



StewartBrown

Integrity + Quality + Clarity

AGED CARE FINANCIAL PERFORMANCE SURVEY



RESIDENTIAL 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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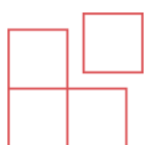
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1. HIGHLIGHTS

OPERATING CARE RESULTS



\$9.42 Average Care Result of \$9.42 per resident per day a decrease of (\$1.36) from June 2016 at \$10.78



\$37.96 Care Result of the *Top Quartile* was \$37.96 per resident per day a decrease of (\$0.46) from June 2016 at \$38.42



\$3,236 Average facility EBT of \$3,236 per bed per annum an decrease of (\$846) from June 2016 at \$4,082



\$13,102 *Top Quartile* facility EBT of the top 25% \$13,102 per bed per annum an decrease of (\$381) from June 2016 at \$13,483

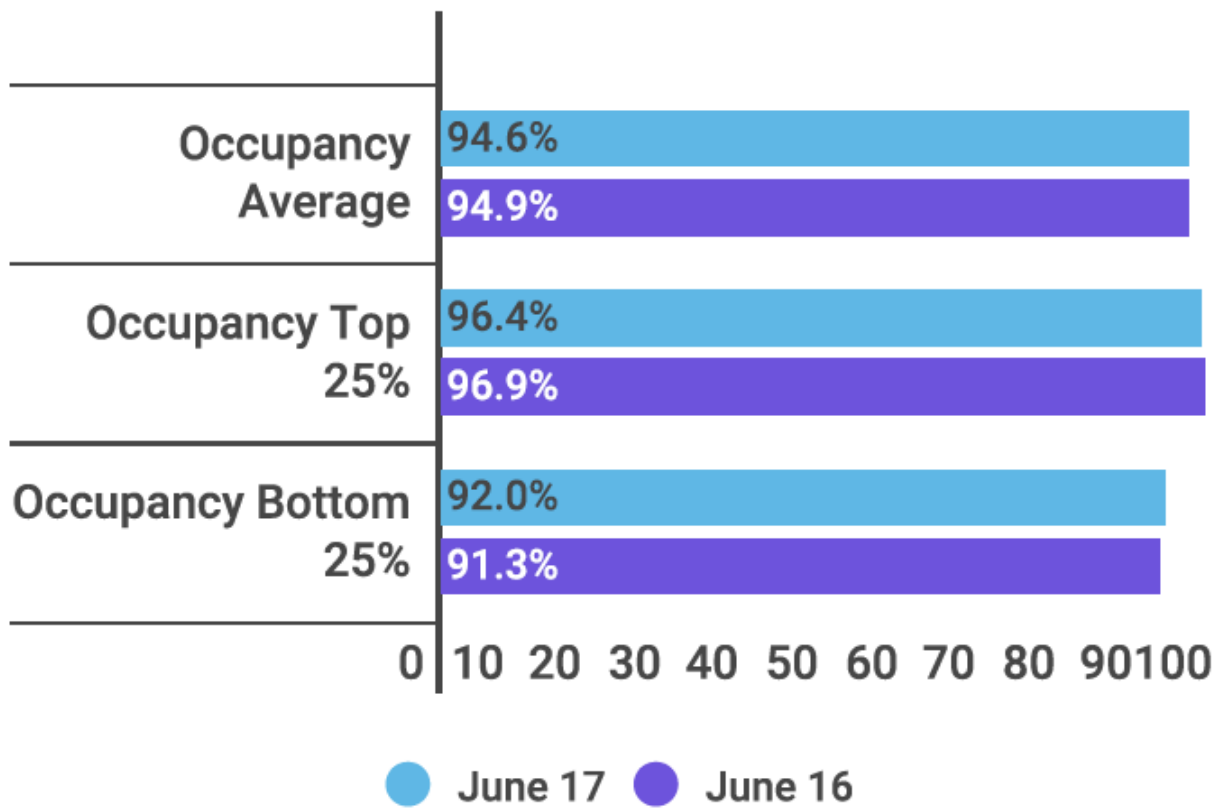


\$8,397 Average facility EBITDA of \$8,397 per bed per annum a decrease of (\$543) from June 2016 at \$8,941



\$18,285 *Top Quartile* facility EBITDA of \$18,285 per bed per annum an increase of \$164 from June 2016 at \$18,121

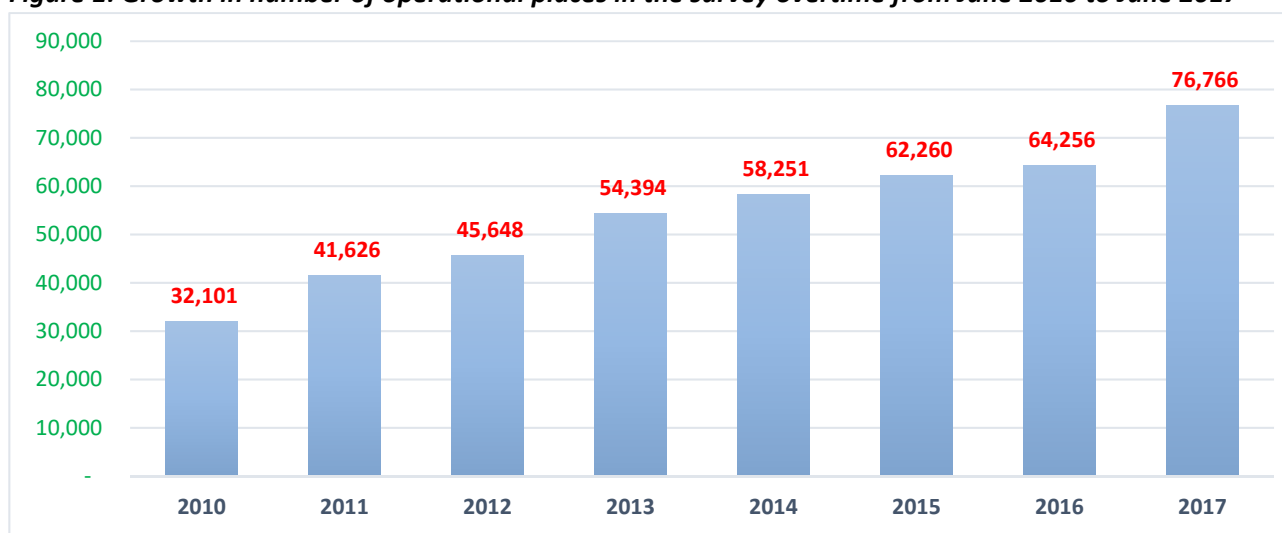
OCCUPANCY



2. BENCHMARKING OVERVIEW

This report includes data from over 175 organisations representing more than 950 residential aged care facilities. This is the largest survey of its kind in the sector, or in fact that of any sector in Australia. The number of operational places in the survey has grown by more than 139% 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 in number of operational places in the survey overtime from June 2010 to June 2017



This report contains the summary analysis of more than 26.5 million occupied bed days of data and aims to derive insights and provide objective information for your organisation with respect to the following:

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

In addition, the information collected in the annual June survey includes some additional information on utility usage and costs, catering costs and organisational level information on financial performance and position. A more in-depth analysis of these areas will be provided in a series of supplementary newsletters which will be released over the next few months.

StewartBrown, 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 *Legislated Review of Aged Care 2017* (Tune Review) recommendations further highlights the ongoing alignment of funding with the consumer rather than the provider and the commitment that where appropriate, the user should and will contribute to their care requirements. The key recommendations in the Tune Review specifically associated with residential aged care were:

- Offline care places will have “use it or lose it” style regulation
- ACAR removed within 2 years, funding places allocated directly to consumer
- Thin markets will be actively managed by government
- Offline places may be transferred to home care (temporarily at first)
- Respite care to be reviewed and protected under the market system
- Requirement that providers charge the minimum basic daily fee in residential care with the safety net of 85% of single pension to remain; providers able to charge up to \$100 basic daily fee to those able to pay, with amounts over \$100 to be approved by the Aged Care Pricing Commissioner. The maximum daily fee should be published on My Aged Care website, provider’s website and given to prospective residents
- Increase approval limit for RADS >\$550,000 to \$750,000 (or equivalent DAP)
- Maintain the Bond Guarantee Scheme, but reform it
 - Horizon date after which providers be levied to recoup all default events, where the total amount exceeds \$5 million in any fiscal year
 - Formal process for notifying the sector of defaults and the cost of the levy
 - Declare costs prior to the commencement date will not be recouped
- The government include the full value of the owner’s home in the means test for residential care when there is no protected person in that home
 - This recommendation was rejected by the Government although it is likely that this may be accepted in an amended form (staged reduction in exempt portion)

Key Financial Performance Indicators

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

Occupancy	<ul style="list-style-type: none"> • Number of occupied days divided by total number of available days
Care cost ratio	<ul style="list-style-type: none"> • Cost of care divided by care income/ ACFI income
ACFI	<ul style="list-style-type: none"> • Average ACFI per bed day • Care staff wages as % of ACFI income
EBT & EBITDA	<ul style="list-style-type: none"> • Earnings before tax • Earnings before interest, tax and depreciation

4. RESULTS ANALYSIS

Overview

The 2017 financial year has seen a general decline in the results of residential care services at all levels of the operation as shown in the following tables for the survey *Average* and *Top Quartile*.

