



AGED CARE FINANCIAL PERFORMANCE SURVEY



HOME CARE REPORT - JUNE 2017

The StewartBrown *Aged Care Financial Performance Survey* (ACFPS) incorporates detailed financial and supporting data from over 500 Home Care programs and over 950 residential aged care facilities across Australia. The quarterly survey is the largest benchmark within the aged care sector and provides invaluable insight into the trends and drivers of financial performance at the sector level and at the facility or program level.

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1. HIGHLIGHTS

OPERATING RESULTS

1

(\$7.60)

Band 1 Average EBIT - (\$7.60) per client per day

- June 2016 - \$(8.70) per client per day

2

\$1.52

Band 2 Average EBIT - \$1.52 per client per day

- June 2016 - \$(0.99) per client per day

3

\$5.30

Band 3 Average EBIT \$5.3 per client per day

- June 2016 - \$3.51 per client per day

4

\$12.51

Band 4 Average EBIT \$12.51 per client per day

- June 2016 - \$11.77 per client per day



\$2.59

Top Quartile Band 1 Average EBIT \$2.59 per client per day

- June 2016 - \$4.90 per client per day



\$9.35

Top Quartile Band 2 Average EBIT \$9.35 per client per day

- June 2016 - \$6.87 per client per day



\$22.57

Top Quartile Band 3 Average EBIT \$22.57 per client per day

- June 2016 - \$16.97 per client per day



\$36.53

Band 4 Average EBIT \$36.53 per client per day

- June 2016 - \$36.26 per client per day

REVENUE UTILISATION



75.8% Band 1 Average Revenue Utilisation

75.8%

June 2016 - 80.8%



91.5% Band 2 Average Revenue utilisation

91.5%

June 2016 - 85.0%



92.7% Band 3 Average Revenue utilisation

92.7%

June 2016 - 89.3%



93.9% Band 4 Average Revenue utilisation

93.9%

June 2016 - 85.4%



79.3% Top Quartile Band 1 Average Revenue Utilisation 79.3%

June 2016 - 86.4%



91.6% Top Quartile Band 2 Average Revenue Utilisation 91.6%

June 2016 - 86.9%



88.3% Top Quartile Band 3 Average Revenue Utilisation 88.3%

June 2016 - 84.0%



95.4% Top Quartile Band 4 Average Revenue Utilisation 95.4%

June 2016 - 86.8%

GROSS MARGIN

→|≡≡≡ **(31.0)%** Band 1 Average Gross Margin on
Total Revenue (31.0)%
[June 2016 - (40.7)%]

↔|≡ **4.0%** Band 2 Average Gross Margin on Total
Revenue 4.0%
[June 2016 - (2.4)%]

▶|≡≡≡ **10.5%** Band 3 Average Gross Margin on Total
Revenue 10.5%
[June 2016 - 5.3%]

>|≡≡≡ **9.2%** Band 4 Average Gross Margin on Total
Revenue 9.2%
[June 2016 - 9.3%]

→|≡≡≡ **13.3%** Band 1 Top Quartile Gross Margin on Total
Revenue 13.3%
[June 2016 - 17.9%]

↔|≡ **21.5%** Band 2 Top Quartile Gross Margin on Total
Revenue 21.5%
[June 2016 - 16.0%]

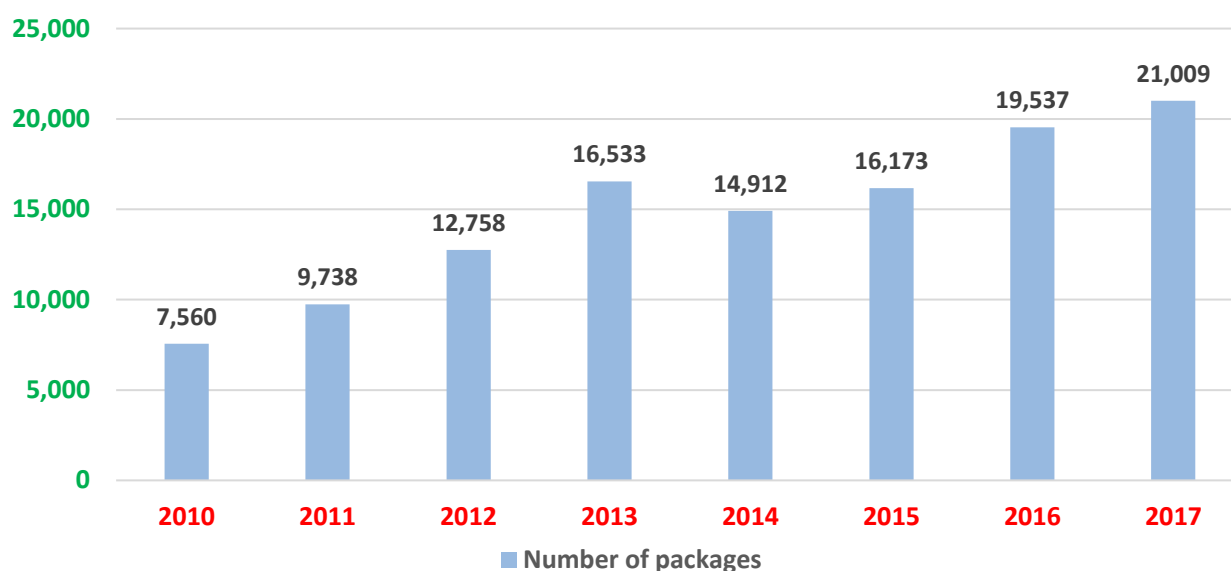
▶|≡≡≡ **26.7%** Band 3 Top Quartile Gross Margin on Total
Revenue 26.7%
[June 2016 - 24.0%]

>|≡≡≡ **26.8%** Band 4 Top Quartile Gross Margin on Total
Revenue 26.8%
[June 2016 - 27.1%]

2. BENCHMARKING OVERVIEW

This report includes data from over 500 home care programs representing more than 21,000 individual home care packages (HCPs). This number has grown by more than 175% since 2010 indicating that the data and trends outlined in the benchmarking survey provides the sector's most comprehensive business support material available.

