
EBITDA per client per annum	\$2,237	\$1,796	↑	\$441	\$1,502
Average total Internal Staff hours per client per week	5.51	5.67	↓	(0.16)	5.45
Median growth rate	9.80%	15.36%	↓	(5.6%)	21.28%
Revenue utilisation rate for the period	87.9%	85.1%	↑	2.8%	84.8%
Average unspent funds per client	\$9,871	\$8,250	↑	\$1,621	\$8,841
Cost of direct care & brokered services as % of total revenue	58.6%	59.6%	↓	(1.0%)	59.8%
Case management & coordination costs as % of total revenue	10.5%	10.4%	↑	0.1%	10.8%
Administration & support costs as % of total revenue	22.2%	23.0%	↓	(0.8%)	23.7%
Profit Margin	8.0%	6.4%	↑	1.6%	5.1%

Financial Performance Measures

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

Figure 15: Comparison of Operating Result for periods Mar-21 and Mar-20

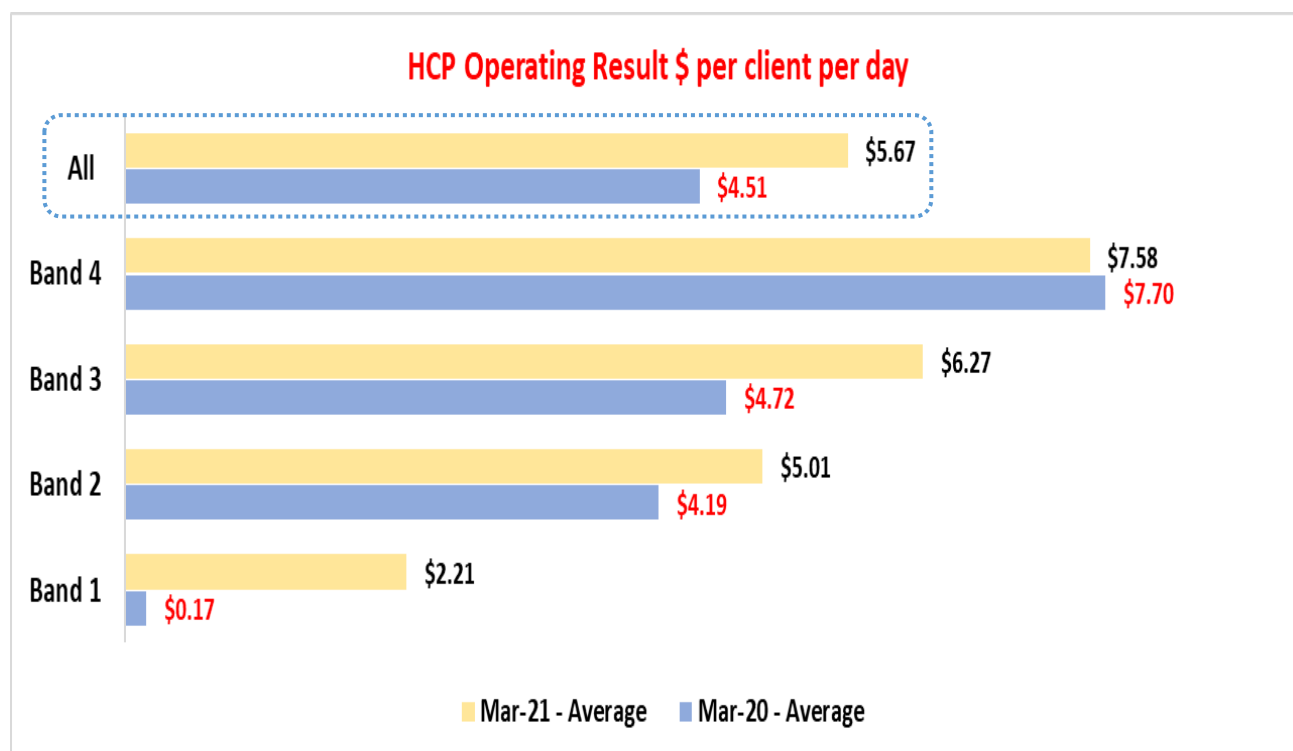
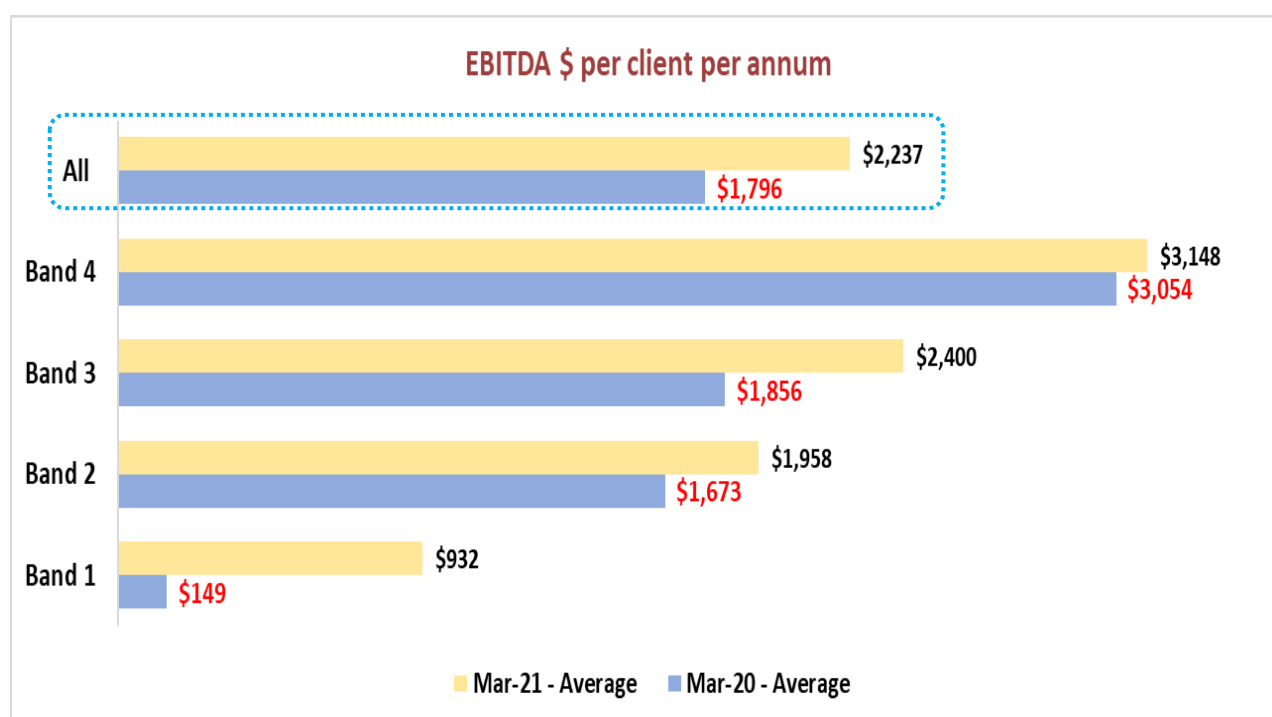


Figure 16: Comparison of EBITDA for periods Mar-21 and Mar-20



Subsidy Utilisation and Unspent Funds

The average utilisation of home care funding (subsidy + consumer contribution) by care recipients was **87.9%** for the period ended Mar-21 (Mar-20 85.1%). Accordingly, the remaining 12.1% represents unspent funds, which can be utilised at a later time if required.