Table 1: Summary of results for the 2017 survey Average (957 facilities in 2017)

	Metric	2017	2016		Difference
Care Result	Per bed day	\$9.42	\$10.78	↓	\$1.36
+					
Accommodation Result	Per bed day	\$(0.05)	\$0.97	↓	\$1.02
=					
Facility EBT (\$pbd)	Per bed day	\$9.37	\$11.75	↓	\$2.38
Facility EBT (\$pbpa)	Per bed per annum	\$3,236	\$4,082	↓	\$846
Facility EBITDA (\$pbpa)	Per bed per annum	\$8,397	\$8,941	↓	\$544

Table 2: Summary of results for the survey Top Quartile (239 facilities in 2017)

		2017	2016		Difference
Care Result	Per bed day	\$37.96	\$38.41	↓	\$0.45
+					
Accommodation Result	Per bed day	\$(0.72)	\$(0.40)	↓	\$0.32
=					
Facility EBT (\$pbd)	Per bed day	\$37.25	\$38.02	↓	\$0.77
Facility EBT (\$pbpa)	Per bed per annum	\$13,102	\$13,483	↓	\$381
Facility EBITDA (\$pbpa)	Per bed per annum	\$18,285	\$18,121	↑	\$164

Brief commentary

- ◆ The Care Result has decreased due to: -
 - increasing revenue gap between the costs of everyday living expenses and the basic daily fee (mandated at 85% of the single pension)
 - smaller increases in ACFI as the changes made to the ACFI scoring also appears to be adversely influencing profits
 - the increases in care costs are keeping rate with the increases in ACFI
- ◆ Accommodation Result has decreased with both the survey *Average* and *Top Quartile* now reporting net losses per bed day. This is due to accommodation income not keeping pace with depreciation and property and maintenance costs

Table 3: Headline KPI's for survey Average and Top Quartile

KPI	Survey Average				Survey Top Quartile			
	June 16	March 17	June 17		June 16	March 17	June 17	
EBITDA Per Resident Per Annum	\$8,941	\$8,616	\$8,397	↓	\$18,121	\$18,526	\$18,285	↓
Occupancy	94.9%	94.6%	94.6%	↓	96.9%	96.7%	96.4%	↓
Care Cost Ratio	58.6%	58.9%	59.0%	↑	49.2%	50.0%	50.0%	↑
Average ACFI per bed Day	\$165.42	\$170.86	\$171.85	↑	\$165.73	\$172.66	\$173.48	↑
Care staff wages as % of ACFI	72.3%	72.1%	72.3%	-	60.9%	60.0%	61.2%	↑

Whilst this report focuses on the *Average* and *Top Quartile*, there are alternate levels of benchmarking available as illustrated in the figure below. These alternate levels can assist with ongoing target setting and horizon planning with facility managers.

Figure 2: Different benchmarks available and potential uses



Brief commentary

Compared to the March 2017 ACFPS there has been:

- ◆ A 2% decline in the survey *Average* EBITDA per resident per annum with a 1% decline in the *Top Quartile* EBITDA due to:
 - An increase of \$1.89 per resident per day in nursing staff costs in the *Top Quartile* which is only partially offset with an increase in ACFI funding of \$0.83 per resident per day
 - The survey *Average* has increased catering costs of \$0.57 per resident per day which is not offset by any increase in the Basic Daily Fee
- ◆ Average ACFI per bed day has increased due to the annual COPE adjustment and increasing acuity of residents (2017 survey has a higher number of facilities in Band 1 and 2 compared to 2016 survey when the same ACFI banding is applied).

EBT and EBITDA

The sector primarily uses EBITDA¹ as a measure of financial performance. EBITDA is defined as earnings before interest, tax, depreciation and amortisation. However, this measure doesn't consider depreciation and as this is a significant expense for residential aged care facilities, it is recommended that EBT (earnings before tax) should also be given equal consideration when assessing financial performance.

Figure 3: Comparison of Facility EBITDA by Bands, June 2017 versus June 2016

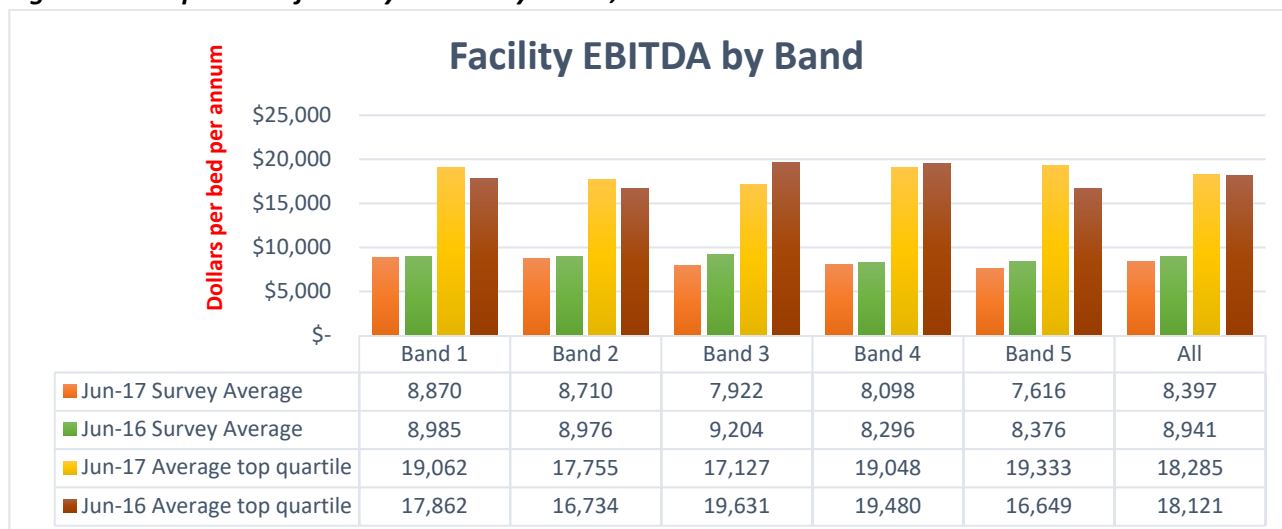
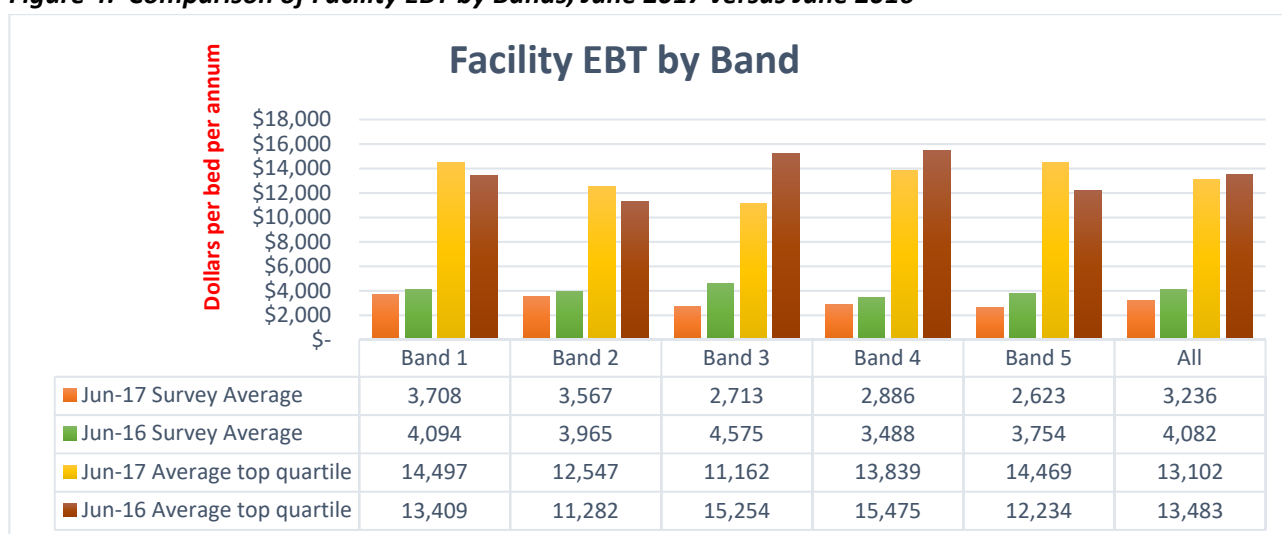


Figure 4: Comparison of Facility EBT by Bands, June 2017 versus June 2016



¹ Earnings before interest, tax, depreciation and amortisation (EBITDA) is a measure of an organisation's operating performance. Essentially, it's a way to evaluate an organisation's performance without having to factor in financing decisions, accounting decisions or tax environments.

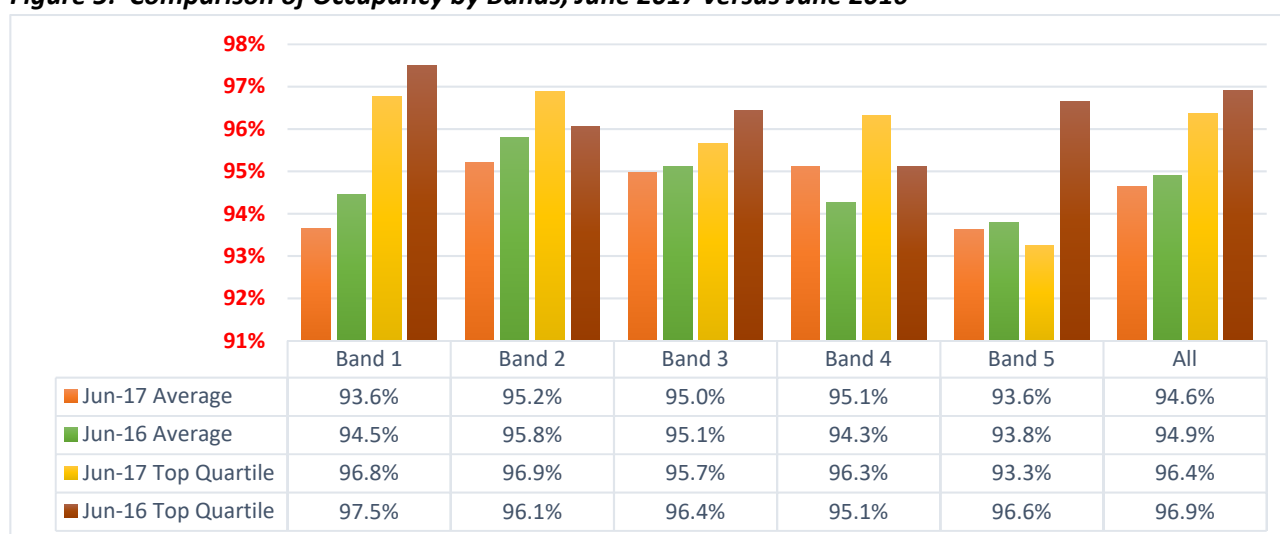
Brief commentary

- ◆ Average EBITDA across all bands has decreased compared to June 2016 results:
 - Whilst ACFI increases have covered the increase in direct care costs, there have been increases in hospitality, administration and property expenditure which are higher than the net result of ACFI. This increase in costs is by default being covered by the ACFI net surplus (ACFI subsidy less direct care costs) due to the shortfall in the Basic Daily Fee in meeting the actual costs of daily living expenses coupled. Similarly, accommodation revenue is not keeping up with the accommodation costs for residential facilities
- ◆ The *Top Quartiles* in Band 1, 2 and 5 have decreased compared to June 2016:
 - Like the *Average* cohort, ACFI increases are offset by an increase in hospitality and administration costs. The net result of this ACFI increase is higher than the impact of increased hospitality and administration costs
- ◆ Facility EBT is significantly lower than the Facility EBITDA due to depreciation expense which is a significant component of residential aged care facility operations

Occupancy

Financial performance is heavily influenced by a facility’s occupancy levels. Maintaining high occupancy levels enables the facility to spread its fixed costs across maximum funding levels.