Figure 1: Growth of packages in the survey overtime from June 2010 to June 2017



The June 2017 survey report contains the summary analysis of more than 6.9 million occupied client days of data to derive insights and assistance to:

- Determine and understand sector trends
- Drive improvements in financial and operational performance
- Measure and compare your organisation against other organisations
- Assess your productivity
- Set goals and make informed decisions

Stewart Brown, through rigorous review and consultation, is committed to ongoing enhancements to the benchmarking to ensure the survey remains meaningful to your organisation. Some of these include:

- Enhancements to the web site (due for release shortly) to further enable your organisation to embed the benchmarking into your management reporting
- Presentation of your results and a sector update upon request (via webinar or in person)
- Additional analysis on specific areas of interest and regular newsletters based on this analysis.

Should you wish to understand how to use the benchmark data more effectively for your organisation or have any other feedback, please let us know.

3. EXECUTIVE SUMMARY

The aged care sector continues to undergo major reforms in both the residential and community sector. The recent release of the Tune Report recommendations further reinforces the view that consumer directed care is a key ingredient to the reform agenda. The key recommendations in the Tune Review specifically associated with home care were:

- Pricing becoming more transparent and being published on the My Aged Care website;
- Mandatory charging of the basic and income tested fees for home care packages as well as mandatory consumer contributions under the Commonwealth Home Support Programme;
- The introduction of a Level 5 home care package; this not only further emphasises the focus on people staying in the home longer but also, if accepted, would effectively minimise the traditional low care residential cohort (Level 4 and 5 residents);
- Abolish the annual and lifetime caps on income tested care fees in home care and means tested care fees in residential care

The last recommendation was rejected by the Government (not rejected by the Opposition), although it is likely that this may be accepted in an amended form i.e. reductions in the annual and lifetime caps.

Given the significance of the February 2017 deregulation, this report focuses predominately on the performance of the March 2017 survey results compared to the June 2017 results. As the industry continues along the consumer directed journey, the importance of understanding ongoing trends along the reform continuum will be critical.

Key Performance Indicators

The ongoing use and measurement of agreed Key Performance or Financial indicators is paramount in any business, however of equal importance is the accountability of these indicators. StewartBrown recommends that the package case managers or co-ordinators play a key role in the below metrics.

Engagement Time	<ul style="list-style-type: none"> •The time from first enquiry to client engagement •Recommended: First target 24 hours, second target 3 days
Package retention and growth	<ul style="list-style-type: none"> •Sales techniques •Engagement with clients
Revenue utilisation	<ul style="list-style-type: none"> •Total income recognised as percentage of total funding •Recommended: 95%
Direct Care Cost	<ul style="list-style-type: none"> •Care costs of wages, on-costs and travel (excludes provider admin costs or margin) •Recommended: 52 - 53%
Employee Productivity	<ul style="list-style-type: none"> •Billable hours as a percentage of total hours worked (excluding training and leave) •Recommended: 85% -90%

These are the five main KPIs post deregulation as described in further detail in the *StewartBrown – ACFPS Home Care KPI Supplement (March 2017) Newsletter*. Please contact us if you would like a copy of this newsletter.

4. RESULTS ANALYSIS AND OVERVIEW

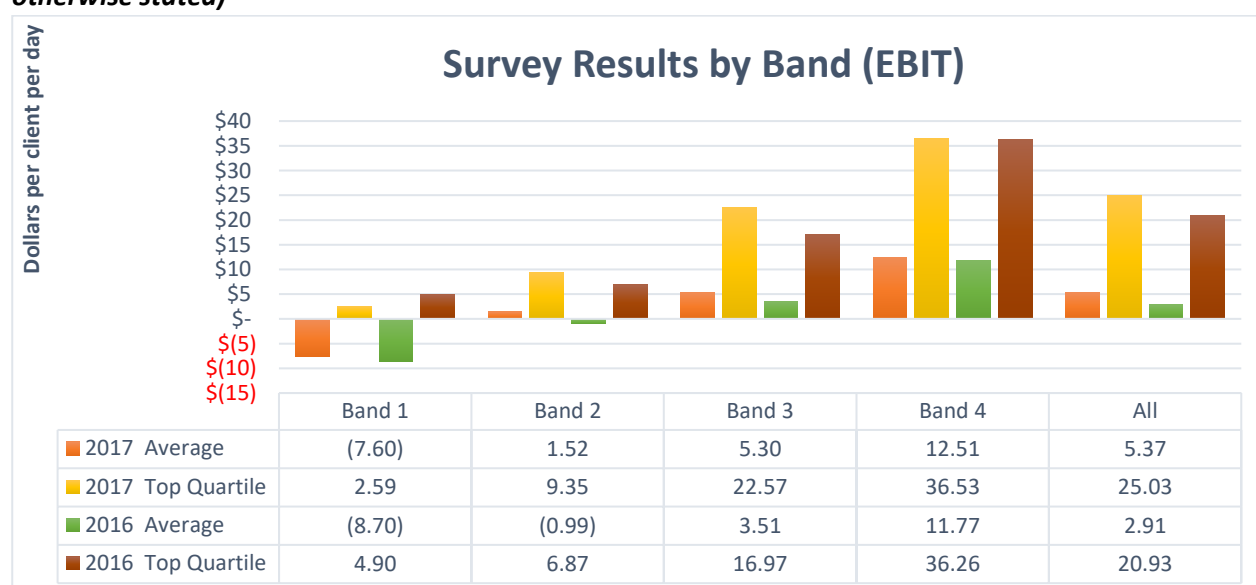
Survey Results Overview

Results from the June 2017 survey illustrate an improvement when comparing to the June 2016 financial year; this is due to the mix of packages changing (additional Level 4 packages) as well as participants placing a greater focus on revenue utilisation and cost management. This improvement in costs represents further process refinement being undertaken by providers as the ongoing changes associated with consumer directed care are further understood.

EBIT performance on average has increased by 84% or \$2.46 per client per day with Band 2 and 3 contributing to most of this improvement. Similarly, the top quartile has also improved by 19% or \$4.10 per client per day.