However, 94% of unspent funds is **never utilised** by the care recipient and is returned to the Government and consumer once they leave the home care program.

The aggregate amount of unspent funds nationally has exponentially increased year-on-year from \$329 million at June 2017 to **\$1.5 billion** at Mar-21. The following graphs (Figures 17 and 18) represents the revenue utilisation and average amount of unspent funds by care recipient by package funding level.

Figure 17: Revenue Utilisation comparison for Mar-21 and Mar-20

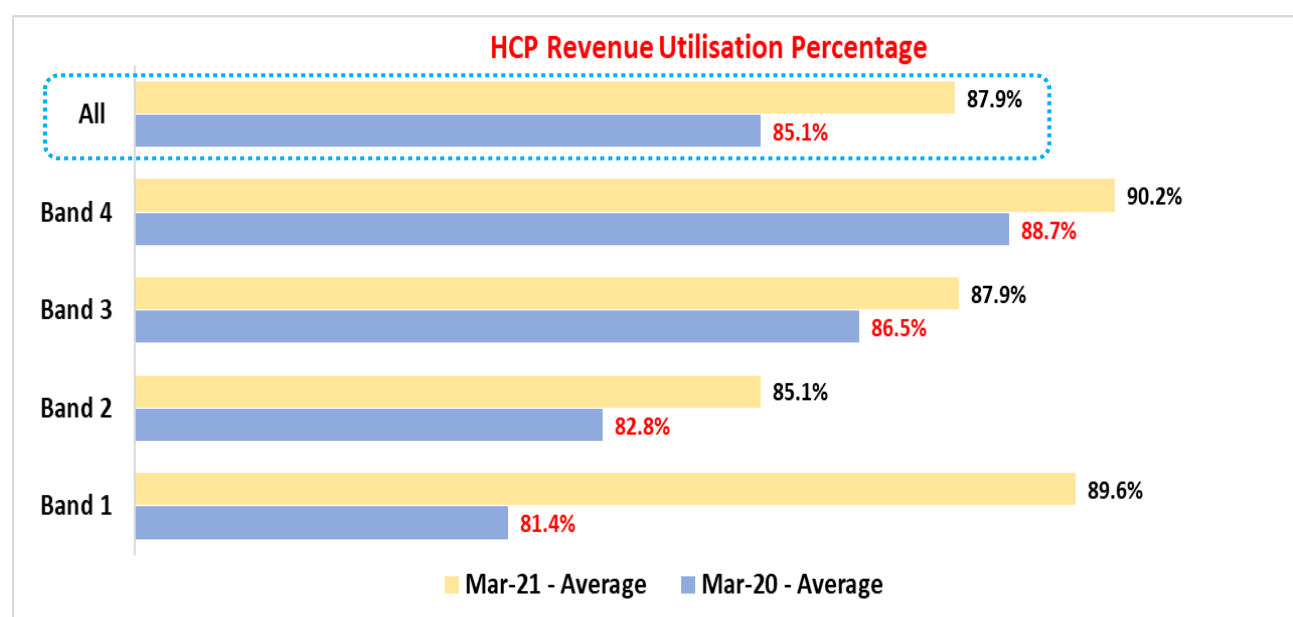


Figure 18: Unspent Funds per client as at Mar-21 and Mar-20

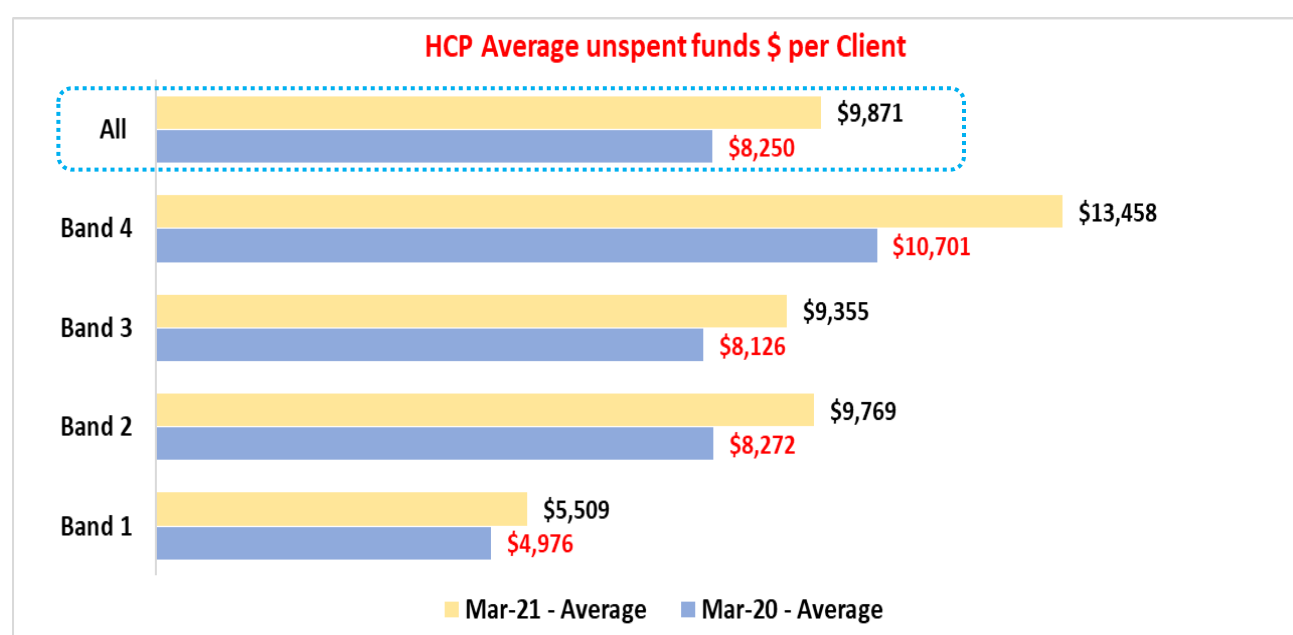
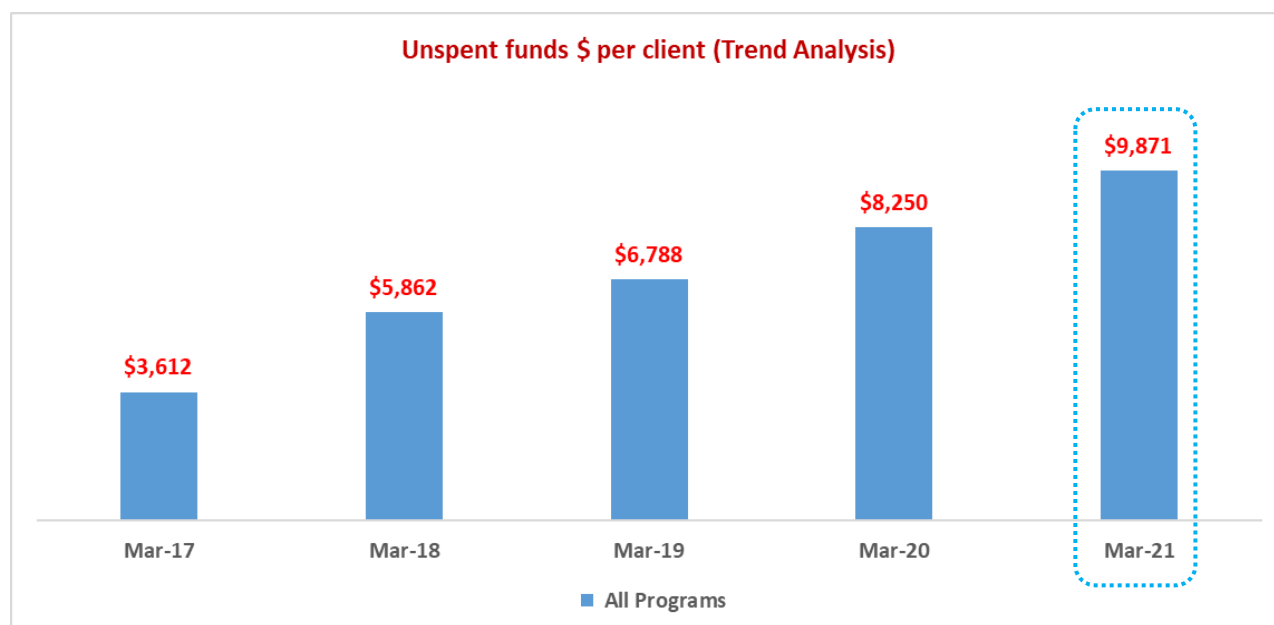