Figure 5: Comparison of Occupancy by Bands, June 2017 versus June 2016



Brief commentary

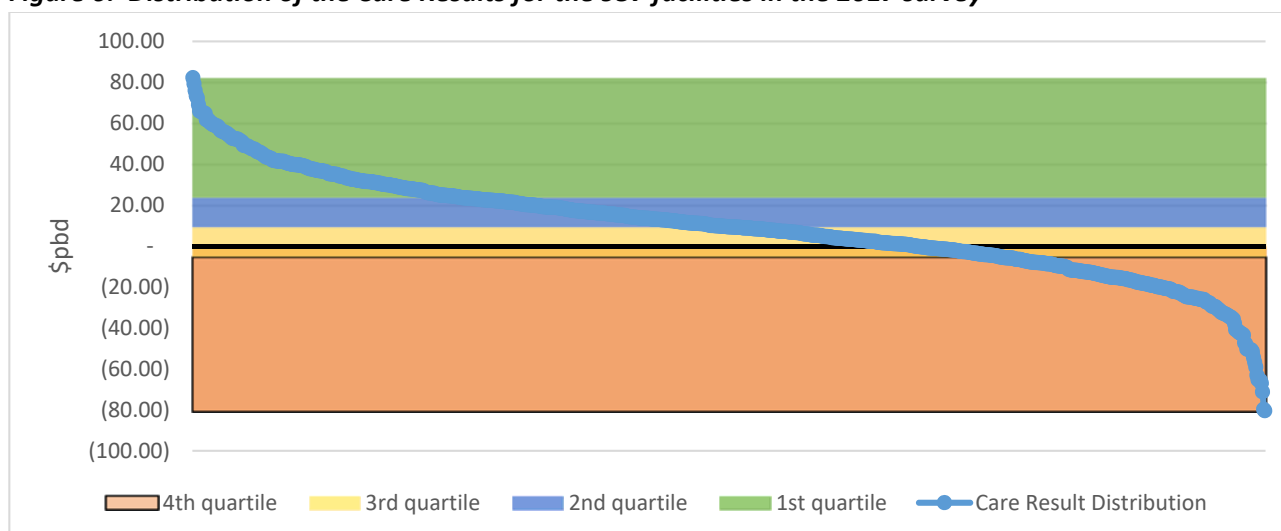
- ◆ Slight decrease in *Average* occupancy across most Bands with an overall reduction from 94.9% in June 2016 to 94.6% as at June 2017
- ◆ *Top Quartile* also shows slight decrease in occupancy overall
- ◆ The occupancy differences may be marginal in some cases, but there is a 5% difference between the first quartile and fourth quartile which is significant

Care Result

The Care Result is the net result of providing care to the residents including Direct Care Costs, Hotel Services, Utilities and Administration and Support Services costs.

Apart from corporate recharges that form part of the administration costs of some facilities, and to a lesser degree, utility costs, the costs associated with the care and daily living expenses of the residents could be considered as “controllable costs” for management at a facility level. The distribution of the Care Results for the 957 facilities in the survey is shown in the figure below. The Care Result appears to be normally distributed with the top facility reporting a Care Result of \$82.25 per bed day and the worst reported a Care Result of a loss of \$80.44 per bed day.

Figure 6: Distribution of the Care Results for the 957 facilities in the 2017 survey



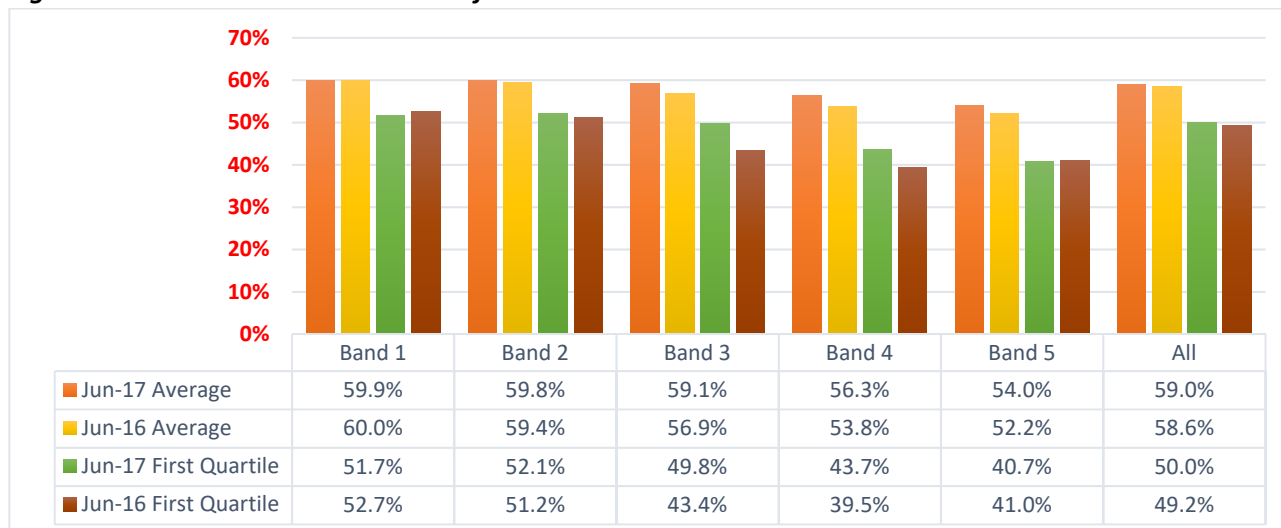
The Care Result appears to be normally distributed. The quartile range is set out below. Facilities with a Care Result of more than \$23.70 per bed day are included in the *Top Quartile*.

Quartile	Bottom Range \$ per bed day	Top Range \$ per bed day	Number of Facilities
1st	\$23.70	\$82.25	239
2nd	\$9.36	\$23.70	240
3rd	(\$4.93)	\$9.36	239
4th	(\$80.44)	(\$4.93)	239

Care Cost ratio

The care cost ratio as measured by the total costs of care delivery divided by the total care income and is a key driver of the Care Result. A high care cost ratio is likely to lead to a low Care Result and vice versa.

Figure 7: Care cost ratio across bands for June 2017 and June 2016



Brief commentary

- ◆ The care cost ratio has increased for both the survey *Average* and *Top Quartile* since 2016
- ◆ This indicates that the care income (ACFI plus supplements) has not increased at same rate of cost of care

Care Income - ACFI

ACFI and subsidies for the survey *Average* comprise 77.5% of total care income as at 30 June 2017. Thus, ACFI (the level of government funding received as determined by the funding instrument) is an important factor in the care cost ratio and an important financial KPI for facility managers. There are several different metrics used across the sector for measuring ACFI such as average ACFI per bed day and staff costs as a percentage of ACFI, amongst others.

Table 4: ACFI metrics for survey Average and Top Quartile

	Average Benchmark				Top Quartile Benchmark			
	June 16	March 17	June 17		June 16	March 17	June 17	
Average ACFI per bed Day	\$165.42	\$170.86	\$171.85	↑	\$165.73	\$172.66	\$173.48	↑
Care staff wages as % of ACFI	72.3%	72.1%	72.3%	-	60.9%	60.0%	61.2%	↑

When ACFI income is averaged across the sector there was an overall increase due to the increasing acuity of residents. However, when these offsets are removed, and comparison is made as a Band level, there is a real decrease in ACFI income. The analysis of the reductions in ACFI income for each Band had the COPE increase not been in place for 2017 is set out in the following table. This is likely to show the real impact at an individual facility level.

Table 5: Analysis of changes to average ACFI per bed day by Band after discounting for COPE increase

ACFI & supplements	June 2017	June 2016	Difference		Diff %
Survey Average					
Band 1	194.98	195.55	- 0.57	↓	-0.3%
Band 2	175.43	177.54	- 2.11	↓	-1.2%
Band 3	162.11	164.00	- 1.90	↓	-1.2%
Band 4	148.02	150.54	- 2.51	↓	-1.7%
Band 5	125.12	125.98	- 0.86	↓	-0.7%
Survey Top Quartile					
Band 1	195.91	197.31	- 1.40	↓	-0.7%
Band 2	176.48	177.68	- 1.20	↓	-0.7%
Band 3	163.04	165.46	- 2.42	↓	-1.5%
Band 4	147.61	148.68	- 1.07	↓	-0.7%
Band 5	128.91	129.16	- 0.25	↓	-0.2%

The possible effects on profitability of residential aged care services in FY18 year have been modelled using the results and data from the year to June 2017 as a base and applied the following steps:

- Adjusted ACFI income by the decrements from the assessment in the above table to reflect the fact that there will be no ACFI rate (COPE) increase
- Applied increases in the Basic Daily Fee based on CPI rises (mid-September 2017 and mid-March 2018)
- Adjusted wage costs by an index factor of 2.5%
- Increased utility costs by a factor of 15%
- Increased other expenditure by a CPI factor of 1.8%

The results of this modelling are set out in the following figures:

Figure 8: Projected Facility Results due to ACFI rate (COPE) freeze and rising costs - survey Average