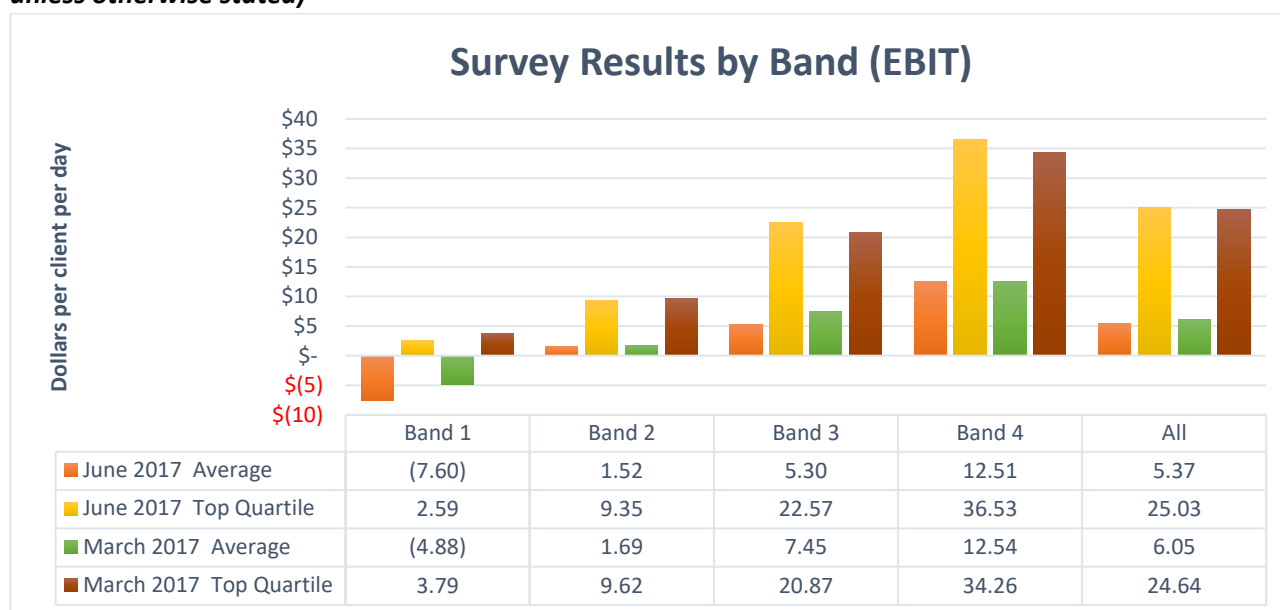
Whilst traditionally, the focus is on the year on year performance – it is important to compare the results from the March 2017 benchmarking to that of the full year position as the operating environment is now very different to before.

Figure 2: Comparison of EBIT, June 2017 versus June 2016 (all amounts represent \$ per client per day unless otherwise stated)



****Number of packages in Band 1 is too small to validate, so please use with caution.**

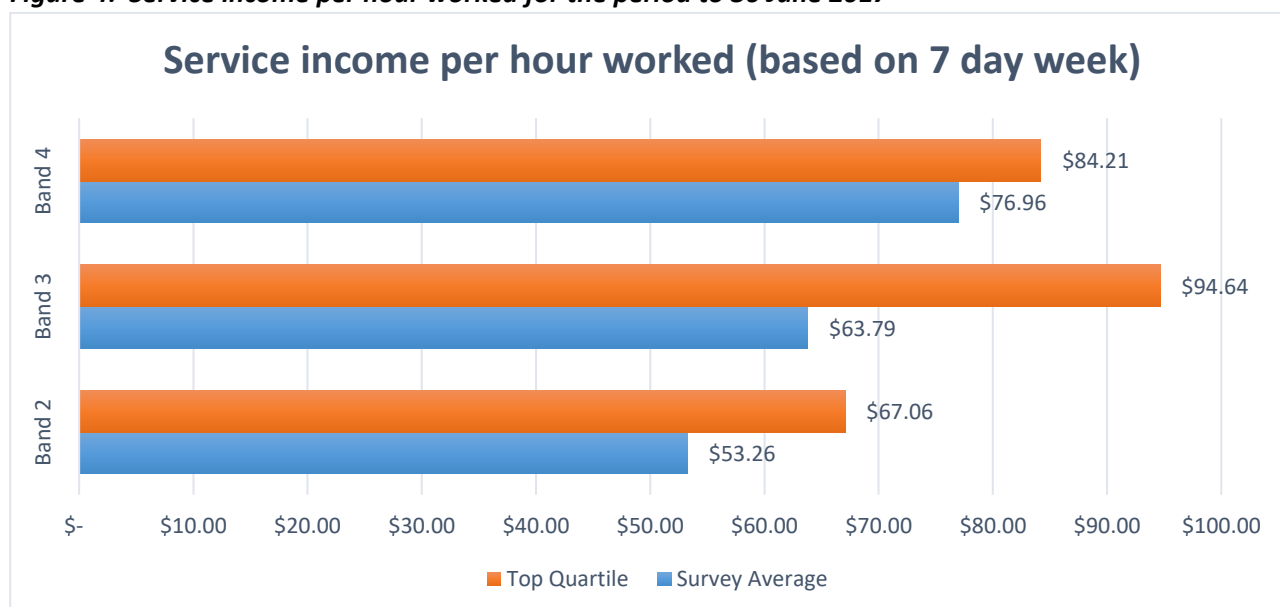
Figure 3: Comparison of EBIT, June 2017 versus March 2017 (all amounts represent \$ per client per day unless otherwise stated)



A key call-out of the comparison to March 2017 highlights that the EBIT of the average benchmark has declined by 11% across all bands. Whilst revenue has remained reasonably flat, the direct service costs (brokerage) has increased. Level 4 packages has a similar EBIT's to March 2017, however there has been an increase in administration costs of 8%; whilst this increase has been offset by a decrease in direct service costs the call out is around the need for strong controls and ongoing efficiencies for administration. Alternatively, the top quartile performance has improved on average by 7% (Bands 3 and 4) which is predominately due to an average reduction of 25% in case management and co-ordination costs per client per day, this benefit has been partially eroded by the increase in administration fees of 8% like that in the average survey results.

There are clearly ongoing large variations in performance between the survey average and the top quartile. One key area of difference is represented by the service income per hour worked which measures the amount of income generated by employee hours worked, this metric is heavily influenced by pricing. Figure 3 illustrates the significant differences between average and the top quartile across all package levels. With many providers entering the market, the data suggests that providers in the average benchmarking results have discounted their prices which has significantly impacted the viability of packages.