Figure 19: Unspent Funds per client trend analysis from Mar-17 to Mar-21



As at March 2021 the average length of time comprising all current care recipients receiving a home care package funding is 1.1 years (from the beginning of their package to 31 March 2021). The average length of time an individual care recipient is in a home care package before departing is 2.1 years.

Table 2 below shows the amount of home care subsidy funding received for each package level (based on the average length of time in a package of 1.1 years), the average unspent funds and the percentage of unspent funds as compared to the subsidy received. The care recipient portion (Basic Daily Fee + Income Tested Fee) of unspent funds has been excluded for this analysis.

Table 8: Unspent funds analysis

Home Care Package	Subsidy (\$) (average 1.1 years)	Unspent Funds (\$ per care recipient)	Unspent Funds % of Subsidy
Level 1	\$9,900	\$5,660	57.2%
Level 2	\$17,325	\$8,970	51.8%
Level 3	\$37,675	\$9,180	24.4%
Level 4	\$57,200	\$12,570	22.0%

* Subsidy is based on maximum subsidy per package per annum x 1.1 years

** Unspent funds represent the Government's portion (94% of average unspent funds balance by package level)

This is an important aspect when considering the future home care funding arrangements. Based on this analysis, there is strong evidence to suggest that the level of funding for each package level is significantly in excess of the care services currently provided or required.

For this reason, there is an argument to suggest that persons on a lower level (interim) package who have either accepted, have not yet accepted or did not accept this interim package (currently 36,403 persons) can be excluded from the National Prioritisation System as they are in fact receiving the funding that they are actually utilising rather than what they have been assessed for.

It should be further noted, that persons on an interim package form part of the overall unspent funds and revenue utilisation statistics, and therefore may not even be using all of their interim funding.

Potential Funding Reform - Package Funding Levels

A significant issue that still needs to be addressed in the re-design of the home care system, for which \$10.8 million has been allocated, is the ability to re-assess a person's care needs and to change their funding level (package level), including decreasing it based on that need. Currently this is not available.

The analysis with respect to subsidy utilisation and unspent funds indicates that the current package levels model does not adequately reflect the actual care services required by care recipients. The funding gap (uplift) between packages is large and appears to be under-utilised.

If there were (say) 8 funding package levels between the lowest and highest this may assist in better utilisation of the funding to equate to actual services required by care recipients.

An example of a potential multi-tiered funding package model could be as follows:-

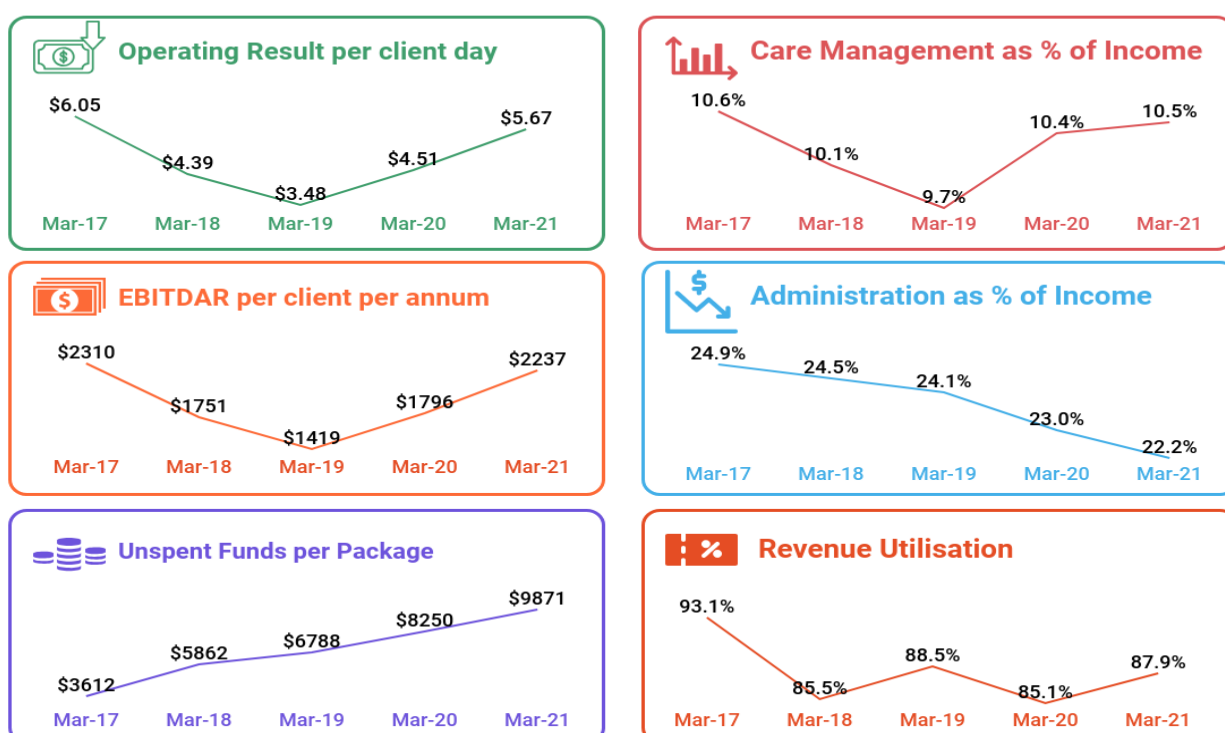
Table 9: Example of additional funding package levels