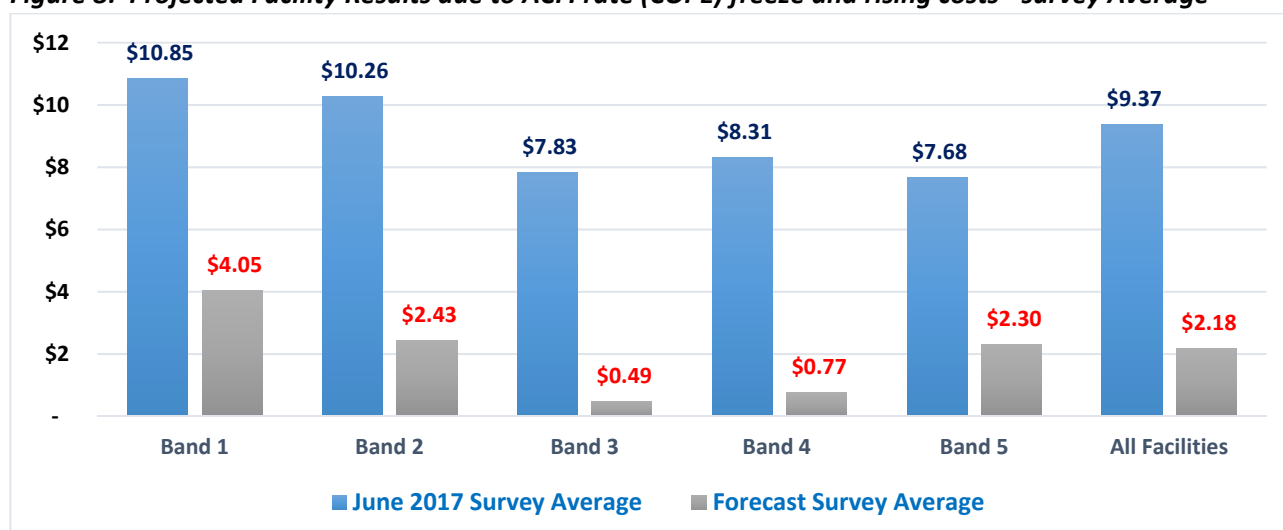
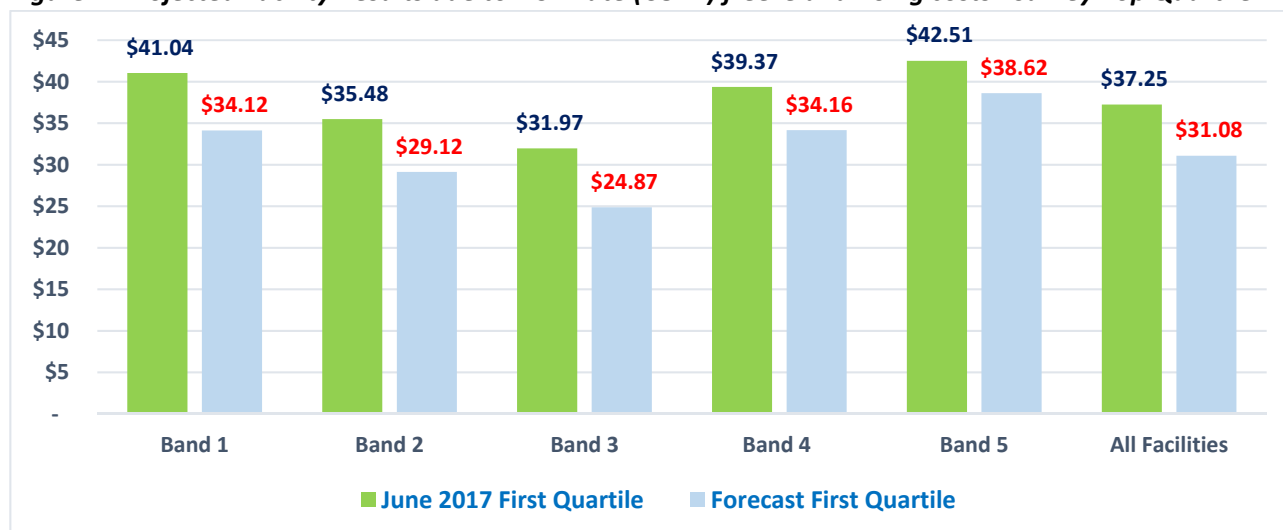


Figure 1: Projected Facility Results due to ACFI rate (COPE) freeze and rising costs - survey Top Quartile



Brief commentary

- ◆ The average for all facilities is a straight average of the results of the individual Bands and shows that for the survey *Average* a decrease of around \$7.19 per bed day in the Facility Result is forecast based on the assumptions
- ◆ The Facility Result for those facilities in the *Top Quartile* is forecast to decrease by around \$6.17 per bed day
- ◆ It is likely that the result across all facilities may not reach this level as this analysis excludes the impact on increasing acuity. There is likely to be further increases in acuity level of residents given that Band 1 is a high care facility with average ACFI of around \$195 dollars per bed per day and Band 5 has an average ACFI of \$125 per bed per day
- ◆ The precedent for a freeze in subsidy rates was in the 2013 financial year where the average Care Result declined by \$5.21 per bed day and by \$2.49 per bed day for the *Top Quartile*
- ◆ If these results do eventuate it will place considerable financial pressure on residential aged care facilities

Care Staffing metrics

Care staff costs comprise 58.5% of total care expenses as at 30 June 2017 for the survey *Average* and as a result are the most significant of all care expenses. This is an area where the *Top Quartile* does significantly better than the rest. The ability to efficiently and appropriately align staffing levels to funding and facility design while meeting the care needs of the residents leads to improvements in the facility’s financial performance.

Care staffing metrics include care staff costs and care staff hours.

Table 6: Care staffing metrics for survey Average & Top Quartile

	Average			Top Quartile		
	<i>June 16</i>	<i>June 17</i>		<i>June 16</i>	<i>June 17</i>	
Care staff costs as % of total care expenses	58.70%	58.51%	↓	57.15%	57.26%	↑
Costs by type - \$ pbd						
Care management	6.29	7.46	↑	5.91	7.08	↑
Registered nurses	18.84	20.52	↑	14.35	16.34	↑
Enrolled & certified nurses	11.36	12.60	↑	6.73	9.42	↑
Other care staff	74.08	74.54	↑	66.38	65.99	↓
Allied health	5.63	5.95	↑	5.41	5.45	↑
Agency staff	3.42	3.16	↓	2.10	1.84	↓
<i>Total labour costs</i>	119.62	124.22	↑	100.89	106.12	↑
Hours by type - hours worked per resident per day						
Care management	0.10	0.12	↑	0.10	0.11	↑
Registered nurses	0.36	0.37	↑	0.28	0.29	↑
Enrolled & certified nurses	0.32	0.26	↓	0.19	0.19	-
Other care staff	2.02	2.05	↑	1.92	1.84	↓
Therapy	0.11	0.12	↑	0.12	0.11	↓
<i>Total Care Hours</i>	2.90	2.91	↑	2.60	2.53	↓

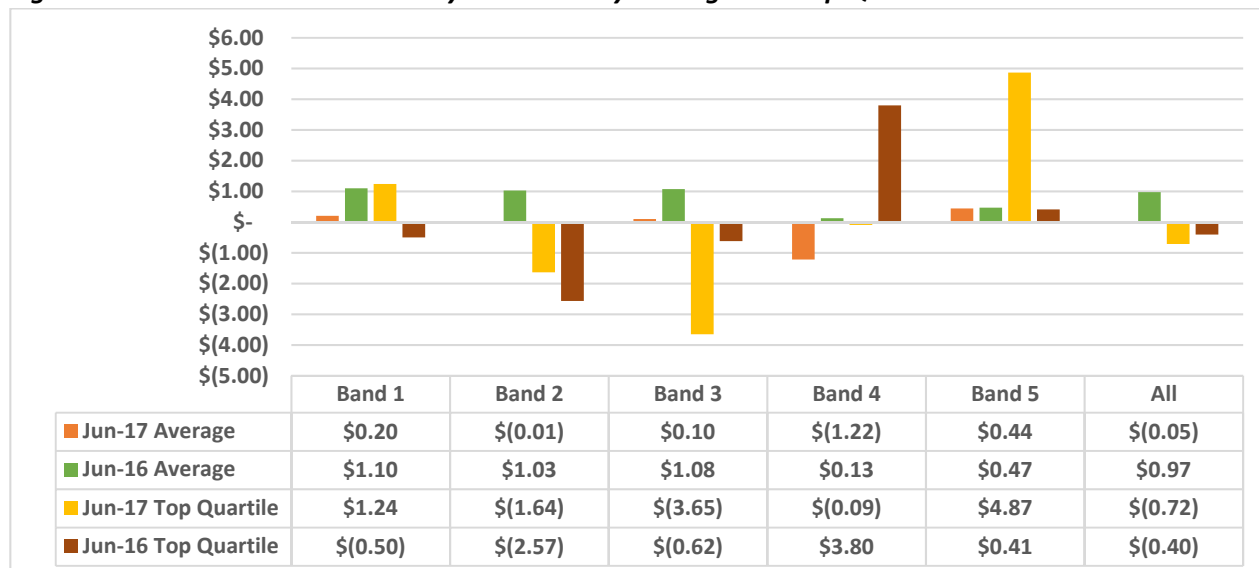
Brief commentary

- ◆ *Top Quartile* has lower care staff costs and slightly lower care staff hours compared to the survey *Average*
- ◆ Total labour costs have increased for both the survey *Average* and *Top Quartile* since June 2016
- ◆ Total care hours have remained stable for the survey *Average* at 2.91 hours worked per resident per day and have decreased slightly for the *Top Quartile* to 2.53 hours worked per resident per day

Accommodation Result

Accommodation Result is the net result of accommodation revenue (DAPs/DACs/Accommodation supplements) and expenses such as refurbishment, maintenance and depreciation. The Accommodation Results for the survey *Average* and *Top Quartile* as at June 2017 has decreased from the 2016 results.