Figure 4: Service income per hour worked for the period to 30 June 2017



****Number of packages in Band 1 is too small to validate, so has been excluded.**

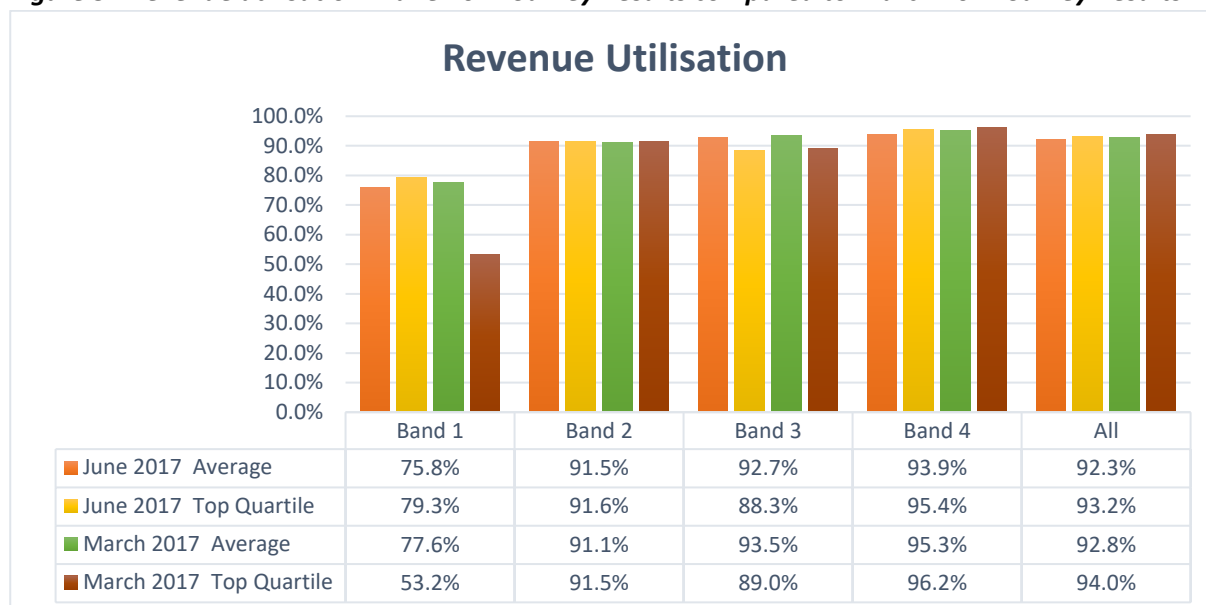
An emerging area of analysis in Home Care currently being undertaken by us relates to the comparison of performance between regional and major city demographic areas. The discussion below pertains to package income of greater than \$50. Major Cities of Australia (as per ABS classification) *average* performance had a EBIT per client day of \$9.02 compared to Inner Regional Australia of \$6.81 per client per day. Initial evidence indicates pricing differences contribute to the disparity between the two demographic areas. The top quartile has major cities with a EBIT of \$34.29 per client day compared to Inner Regional performance of \$30.04. The reduced EBIT in the inner regional area predominately relates to higher direct service staffing hours, with major cities spending 9.04 hours per client week compared to 11.5 hours per client per week in Inner Regional areas.

Unspent Funds (Revenue Utilisation)

The revenue utilisation rate refers to the ratio of total revenue charged to clients compared to total revenue available in a package from both client fees and government subsidies for the 12-month period to June 2017. Whilst year on year a significant improvement - indicating that providers have increased their focus on the level of unspent funds and revenue utilisation - there has been a slight decline in revenue utilisation from the March 2017 survey results in both the average and top quartile as shown in Figure 4.

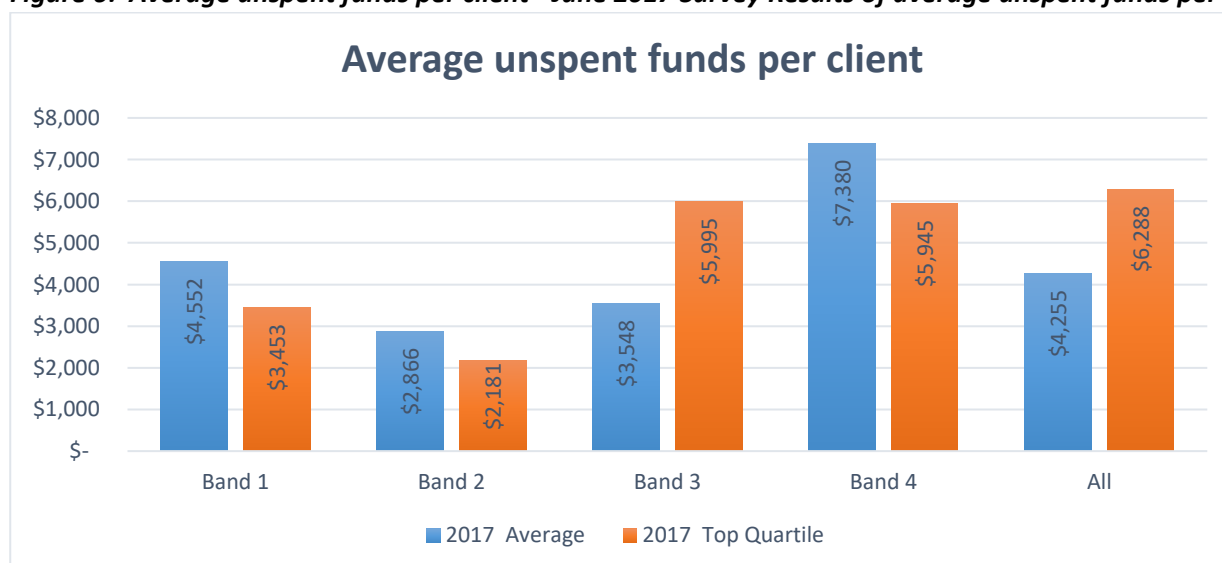
Providers have placed large amounts of effort and strategy into improving revenue utilisation by encouraging clients to fully utilise their packages. The recommended target is an average of 95%. Recent data supports that over 90% of home care clients either transfer to a residential facility or no longer require the home care package essentially meaning the subsidy component of unspent funds is returned to the department thereby dispelling the myth of putting funds aside for a rainy day.