	Current Subsidy (\$ pa)	Proposed Subsidy (\$ pa)		Proposed Subsidy (\$ pa)
Level 1	\$9,000	\$9,000	Level 5	\$29,000
Level 2	\$15,750	\$13,000	Level 6	\$36,000
Level 3	\$34,250	\$17,500	Level 7	\$43,000
Level 4	\$52,000	\$22,500	Level 8	\$52,000

Until this package funding level is addressed, unspent funds balances will continue to grow with subsidies not fully utilised, and accordingly will comprise the unspent funds balance held by the provider (on behalf of the care recipient) and home care account held by Services Australia.

Key Performance Indicator Trends Summary

Home Care



State Analysis

Figure 20: HCP operating result (\$ per client per day) by State/Territory

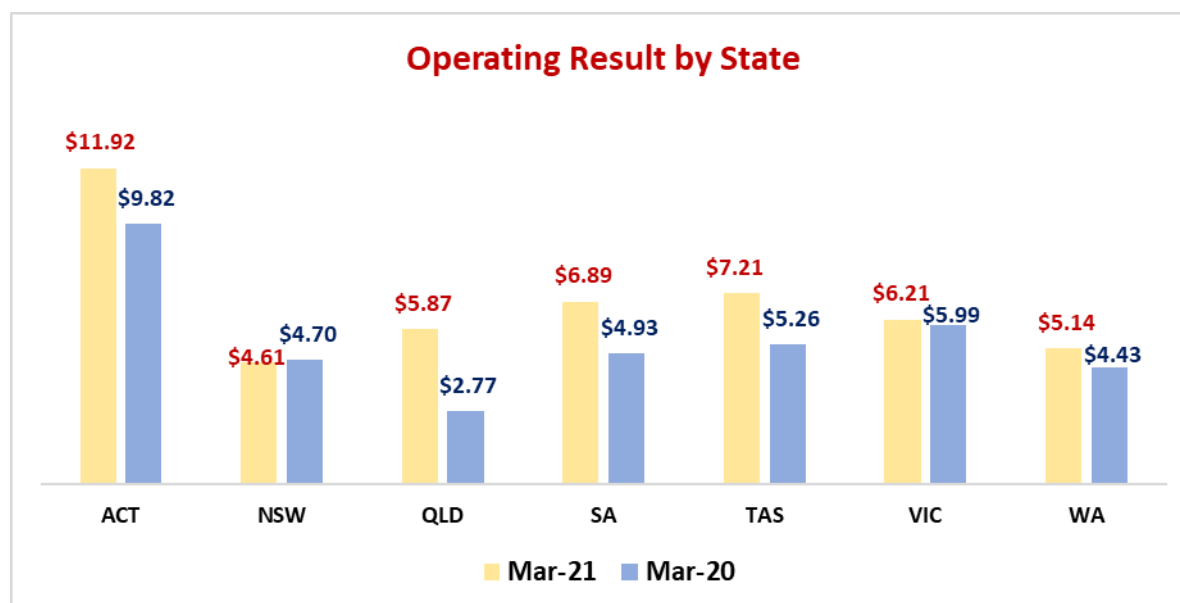
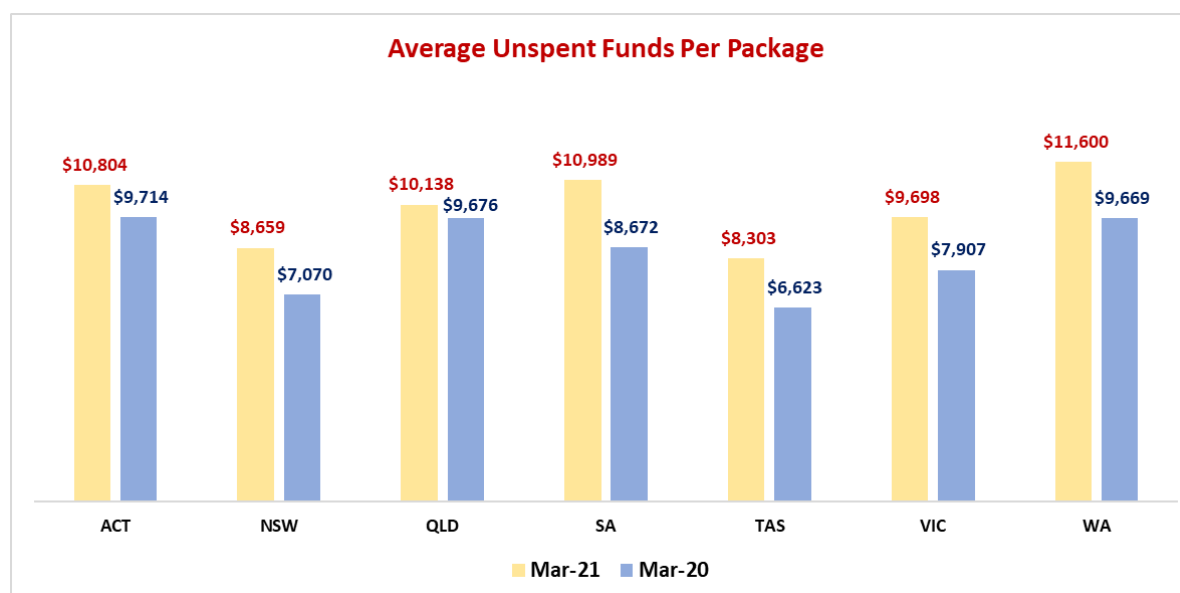


Figure 21: HCP average unspent funds by State/Territory



Staff Hours Worked per Care Recipient

Direct service hours per care recipient per week (including agency staff) has declined to 4.04 hours (on average) for Mar-21 period compared to 4.36 hours for Mar-20.