Figure 10: Accommodation Result by bands survey Average and Top Quartile

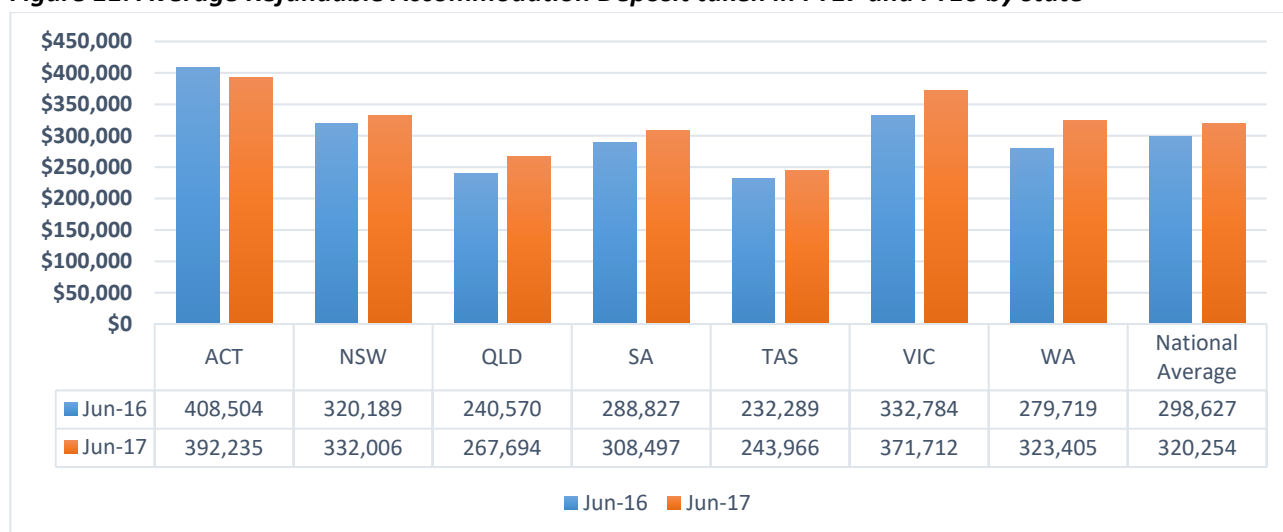


There are many factors that can influence the Accommodation Result:

- The prices being set for accommodation
- The methods residents are choosing to pay for their accommodation
- The amount of actual RAD being received compared to the published accommodation price
- Level of occupancy being maintained
- Regularity of refurbishment
- Depreciation policies
- Significant Refurbishment

Accommodation Pricing

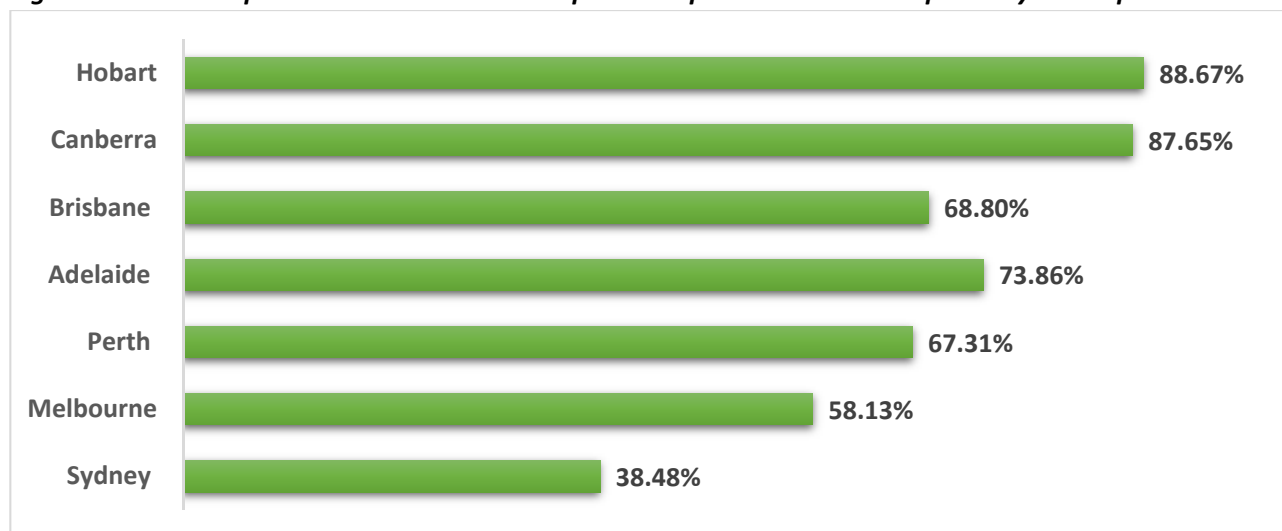
Figure 11: Average Refundable Accommodation Deposit taken in FY17 and FY16 by state



Brief commentary

- ◆ The average RAD taken does differ by state and often reflects the demographics of the local area of the facilities
- ◆ Although the average RAD taken increased from \$298,627 in FY16 to \$320,254 in FY17, this is still well below the average national median house price of around \$550,000
- ◆ One of the recommendations in the Tune review is to increase the RAD maximum threshold to \$750,000 before requiring approval from the Pricing Commissioner

Figure 12: Median published accommodation price compared to median capital city house price

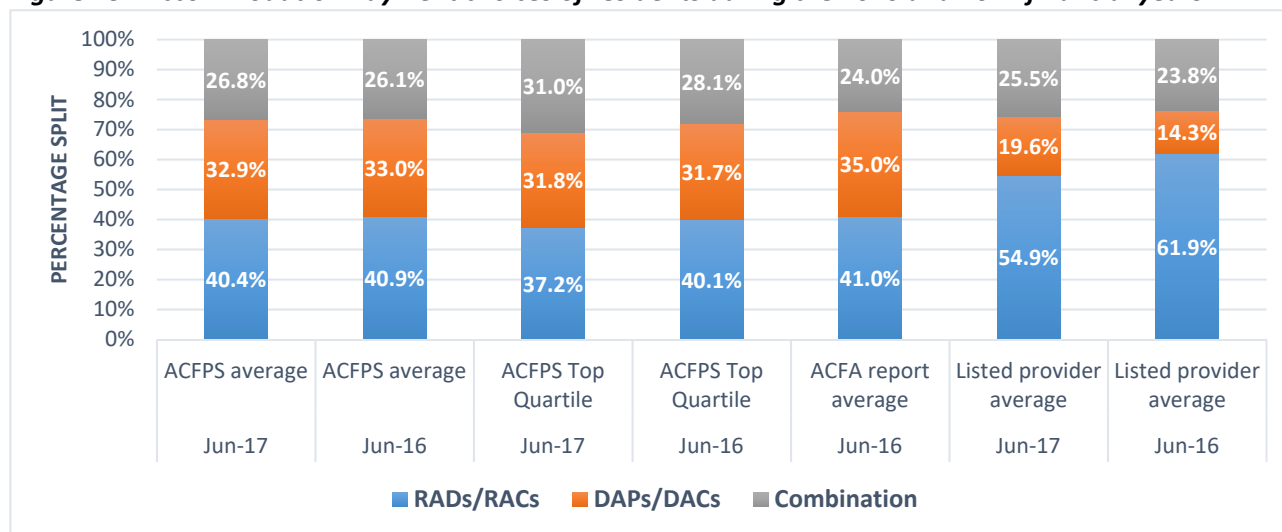


Brief commentary

- ◆ This type of analysis can vary significantly across areas within a city, or even within a suburb depending on market conditions and demographics, but the graph above is a good indication on how accommodation prices compare to the residential housing market
- ◆ In many markets, particularly in the major cities, and specifically in the Sydney market, there is a significant disconnect between residential property prices and the accommodation prices being published by providers

Resident Payment Choices

Figure 23: Accommodation Payment choices of residents during the 2016 and 2017 financial years

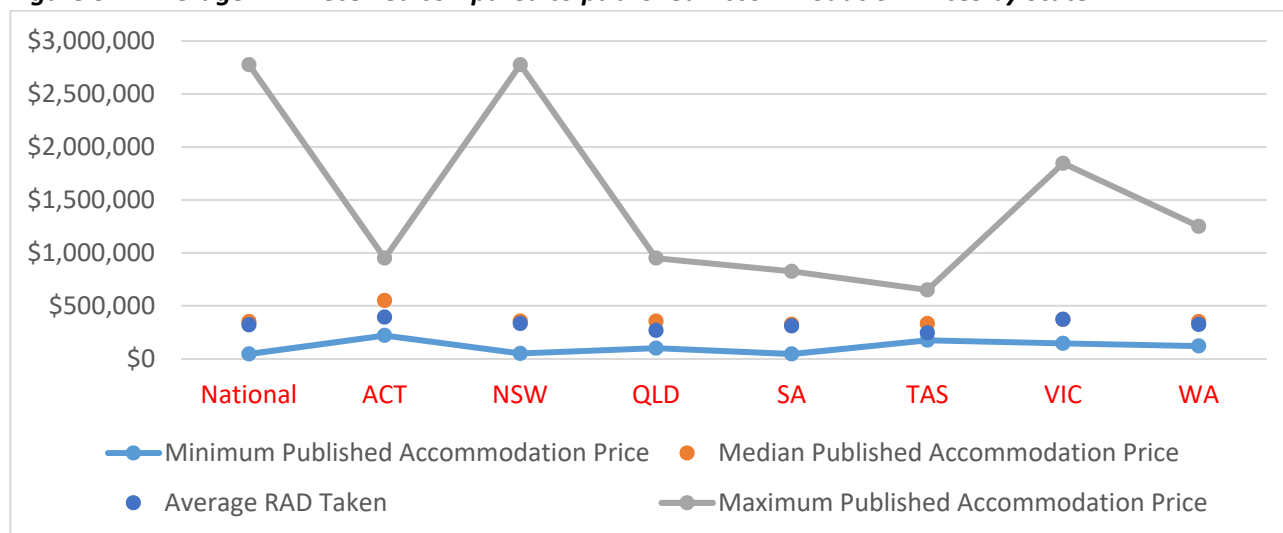


Brief commentary

- ◆ The proportion of *Combination* payments (part RAD, part DAP) has remained steady at around 26% for facilities in the survey. This is fairly similar to the ACFA reported data of 24%
- ◆ The *Top Quartile* has a slightly higher proportion of Combination payments at 31% for June 2017.
- ◆ Should providers look at increasing their accommodation prices, this should lead to increases in the number of Combination payments

Amount of RADs Received

Figure 34: Average RAD received compared to published Accommodation Prices by State



Brief commentary

- ◆ The average RAD taken (\$320,254) is close to median accommodation published price (\$350,000) nationally as well as for most states and territories
- ◆ This implies that the use of discounting RADS is minimal and raises the question as to whether Accommodation Pricing (RADs) are high enough especially in metropolitan areas

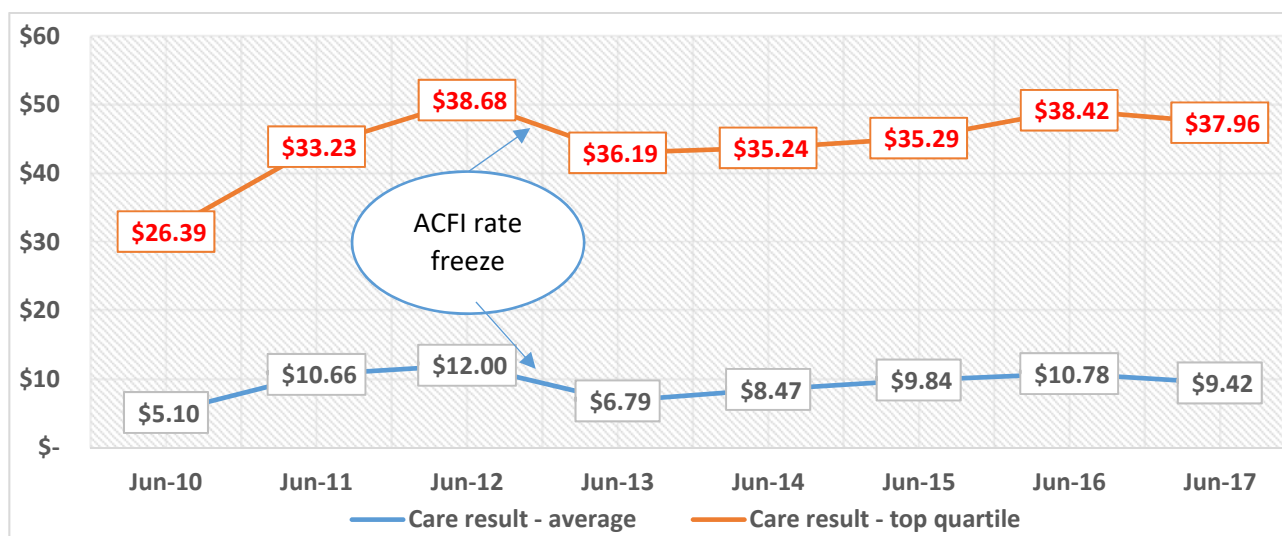
5. TREND ANALYSIS

In addition to comparative year on year analysis, it is also useful to look at trends overtime. This section of the report outlines some of the main trends being experienced by the residential aged care sector.