Figure 5: Revenue utilisation - June 2017 Survey Results compared to March 2017 Survey Results



The average unspent funds per client is a measure of the total unspent funds as at 30 June 2017 divided by the total number of clients (packages) as at 30 June 2017. This therefore reflects the historical build-up of unspent funds since commencement of CDC whereas the revenue utilisation examines the 12 months to 30 June 2017.

Figure 6: Average unspent funds per client - June 2017 Survey Results of average unspent funds per client



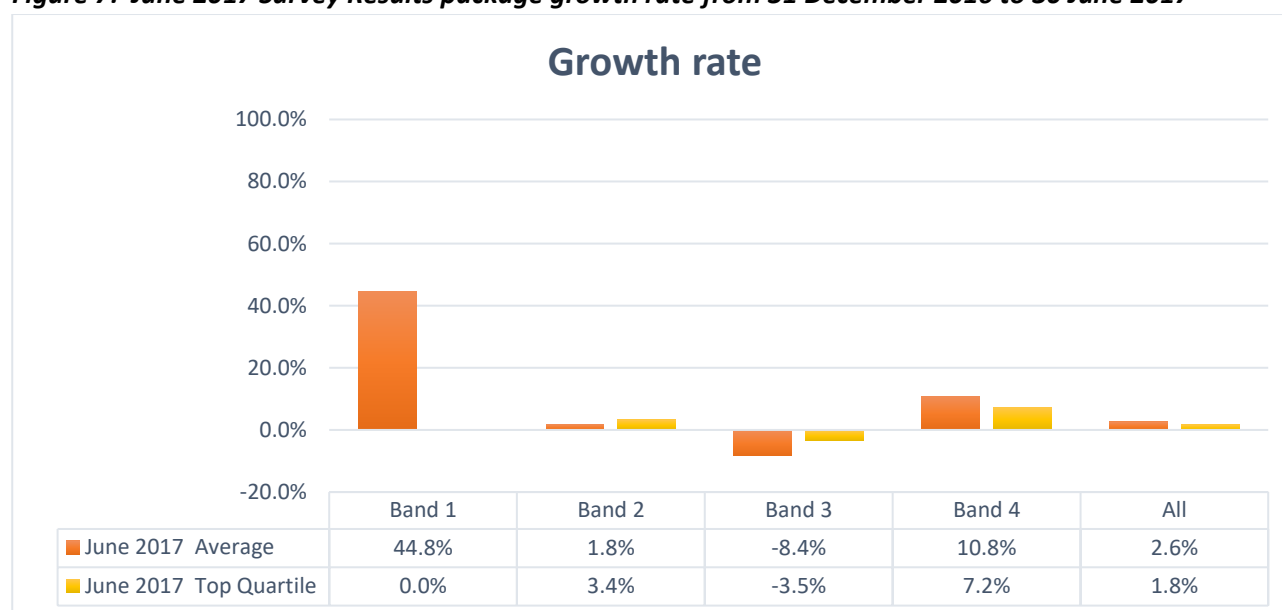
Package Retention and Growth

The Department released over 14,000 home care packages in March 2017, of these approximately 75% were assigned to new consumers accessing home care for the first time, with the balance of packages assigned as upgrades to consumers already receiving an interim level of home care. Despite this reported package increase, the survey results indicate that this has not translated into material growth for providers. On average there has been 2.6% growth with the top quartile reporting a small 1.8% increase. Initial evidence indicates that there have been delays in the follow up of these packages within the 56-day timeframe.

The Department released a document in September 2017 entitled, 'Home Care Packages Program' Data Report; this report cited a 47.3% increase in providers entering the home care market between June 2016 and June 2017, this large increase in providers indicates another contributing factor to providers not experiencing growth in packages. It is recommended to commence or continue local community networking to promote service delivery offerings.

The Department expected approximately 15-20% of consumers to change providers post February 2017. With a further four months of data post February 2017, for the survey participants the data shows that only 4% have exited to other home care providers which is highlighted by strong retention of packages reported.

Figure 7: June 2017 Survey Results package growth rate from 31 December 2016 to 30 June 2017



Staffing and Staff Hours

For the full year ending June 30, 2017 the survey average of total staff hours for all programs was 7.16 hours per client per week which is slightly higher than the March 2017 survey average of 7.09 hours per client per week.

- Direct care: 5.31 hours - in line with March 2017 survey (5.32)
- Agency: 0.44 hours - increased from March 2017 (0.36)
- Case Management & coordination: 0.83 hours – slight decrease compared to March 2017 (0.87)
- Administration and support: 0.58 hours: an increase from March 2017 (0.54)