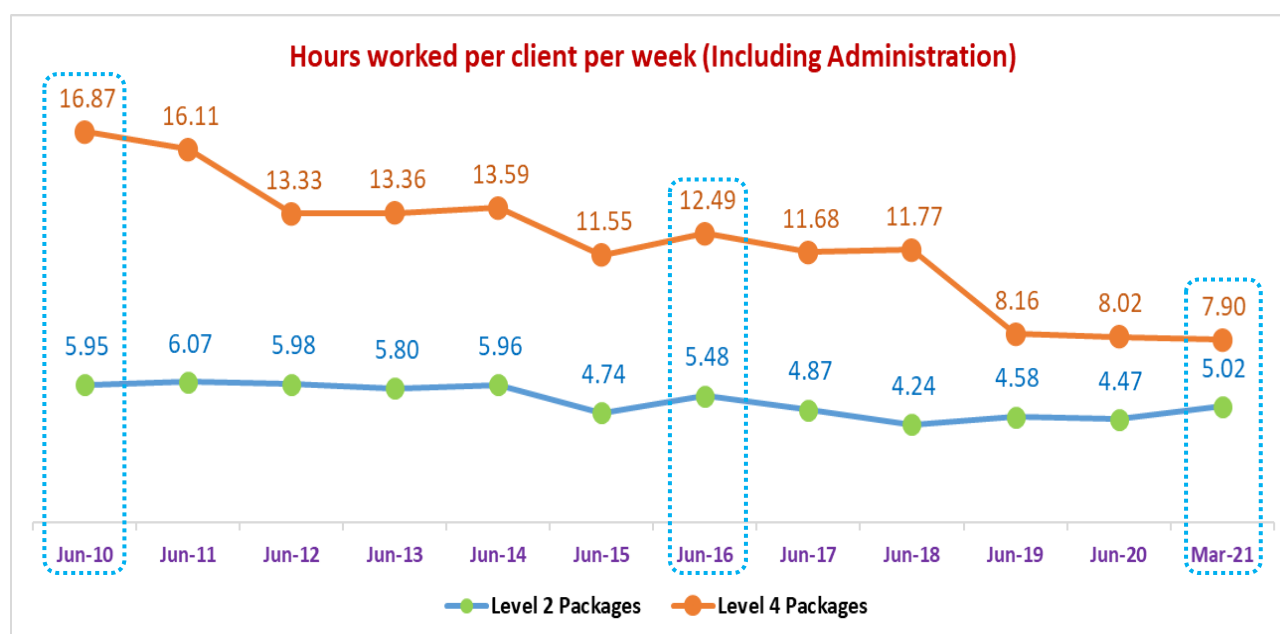
It is important to note that the staffing hours are for direct care service delivery by providers to clients (care recipients). These hours do not include sub-contract services which may include home maintenance, cleaning, social support and allied health. Sub-contractors as well as providers perform these services. It is also notable that brokered service costs as a percentage of revenue declined year on year to Mar-21 so it appears that direct staff costs have not been replaced by third party costs.

Table 10: Home Care Staff hours per care recipient per week for Mar-21 and Mar-20

Survey (Average)

Internal staff hours worked per client week	Mar-21	Mar-20		Difference	FY20
Direct service provision	3.94	4.10	↓	(0.16)	3.93
Agency	0.10	0.26	↓	(0.16)	0.23
Case management & coordination	0.99	0.80	↑	0.19	0.81
Administration & support services	0.48	0.51	↓	(0.02)	0.48
Total Staff Hours	5.51	5.67	↓	(0.16)	5.45

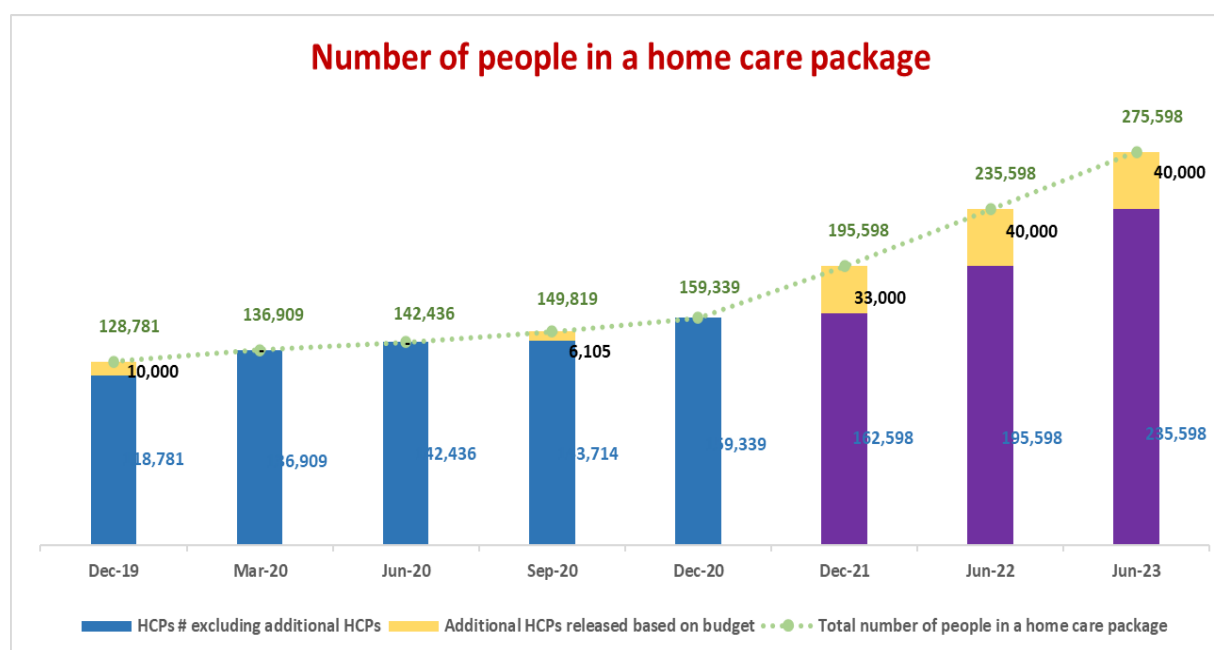
Figure 22: Trend analysis - hours worked per client per week for all staff for Band 2 and band 4 package levels



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 23: Home Care Package growth and expected growth



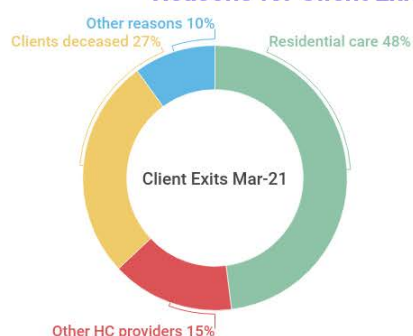
The Government has made several announcements to increase the number of home care packages in the aged care system. The Government are targeting to have 275,598 people in a home care package by FY23