Care Result

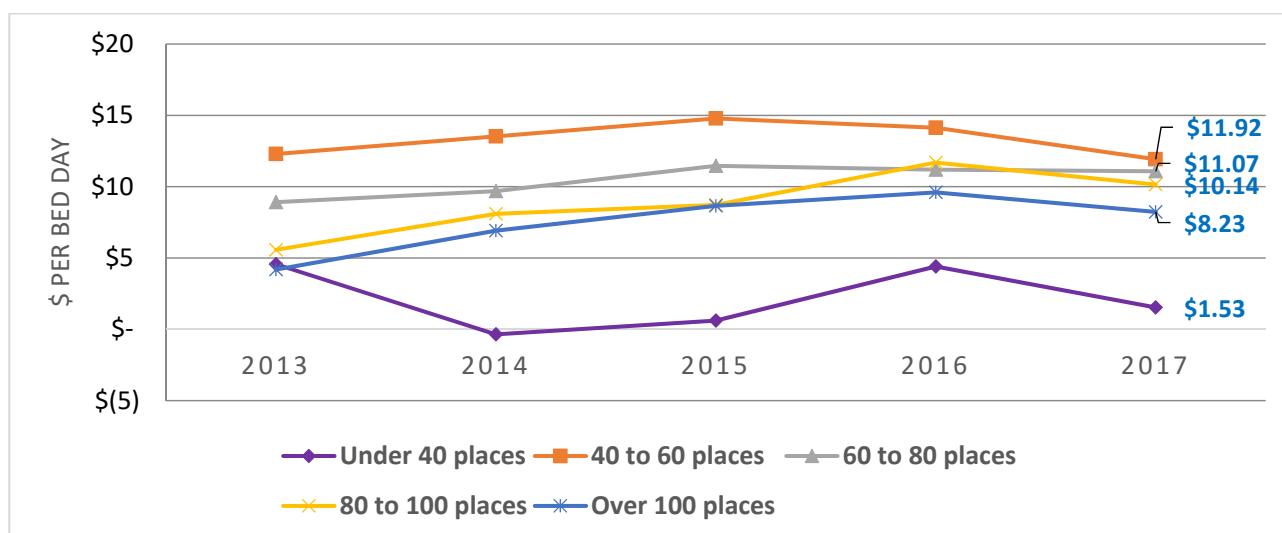
There was a significant decrease in the Care Result in June 2013 for both the *Average* and *Top Quartile* due to the ACFI rate (COPE) freeze. It is likely that a similar effect will be experienced in FY18.

Figure 15: Trends in Care Result from 2010 to 2017



Average Care Result by size

Figure 16: Average Care Result by size

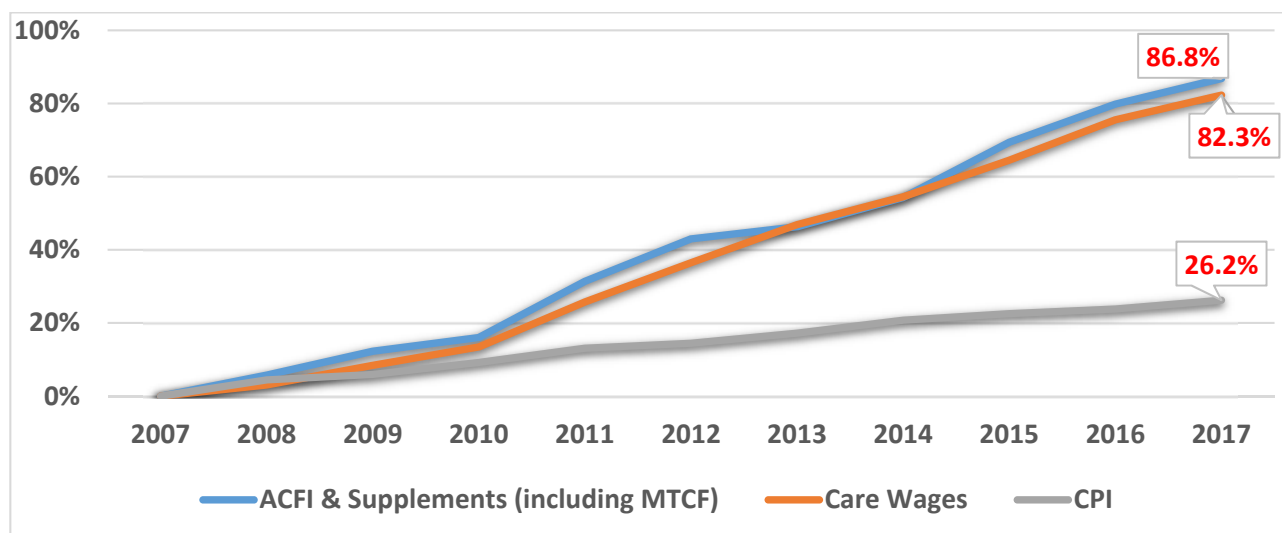


Brief commentary

- ◆ All size groups experienced a decrease in the Care Result
- ◆ Facilities with 40 to 60 places continue to have the highest Care Result at \$11.92 pbd although those with 60 to 80 places are not far behind with an average Care Result of 11.07 pbd

ACFI and Supplements

Figure 17: Cumulative growth in ACFI and supplements (including MTCF) compared to growth in direct care wages and CPI using 2007 as the base year



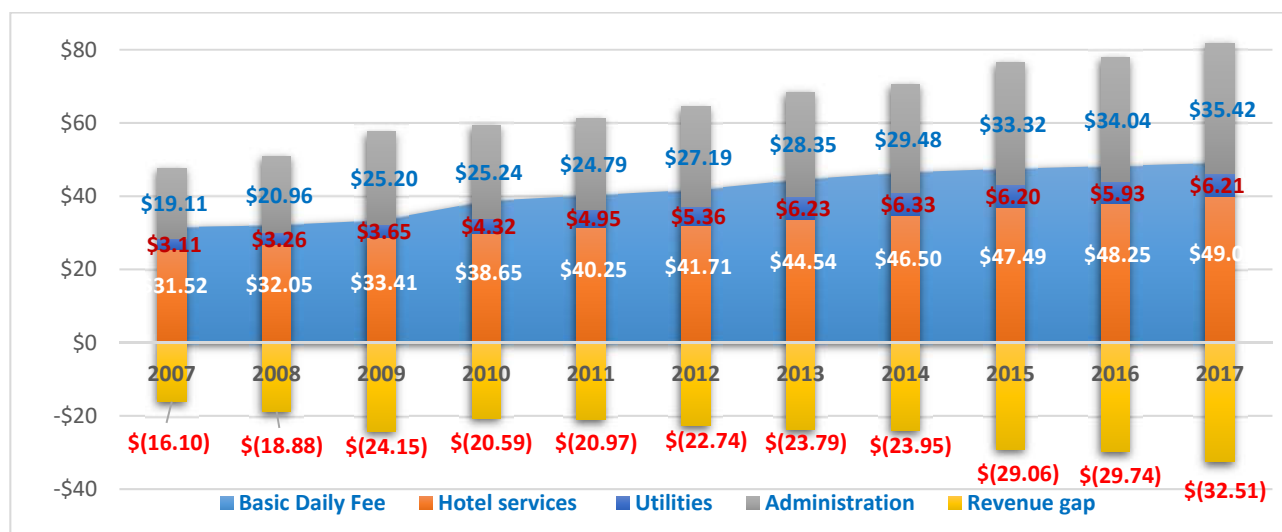
Brief commentary

- ◆ ACFI and supplements (including the means-tested care fee) income has increased at a very similar rate to direct care wages resulting in little to no increase in ACFI margin (surplus)
- ◆ Direct care costs as a percentage of ACFI and supplements for the survey *Average* is 76.1% as at June 2017, for average of the *Top Quartile* is 64.4%.

Basic Daily Fee and Every-Day-Living Expenses

In the period 2007 to 2017, the Basic Daily Fee (85% of the single pension) has risen by a cumulative 54.5% while everyday living expenses representing hotel services (catering, cleaning and laundry), utilities and administration expenses have risen by a cumulative 71.3%. This funding gap in the everyday living expenses is illustrated below.

Figure 18: Funding gap between the Basic Daily Fee and Every-day-living Expenses comprising hotel services, utilities and administration costs



Brief commentary

- ◆ The every-day-living funding gap as at June 2017 is \$32.51 pbd. Currently this is being subsidised by the ACFI margin. However, the ACFI margin is reducing and, accordingly, continued increases in the funding gap is not sustainable
- ◆ Deregulation of the Basic Daily Fee and/or implementation of additional (optional) services will be required for providers to maintain viability

Additional Services

One way that approved providers could improve profitability is to start offering additional (optional) services to residents and charge an additional fee. This creates a further revenue stream to compensate for the rising costs and tightening of government funding. There is also likely to be a number of services that many providers are currently providing that for which they are not charging an additional fee but could do so.

The proportion of facilities that were charging for additional services in FY17 was 28.8% This is up from 24.5% in FY16. The number of residents paying for additional services ranges from nil (facilities are only starting to implement additional services) to all residents within the facility.