Figure 8: June 2017 Staff hours per client per week

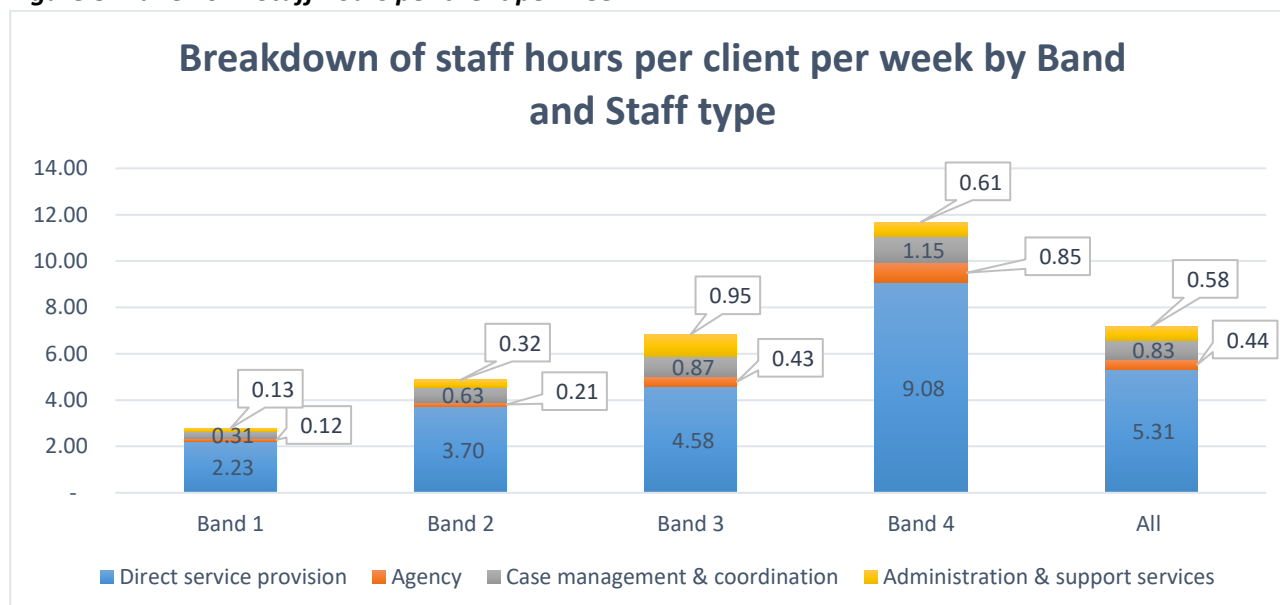
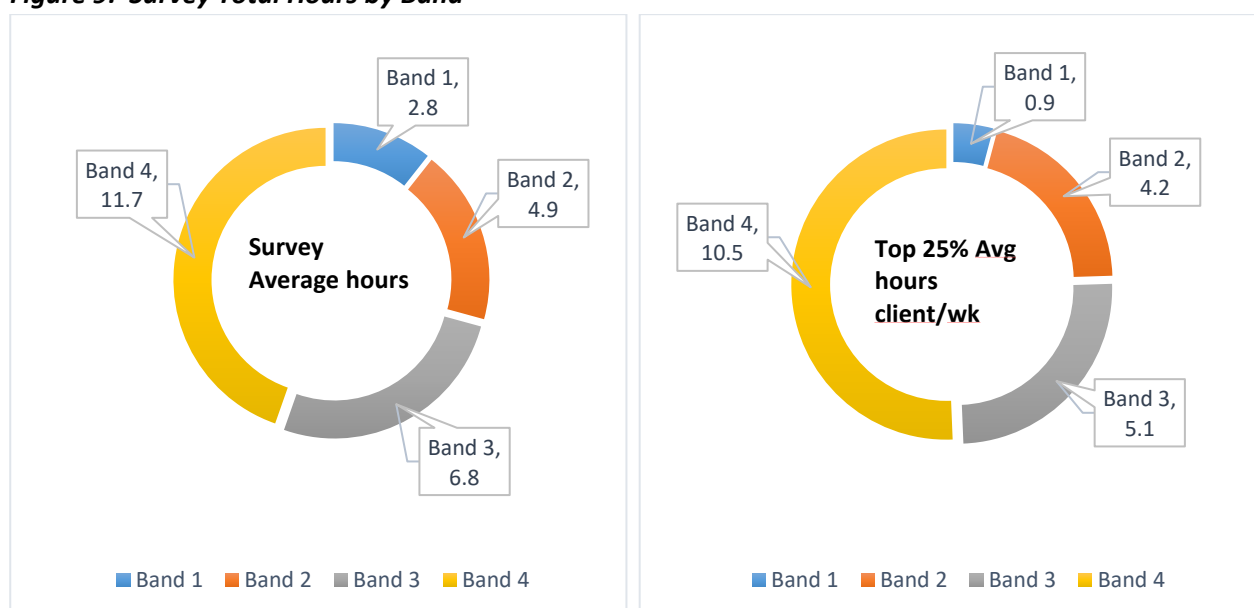


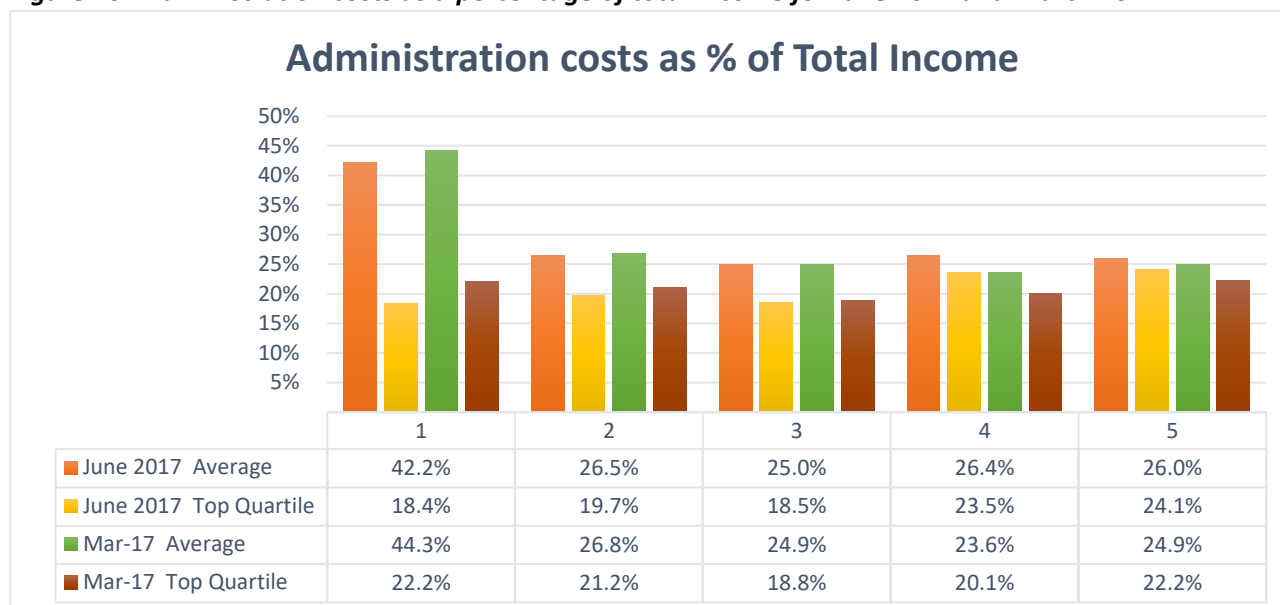
Figure 9: Survey Total Hours by Band



Administration Fees

Administration fees, whilst necessary, will require ongoing continuous improvement by providers. As discussed above, these costs have crept up particularly in Band 4 packages which impacts on an already challenging environment. Administration is particularly influenced by an organisation's system capability as well as internal systems and processes.