- ◆ 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
- ◆ On 11 May 2021, the **May Budget announced an additional 80,000 packages** to be released over the FY22 and FY23 periods at a total cost of \$6.5 billion. This investment is expected to increase the total package pool to 275,598 packages by the end of FY23

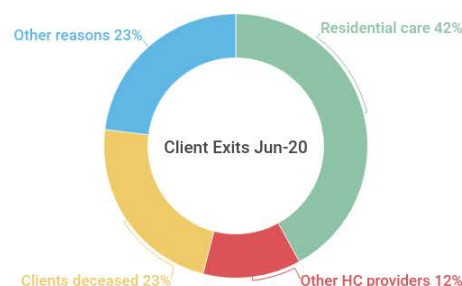
Whilst the addition of new Home Care Packages is welcomed, in isolation it does not address issues surrounding the utilisation of packages whereby the amount of unspent package funds for each care recipient is, on average, over \$9,871 and equates to over \$1.5 billion in total.

Home Care Statistic Trends

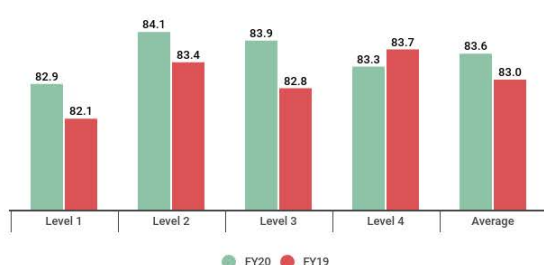
Reasons for Client Exits



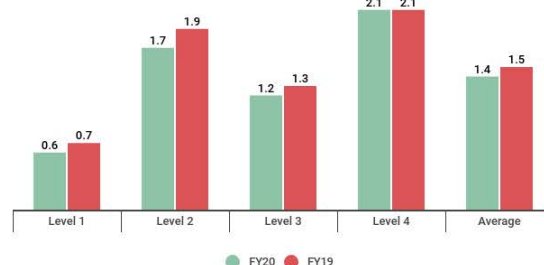
Reasons for Client Exits



Average Age of Home Care Clients



Average Length of Time in a Package



Improved Payment Arrangements

Phase 2 of the Improved Payment Arrangements commences on 1 September 2021. From this date home care subsidies will continue to be paid in arrears but the payments will be for actual services delivered. Services Australia will create a home care account for each care recipient. The Government will collect and hold the Commonwealth portion of unspent funds in each care recipient's home care account until needed by the care recipient.

StewartBrown supports this reform, although it is recognised that a number of significant issues need to be considered to ensure a smooth transition. In this context, StewartBrown has engaged in a series of discussions with the Department and home care providers to identify the key areas that are causing concern at this time.

In summary, some of the key areas discussed and with some further commentary (in *italics*) is as follows:-

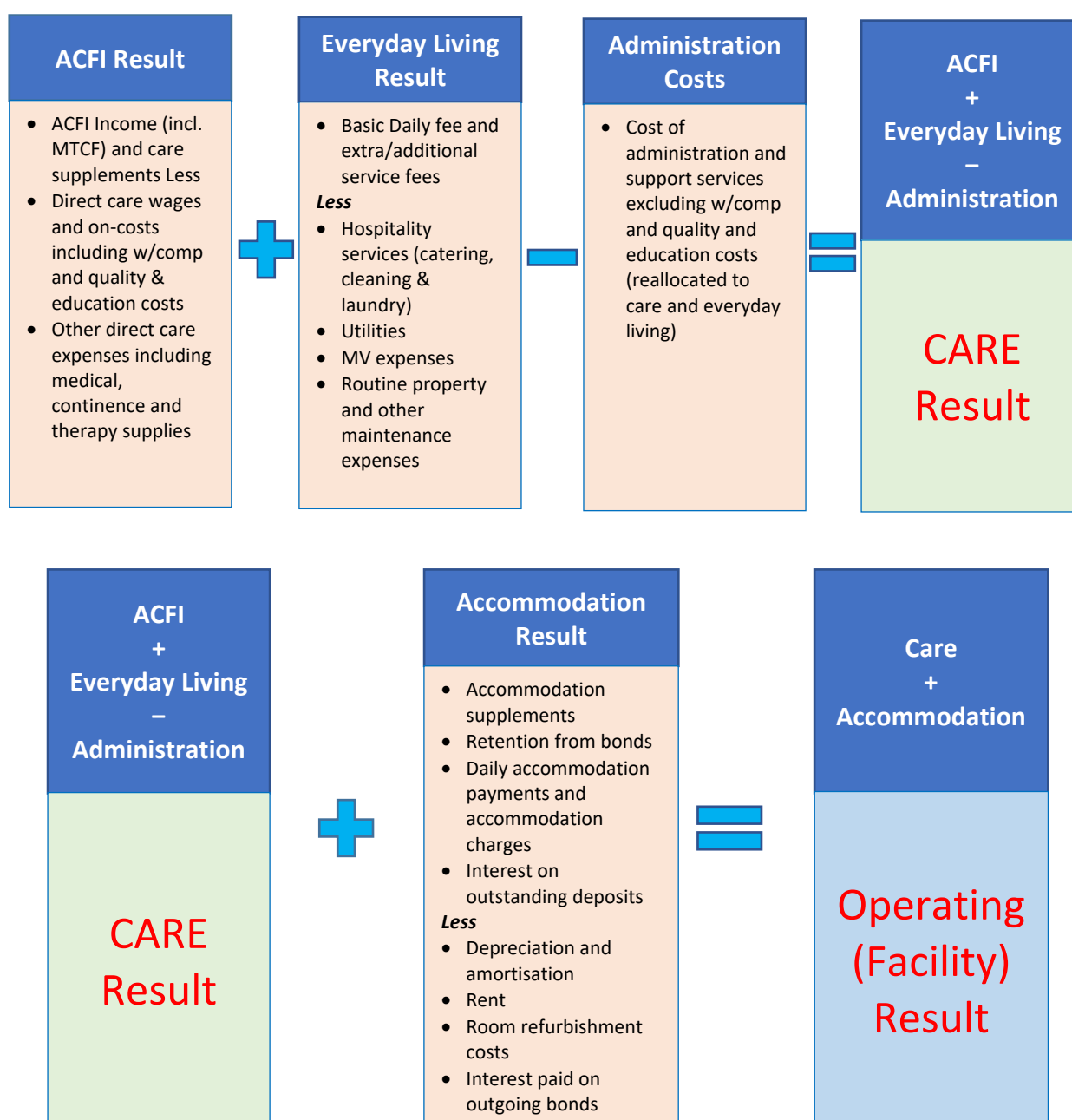
- *Timing for Stage 2 (1 September 2021).* Many Providers would seek this to be moved back to at least 1 January 2022, however we understand that this date is set by legislation and, accordingly, would need to be amended by legislation which is unlikely to be feasible in the period to 1 September
- *Repayment of all Unspent Funds held by providers to the Government on 1 September 2021 (Government subsidy portion).* This is clearly the preferred position for a number of providers we have been in contact with. We understand that Services Australia is not in a position to create "opening balances" as at 1 September 2021 for all care recipients. Essentially, they will be starting with a \$Nil balance and providing a monthly balance of Unspent Funds from 30 September 2021 for each care recipient. The Services Australia balance will be advised to each provider for them to include on the care recipient monthly statements. The monthly statements will be required to separately show the Services Australia amount, the balance of Unspent Funds relating to the Government portion (up to 31 August and taking into account any funds utilised since that time) and the care recipients portion (resulting from the Basic Daily Care Fee and Income Tested Fee not utilised)