In discussions with clients there have been many lessons learned and issues encountered when implementing additional service charges including:

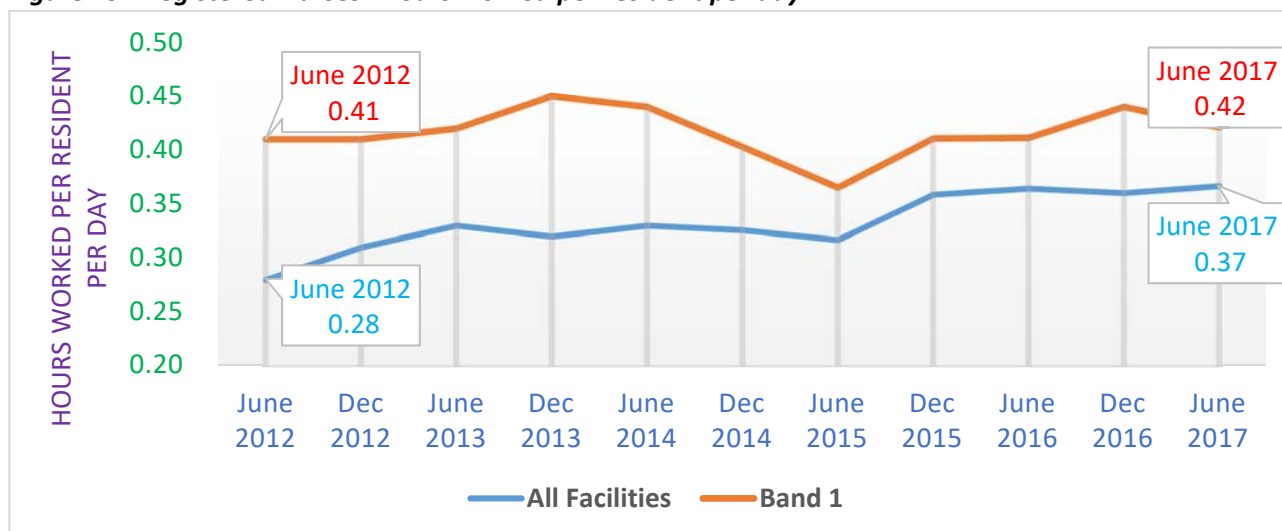
- Significant change management required for both consumers and staff
- It is far easier to implement in a newly constructed facility than an existing facility
- Being able to transition service value as the client transitions in their needs and acuity levels can be challenging
- Developing a retail culture can be challenging for staff
- Whether to differentiate those that pay an additional fee and those that don't regarding the services provided (implications for concessional and non-concessional)
- Getting the pricing right and understanding the costs of providing the service
- Understanding who will pay for the service - resident or family?

Floating the Basic Daily Fee, as recommended in the Tune Review, is likely to make this process somewhat easier as the services are likely to be built into the Basic Daily Fee rather than be separate itemised fees.

Care Staff Hours

There has been much discussion lately around staffing of residential aged care facilities and workforce issues generally. A lot of the discussion revolves around staff to resident ratios and the perception that there are insufficient or decreasing levels of nursing hours employed by nursing homes. The following figure examines the average hours worked per resident per day for registered nurses in an aged care facility from June 2012 to June 2017.

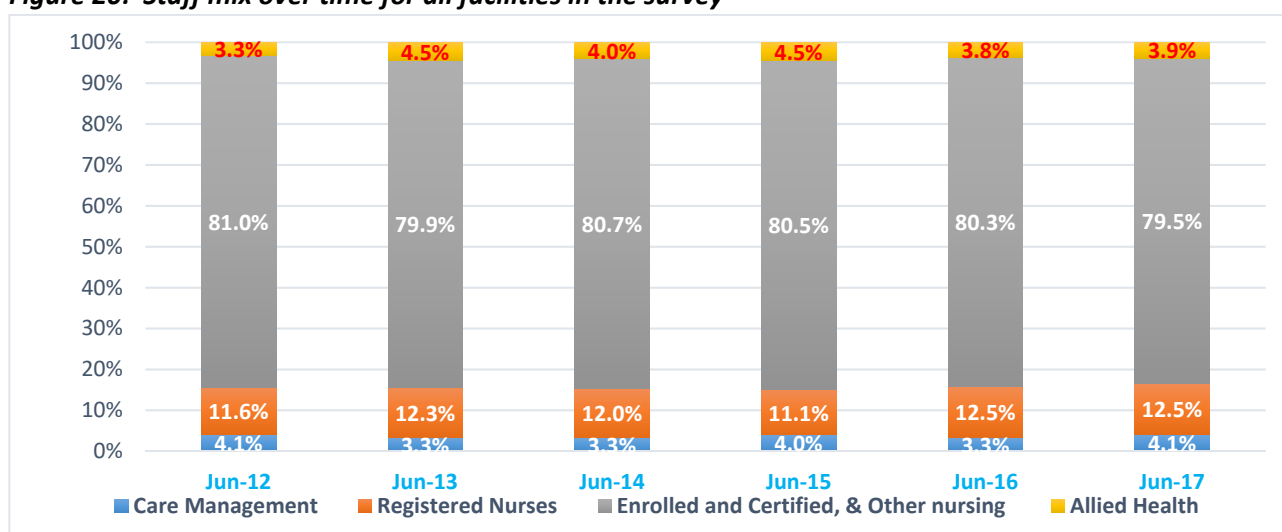
Figure 19: Registered Nurses - hours worked per resident per day



Brief commentary

- ◆ The average for all facilities has seen an increase in the average hours worked per resident per day by Registered Nurses reflecting increasing acuity
- ◆ Band 1 (which has a consistent mix of high care needs residents) shows that, while there have been some minor fluctuations in the data, there has been no real decrease in registered nursing hours in this group.

Figure 20: Staff mix over time for all facilities in the survey



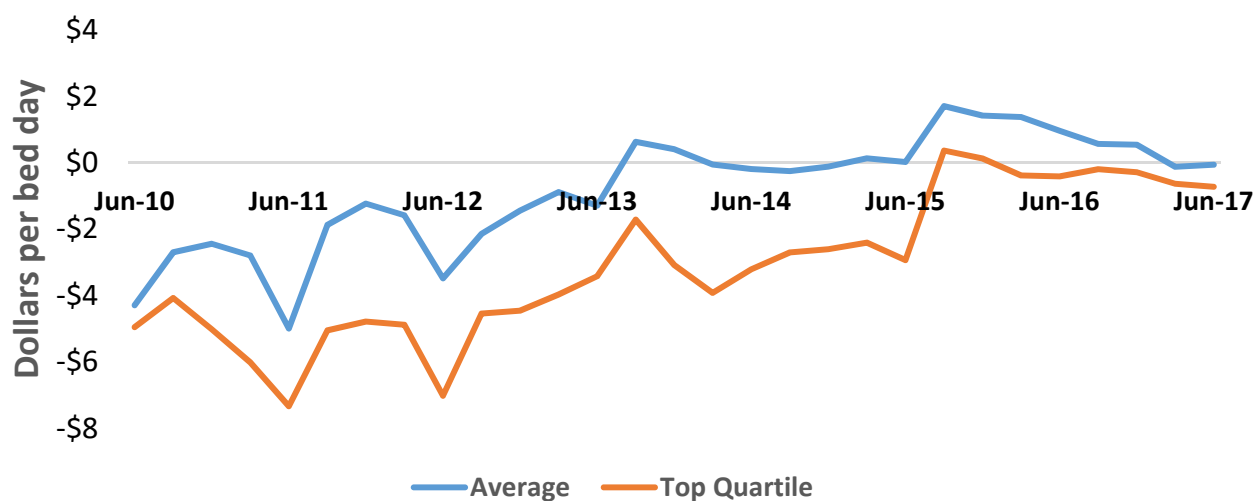
Brief commentary

- ◆ Staffing mix has remained relatively stable in relation to increasing acuity
- ◆ The mix of staff has also seen an increased in the proportion of total hours being assigned to Registered nurses.

Accommodation Result

The accommodation result for the *Average* and *Top Quartile* from June 2010 to June 2017 is shown in the following figure.

Figure 21: Accommodation Result from June 2010 to June 2017



Brief commentary

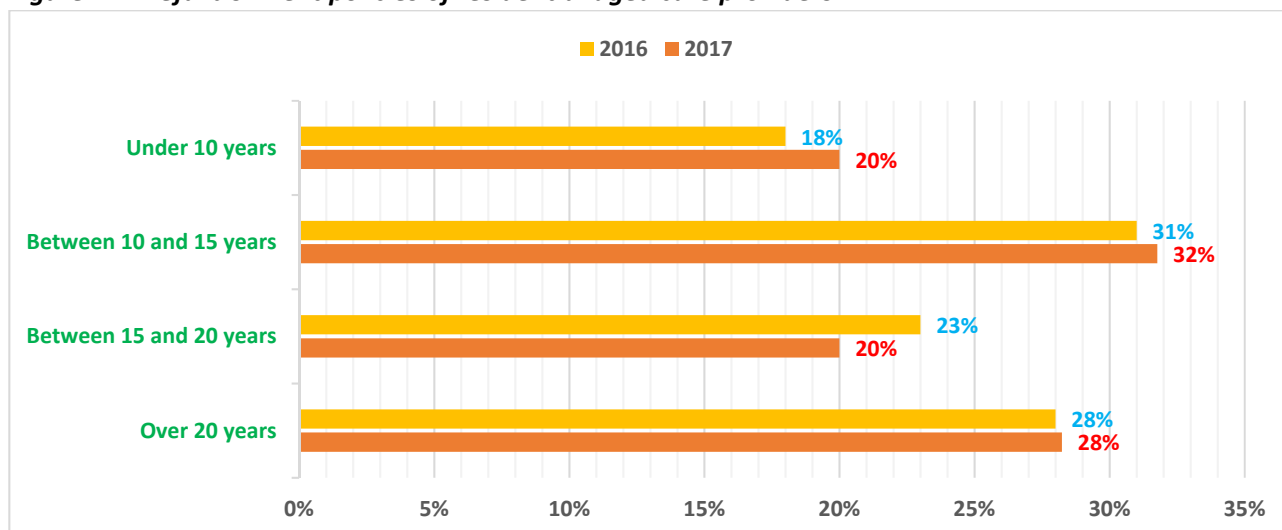
- ◆ The Accommodation Result has been steadily decreasing since September 2015.
- ◆ The *Top Quartile* has a lower Accommodation Result compared to the survey *Average*. This is predominantly due to having more recent refurbishments or rebuilds resulting in a higher depreciation charge.