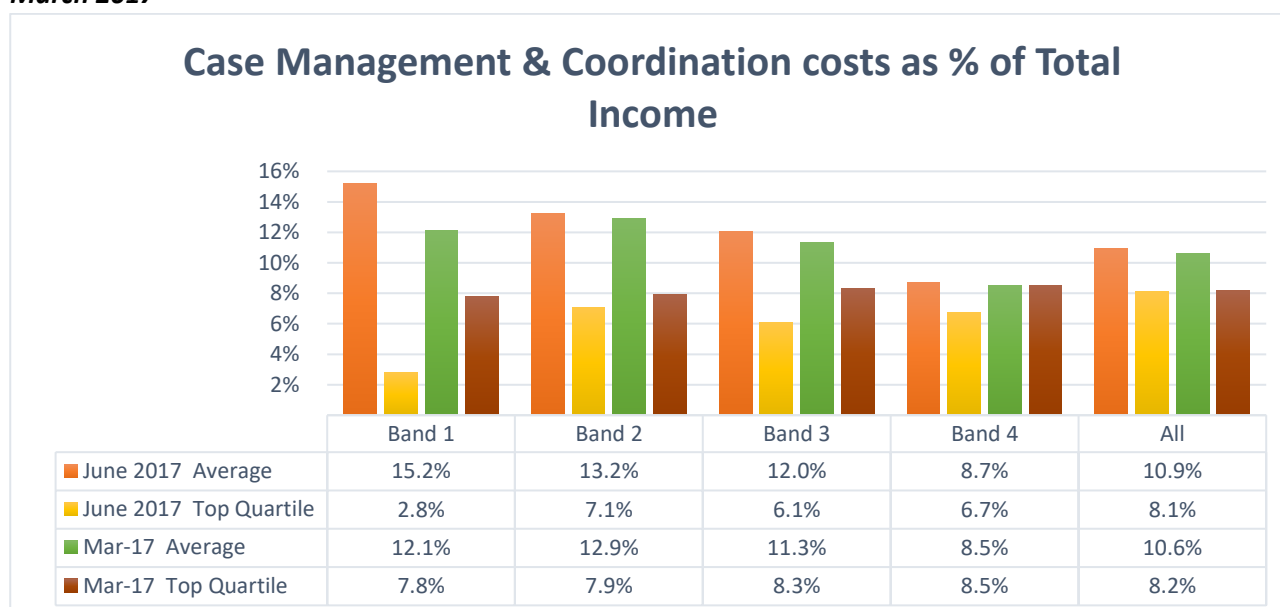
Figure 10: Administration costs as a percentage of total income for June 2017 and March 2017



Case Management & Co-ordination Costs

One of the key roles in home care is the case manager or co-ordinator. It is important to define the Key Performance Indicators that this role is responsible for as well as clearly outline the ratio of clients to case managers. It is evident from the June 2017 survey results that the top quartile has been focused on this relationship (Bands 3 and 4) resulting in a reduction in costs of 2% on average as a percentage of income.

Figure 11: Case management and co-ordination costs as a percentage of total income for June 2017 and March 2017



5. DATA TABLES

Table 1: June 2017 Survey Average Results

June 2017 Survey Average Results					
	Band 1	Band 2	Band 3	Band 4	All
Revenue	\$24.23	\$42.62	\$71.33	\$132.31	\$73.53
Expenditure					
Direct Services	\$15.67	\$21.79	\$34.17	\$64.04	\$35.96
Brokered Services	\$2.16	\$2.12	\$5.07	\$8.70	\$4.68
Case Management & Coordination	\$3.69	\$5.64	\$8.59	\$11.49	\$8.03
Administration & Support	\$10.22	\$11.31	\$17.85	\$34.95	\$19.11
Depreciation	\$0.09	\$0.25	\$0.36	\$0.62	\$0.37
Total Expenditure	\$31.82	\$41.10	\$66.04	\$119.81	\$68.15
EBIT per client per day	(\$7.60)	\$1.52	\$5.30	\$12.51	\$5.37
EBITDA per client per annum	(\$2,741)	\$646	\$2,063	\$4,793	\$2,097
KPI's					
Profit Margin	(31.4%)	3.6%	7.4%	9.5%	7.3%
Net Growth Rate	44.8%	1.8%	(8.4%)	10.8%	2.6%
Net Retention Rate	100%	100%	91.6%	100%	100%
Revenue utilisation for the period	75.8%	91.5%	92.7%	93.9%	92.3%
Average Unspent Funds per client	\$4,552	\$2,866	\$3,548	\$7,380	\$4,255
Cost of direct care (% of total revenue)	73.6%	56.1%	55.0%	55.0%	55.3%
Case management (% of total revenue)	15.2%	13.2%	12.0%	8.7%	10.9%
Administration (of total revenue)	42.2%	26.5%	25.0%	26.4%	26.0%

Table 2: June 2017 Survey Top Quartile Results

June 2017 Top Quartile Results					
	Band 1	Band 2	Band 3	Band 4	All
Revenue	\$19.51	\$43.55	\$84.51	\$136.26	\$122.55
Expenditure					
Direct Services	\$10.28	\$20.68	\$32.79	\$52.06	\$51.09
Brokered Services	\$2.50	\$1.66	\$8.08	\$5.35	\$6.43
Case Management & Coordination	\$0.55	\$3.08	\$5.16	\$9.19	\$9.91
Administration & Support	\$3.59	\$8.58	\$15.64	\$32.08	\$29.57
Depreciation	\$0	\$0.21	\$0.28	\$1.05	\$0.51
Total Expenditure	\$16.92	\$34.21	\$61.94	\$99.72	\$98.93
EBIT per client per day	\$2.59	\$9.35	\$22.57	\$36.53	\$25.03
EBITDA per client per annum	\$946	\$3,488	\$8,340	\$13,717	\$9,325
KPI's					
Profit Margin	13.3%	21.5%	26.7%	26.8%	20.4%
Net Growth Rate	0.00%	3.4%	(3.5%)	7.2%	1.8%
Net Retention Rate	100%	100%	96.5%	100%	100%
Revenue utilisation for the period	79.3%	91.6%	88.3%	95.4%	93.2%
Average Unspent Funds per client	\$3,453	\$2,182	\$5,995	\$5,945	\$6,288
Cost of direct care (% of total revenue)	65.5%	51.3%	48.4%	42.1%	46.9%
Case management (% of total revenue)	2.8%	7.1%	6.1%	6.7%	8.1%
Administration (of total revenue)	18.4%	19.7%	18.5%	23.5%	15.1%