- *Services Australia software.* Providers have expressed concerns as to whether Services Australia required B2B software will be fully functional as at 31 August. The monthly payments in arrears are required to be timely, accurate and easily identified on a care recipient by care recipient basis. To date there has been limited information as to user acceptance testing; testing with selected provider test sites, feedback or establishment of a Services Australia Help Desk that has kept providers up to date with progress and developments
- *Provider software.* Currently any required and necessary software enhancement/modification are still in the design stages. Software vendors are still unclear as to the exact specification and intended process flows. Currently, there is only limited B2B subsidy claiming, with many providers still making manual monthly claims. Those providers using the current B2B claiming functionality are still required to perform a significant amount of manual data entry (we would estimate that the software modifications may take between 6 and 12 months from September 2021 to be fully functional)
- *Cost to implement.* There will be a significant cost borne by providers to implement the software modification, transaction process flows, staff training and education with care recipients as to the new treatment of funding and monthly statements. We are not aware of any specific funding to compensate for this cost. The current transitional subsidy is restrictive in who can claim (based on months of Unspent Funds) and designed for providers who will experience working capital financial pressures, and this is important. However, the majority of providers cannot access this funding, and whilst it is not a working capital cash flow issue, it does not address the significant additional cost burden. *We have suggested one possible solution being that providers are able to permanently retain (say) 10% - 15% of the Unspent Funds that would be acquitted back to the Government upon a care recipient leaving a home care package. Currently 94% (minimum) of Unspent Funds should be returned to the Government as it is not used by the care recipient before departure. Our understanding is that once subsidies are paid it is treated as a budget outlay, and there is no consideration as to returned subsidies (unspent funds) in the budget forecast modelling. Accordingly, allowing providers to not remit back a portion to subsidise their costs for the IPA would not be treated as a further budget outlay*
- *Work Arounds.* in relation to concerns that the provider software will not be modified for a period after 1 September, there will be a requirement for “work arounds” in the interim period
- *Fact Sheets.* It may be beneficial to amend the Fact Sheets to represent more realistic example(s). The average Unspent Fund balance is nearly \$10,000 per care recipient and approximately 92% relates to the government subsidy portion (ie \$800 is the care recipient portion). It may be easier for the providers to follow if the Fact Sheet was more aligned to these figures and the examples were for (say) a Level 2 and Level 4 recipient, and use those subsidy levels with together with a BDF of 17% of the single pension (Level 4) and 8% (Level 2) and an ITE component of (say) 10% of the subsidy)
- *Care Recipient (client) Agreements.* Under the IPA arrangements clarification is required as to will there be a requirement to amend (or renew) the care recipient Agreements

4. 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.



Accommodation Result

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

ACFA

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

ACFI revenue

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

ACFI Result

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

ACH Result

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

ACH EBITDAR

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

Administration Costs

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

Aged Care Home

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

Averages

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

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

Average by line item

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

Bed day

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

Benchmark

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

Benchmark Bands

Residential Care

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

Band 1 - Over \$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 excludes interest (and investment) revenue as well as interest expense on borrowings. *EBITDAR is used for residential care analysis only, whereas Home Care uses EBITDA only.*

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

EBITDAR per bed per annum

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

NPBT

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

Facility

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

Facility EBITDAR

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

Everyday Living Result

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

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*.

5. 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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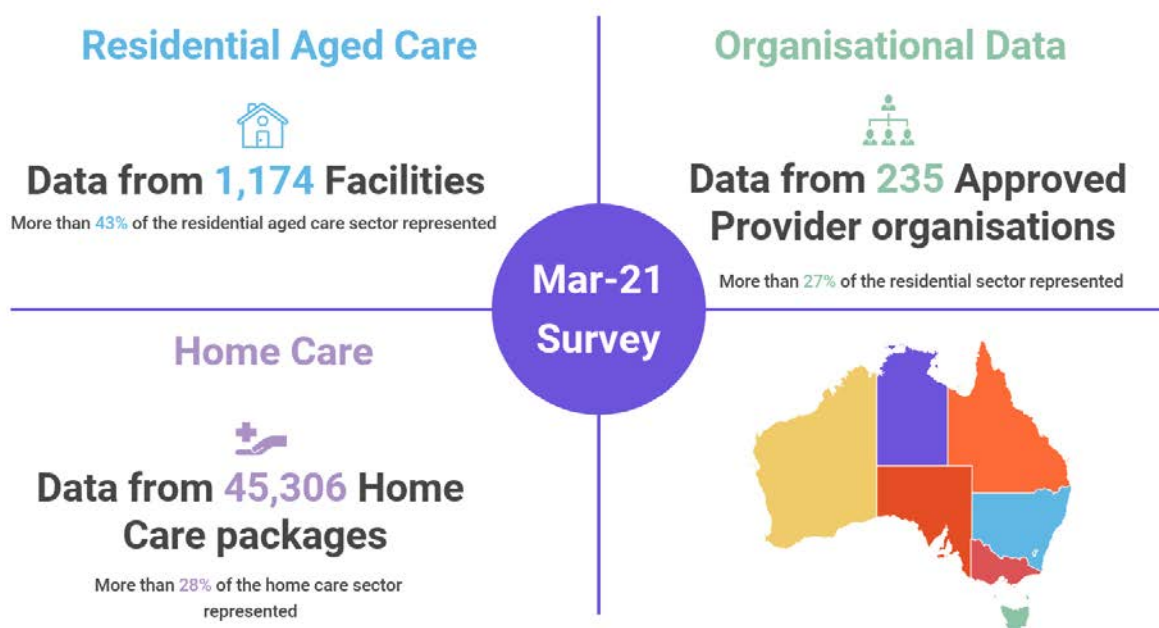
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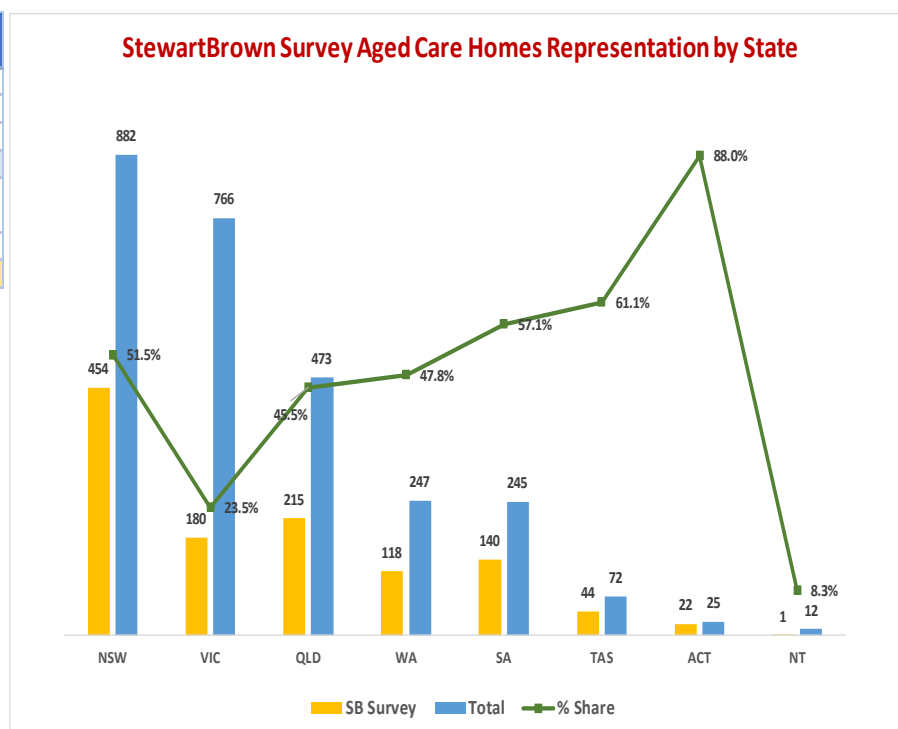
Data Analyst