StewartBrown Aged Care Executive Team



Stuart Hutcheon
Managing Partner

Stuart Hutcheon is the head of our Audit and Assurance Division, but also provides consulting services to a diverse client base. He has had considerable experience with both commercial and not-for-profit organisations. This experience covers all areas of professional services including auditing, management accounting, budgeting, salary packaging and FBT advice.

Prior to joining StewartBrown Stuart held positions in commerce and undertook various medium-term secondments in various financial accounting roles. He has been a partner since 2004.

Stuart holds a Bachelor of Commerce and is a Chartered Accountant, Registered Company Auditor and Registered SMSF Auditor.



Grant Corderoy
Senior Partner

Grant is the head of our expanding Consulting division. He specialises in a range of services for his clients including undertaking complex accounting assignments, system reviews, management consulting, specialised audits and general business advice. He also has considerable experience in advising clients on the sale and purchases of businesses, business valuations and due diligence.

Grant has over 40 years' experience in the profession and was previously responsible for the Audit and Aged Care Division which he established in 1990. A partner in the firm since 1995, he has significant professional expertise within the not-for-profit sector and has a lengthy client list including many national aged care providers and community service providers.

Grant has tertiary business qualifications and is an Affiliate of Chartered Accountants Australia and New Zealand.



Patrick Reid
Director

Patrick has recently joined StewartBrown in the position of Director – Aged Care, Community and Disability after serving as CEO of LASA. As an experienced CEO, board director, business owner and Executive with more than 20 years' success in business, association management and lobbying, Patrick possesses a proven track record in business, leadership, change management and advocacy. Patrick has highly developed financial, commercial, negotiation and management skills.



David Sinclair
Partner

David is Partner with StewartBrown specialising in providing services and advice to the aged care and community services businesses with a focus on the not-for-profit sector. Until recently, David managed the StewartBrown Aged Care Financial Performance Survey. David now leads the internal audit team and jointly leads the consulting team in conjunction with Senior Partner Grant Corderoy. David holds a Bachelor of Economics, is a Chartered Accountant, an Associate Member of the Institute of Internal Auditors and Member of the Australian Institute of Company Directors.



Tracy Thomas
Senior Manager | Business Analyst Division

Tracy is a Chartered Accountant with over six years post qualification experience. Since joining StewartBrown in April 2016, she has been heavily involved with the Aged Care Financial Performance Survey and now heads the team undertaking the survey. She has worked with several providers of residential aged care and home care on consulting assignments and produced the Corporate Administration Reports and Listed Providers Analysis updates. She specialises in data analysis and financial modelling.

StewartBrown - Our Knowledge is your success

StewartBrown, Chartered Accountants, was established in 1939 and is one of the leading boutique accountancy firms in Australia combining a full range of professional services with varied corporate assignments. Our professional mission statement is “*we deliver service beyond numbers*”, which reflects the commitment to helping our extensive range of clients to achieve their financial goals.

We offer a depth of technical knowledge and varied professional experience, with many of our senior staff now having well over 10 years' of service with the firm, resulting in our clients benefitting from continuity and accountants who really understand their business.

What a boutique firm offers

Whilst StewartBrown provides a range of professional services, our “point of difference” is our ability to engage in assignments of a complex nature by providing a varied mix of experience and corporate skills. Examples of recent consulting assignments include:-

- Contract accounting
- Payroll processing and billing processing
- Financial modelling and unit costing analysis
- Strategic planning facilitation
- ITSC Project management
- Governance reviews
- Organisation restructures
- Risk management reviews
- Due diligence
- Work-flow building design
- FBT and GST reviews
- Detailed forecasting modelling

Audit and assurance services

Complementing our consulting services is our dynamic Audit division. StewartBrown adopts a risk based audit approach which is performed strictly in accordance with Australian Auditing Standards. Our engagements involve a detailed analysis of the client's business and systems of internal control to ensure we fully understand how the client operates and identify areas that pose the greatest risk of being materially misstated in the financial statements. Our detailed testing procedures are

then tailored to meet the risks identified and also ensure an efficient and effective audit is performed.

What we offer our audit clients are a mix of experience and knowledge well beyond that of most other firms. Our audit staff all have regular exposure to consulting and secondment assignments which significantly enhances the “value add” we bring to our audit clients.

Specialty in the aged care, community and disability sectors

StewartBrown is widely regarded as being a leading specialist within the aged care, community and disability sectors. Our client base includes many large national providers in addition to independent stand-alone providers, faith-based and community providers, culturally specific providers, as well as government and statutory bodies.

Our commitment to these important social sectors each year involve 30+ plus speaking engagements at Conferences, sector briefings, workshops, department briefings, organisation presentations and community consultations.

Integrity + Quality + Clarity

These terms which appear on our logo are more than aspirations, they appear for a very important reason - they encapsulate the professional standards that we strive to continually maintain and ensure best practice

CONTACT US

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“

StewartBrown has over 78 years' experience providing professional services to the aged care, disability, community service and not-for-profit organisations.”

78 YEARS IN BUSINESS

140⁺ AUDITS IN TOTAL

40⁺ YEARS IN AGED CARE

50⁺ AGED CARE AUDITS PER YEAR

70⁺ NFP AUDITS PER YEAR

50⁺ ACCOUNTING STAFF



AUSTRALIA WIDE

2 PARTNERS

30⁺ SPECIALIST AGED CARE STAFF



LARGEST AGED CARE AUDIT TEAM IN AUSTRALIA

7 MANAGERS

4 AUDIT DIRECTORS



AUDIT TEAM HAS TRIPLED IN 5 YEARS