6. APPENDIX A: SURVEY DATA SET AND METRICS



Residential Data Set - March 2021 Survey

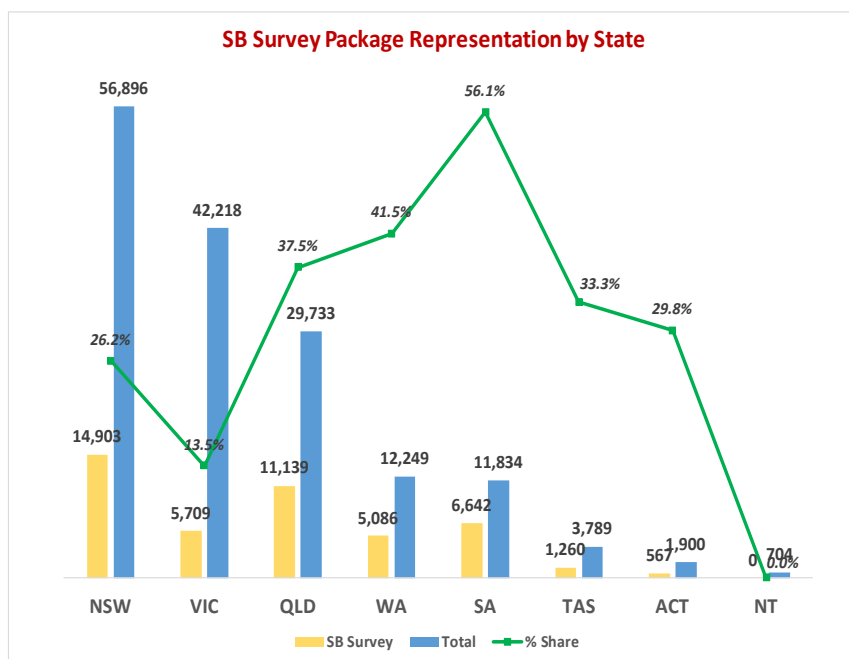
Number of Residential homes in Survey	Total
StewartBrown Residential Survey	
Homes included	1,081
Homes excluded	93
Survey total	1,174
GEN Aged Care Data Service Listing (30 June 2020)	
Total	2,722
Coverage % = (A)/(B)	43.1%



State/territory	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
SB Survey	454	180	215	118	140	44	22	1	1,174
Total	882	766	473	247	245	72	25	12	2,722
% Share	51.5%	23.5%	45.5%	47.8%	57.1%	61.1%	88.0%	8.3%	43.1%

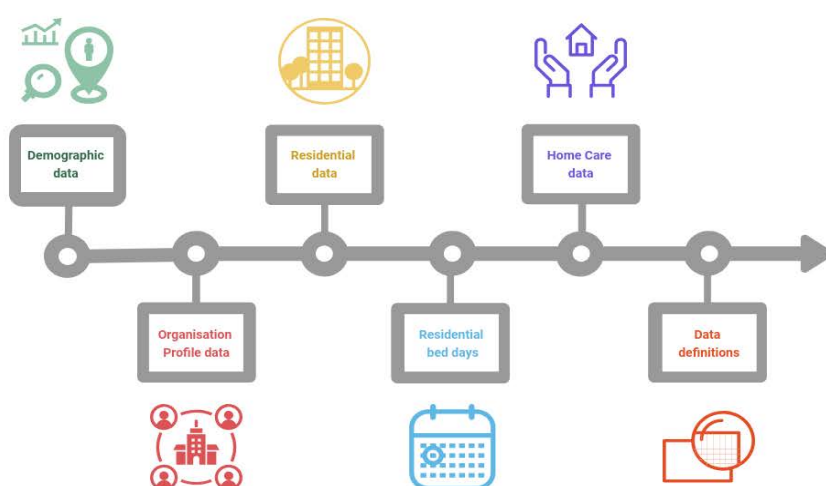
Home Care Data Set - March 2021 Survey

Number of Home Care Packages in Survey	Total
StewartBrown Home Care Survey	
Package included	43,210
Package excluded	2,096
Survey total	45,306
GEN Aged Care Data Service Listing (31 December 2020)	
Total	159,339
Coverage % = (A)/(B)	28.4%



State/territory	NSW	VIC	QLD	WA	SA	TAS	ACT	Unknown	Total
SB Survey	14,903	5,709	11,139	5,086	6,642	1,260	567	0	45,306
Total	56,896	42,218	29,733	12,249	11,834	3,789	1,900	16	159,339
% Share	26.2%	13.5%	37.5%	41.5%	56.1%	33.3%	29.8%	0.0%	28.4%

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