6. ADDITIONAL ANALYSIS

Refurbishments and Depreciation

Increasingly providers are refurbishing their facilities in a much shorter timeframe than in the past - the most common timeline being a major upgrade of the facility every 10 to 15 years. This is driven by the increasingly retail nature of residential aged care as far as new residents (generally the immediate family) assessing a facility.

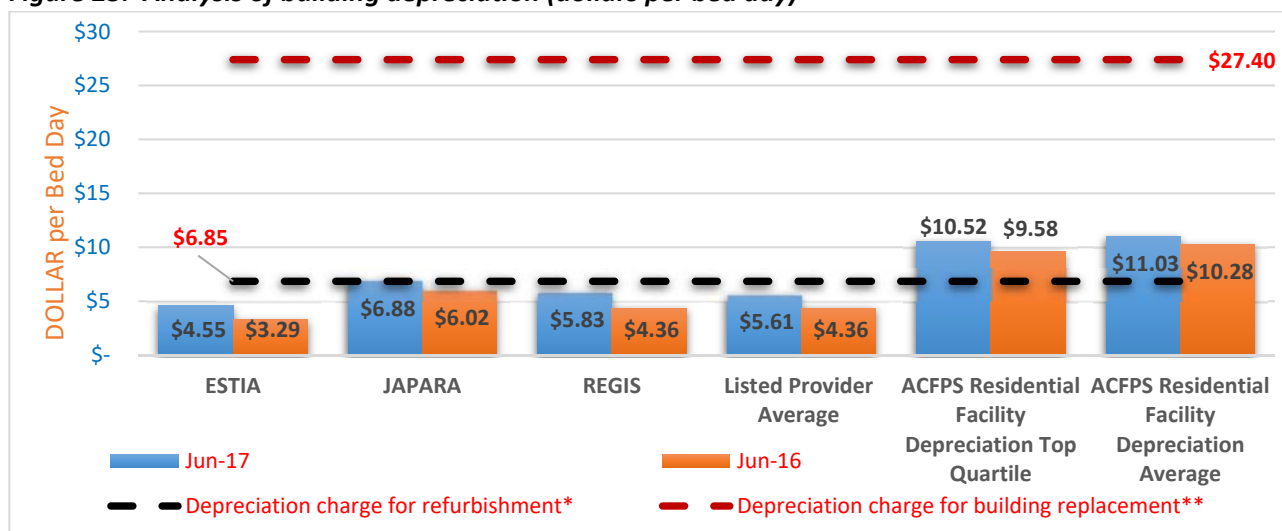
Figure 22: Refurbishment policies of residential aged care providers



Providers need to allow for the provision of sufficient depreciation to ensure that profits and cash flows are enough to fund the refurbishment and capital replacement required over the lifetime of an aged care facility. The following figure shows that based on:-

- A refurbishment cost of \$25,000 per room depreciated over 10 years
- A full build cost of a room equivalent to \$250,000 and with a useful life of 25 years
- Currently providers are not providing sufficiently for this purpose

Figure 23: Analysis of building depreciation (dollars per bed day)



* Depreciation of \$6.85 per bed day required based on a refurbishment cost of \$25,000 per room depreciated over 10 years

** Depreciation of \$27.40 per bed day based on depreciation of the full build cost of a room equivalent to \$250,000 and with a useful life of 25 years

Significant Refurbishment

In 2012 the Government started paying a higher maximum accommodation supplement for new and significantly refurbished facilities. Depending on the proportion of supported residents in a facility, this additional supplement can provide a significant additional revenue stream for the provider.

Table 7: Analysis of results for new and significantly refurbished facilities

	2016			2017		
	Significant refurb	No significant refurb	Variance	Significant refurb	No significant refurb	Variance
CARE RESULT	\$21.59	\$13.09	\$8.50	\$20.98	\$12.98	\$8.00
<i>Accommodation Income</i>	\$33.46	\$26.02	\$7.44	\$33.81	\$25.41	\$8.40
Labour costs - maintenance	\$2.22	\$2.50	\$0.28	\$2.64	\$2.49	\$0.15
Repairs & maintenance	\$7.09	\$7.13	\$0.04	\$7.32	\$7.14	\$0.18
Depreciation - non building	\$10.77	\$9.19	\$1.58	\$11.76	\$9.60	\$2.16
Depreciation - building	\$4.77	\$4.51	\$0.26	\$5.56	\$4.58	\$0.99
Refurbishment	\$0.42	\$0.50	\$0.08	\$0.42	\$0.39	\$0.03
Other	\$2.95	\$2.00	\$0.95	\$2.64	\$2.39	\$0.25
<i>Accommodation Expenditure</i>	<i>\$28.21</i>	<i>\$25.84</i>	<i>\$2.37</i>	<i>\$30.35</i>	<i>\$26.59</i>	<i>\$3.76</i>
ACCOMMODATION RESULT	\$5.25	\$0.18	\$5.06	\$3.47	-\$1.18	\$4.64
Statistics	Significant refurb	No significant refurb	Total	Significant refurb	No significant refurb	Total
No. Facilities	114	703	817	208	749	957
Number of facilities with significant refurbishment %	14%	86%	100%	22%	78%	

Brief commentary

- ◆ Facilities that qualify for the higher accommodation supplement have higher Care Results than those with no significant refurbishment; this is partially explained by facilities taking the opportunity to improve efficiencies as part of the significant refurbishment
- ◆ Despite slightly higher depreciation costs, facilities that qualify for the higher accommodation supplement have higher Accommodation Results than those with no significant refurbishment
- ◆ There has been a significant increase in the number of facilities that have qualified over the 2017 financial year from 14% of the survey to 22% of the survey
- ◆ The number of facilities with significant refurbishments is likely to continue as providers look to source additional revenue streams; improve the quality and standard of accommodation being offered; and modify building design to improve operational efficiencies and better meet the needs of the residents

7. DATA TABLES

Table 8: Detailed results for survey Average compared to Top Quartile - 2017 compared to 2016

	Survey Average	Survey Average	Top Quartile	Top Quartile
	June 2017	June 2016	Average	Average
	(957 facilities)	(817 facilities)	June 2017	June 2016
			(239 facilities)	(204 facilities)
Care Revenue	221.73	214.55	223.30	214.95
Expenditure				
Direct care costs	130.71	125.78	111.70	105.83
Catering	28.40	27.02	27.02	25.85
Cleaning	7.73	7.24	6.76	6.37
Laundry	3.84	3.75	3.32	3.27
Utilities	6.21	5.93	5.91	5.76
Administration & support	35.42	34.04	30.64	29.45
Total expenditure	212.31	203.77	185.34	176.53
Care Result for the year	\$9.42	\$10.78	\$37.96	\$38.42
Accommodation revenue	27.45	27.18	25.47	24.05
Accommodation expenses	27.50	26.21	26.18	24.46
Accommodation Result	(0.05)	\$0.97	(0.72)	(0.40)
Facility Result	\$9.37	\$11.75	\$37.25	\$38.02
Facility EBITDA per bed per annum	\$8,397	\$8,941	\$18,285	\$18,121
Provider revenue	3.93	4.27	2.50	2.61
Provider expenses	1.17	1.19	1.16	0.55
Provider Result	\$2.76	\$3.08	\$1.34	\$2.06
Total Result for the year	\$12.13	\$14.83	\$38.58	\$40.07
KPIs				
Occupancy	94.64%	94.90%	96.37%	96.90%
Care costs as % of care revenue	58.95%	58.60%	50.02%	49.20%
Care Result - return on care revenue	4.25%	5.00%	17.00%	17.90%
Supported ratio	45.35%	46.00%	43.05%	43.50%
Average bond/RAD held	\$279,513	\$252,319	\$291,179	\$259,177
Average RAD taken during year	\$320,254	\$298,627	\$352,619	\$311,888

Table 9: Detailed 2017 results for Top Quartile compared to other survey groups

	1st Quartile Average June 2017 (239 facilities)	2nd, 3rd & 4th Quartiles Average June 2017 (718 facilities)	3rd & 4th Quartiles Average June 2017 (478 facilities)	4th Quartile Average June 2017 (239 facilities)
Care Revenue	223.30	221.25	220.43	218.36
Expenditure				
Direct care costs	111.70	136.43	141.67	147.52
Hotel services	37.10	40.83	41.58	43.10
Utilities	5.91	6.31	6.50	6.71
Administration & support	30.64	36.86	38.39	40.04
Total expenditure	185.34	220.41	228.14	237.37
Care Result for the year	37.96	0.84	(7.71)	(19.01)
Accommodation revenue	25.47	28.04	28.86	28.82
Accommodation expenses	26.18	27.89	28.37	28.13
Accommodation Result	(0.72)	0.15	0.49	0.69
Facility Result	37.25	0.99	(7.22)	(18.32)
Facility EBITDA per bed per annum	18,285	5,495	2,749	(1,029)
Provider revenue	2.50	4.36	4.47	5.47
Provider expenses	1.16	1.17	1.27	1.30
Provider Result	1.34	3.19	3.20	4.17
Total Result for the year	38.58	4.18	(4.02)	(14.15)
EBITDA per bed per annum	18,285	5,495	2,749	(1,029)
KPIs				
Occupancy	96.37%	94.13%	93.51%	91.95%
Care costs as % of care revenue	50.02%	61.66%	64.27%	67.56%
Care Result - return on care revenue	17.00%	0.38%	-3.50%	-8.71%
Supported ratio	43.05%	46.12%	46.76%	47.20%
Average bond/RAD held	\$291,179	\$203,351	\$158,096	\$267,187
Average RAD taken during year	\$352,619	\$219,256	\$166,646	\$308,266

8. BENCHMARK BANDS

For the purpose of benchmarking facilities against each other we sort facilities into “benchmark groups” based on the levels of **care subsidies + resident basic daily fees_+ extra service fees** received. These revenue types should then group facilities based on their “care” revenue streams and as such they should have comparable cost profiles as well. We reassess the parameters of these bands each year to allow for increases in subsidy and fee rates as well as the creep in revenue due to the practice of ageing in place. The bands used for the current and past financial years are shown in **Table 10** (below).

In 2017 we have reassessed band parameters to consider the increase in subsidy rates, and the change in overall Care Revenue of many of the facilities in the survey.

As a result, we looked at a number of alternatives including both increasing and reducing the number of bands. The reason that we looked at reducing the number of bands was due to a number of participating facilities that move backwards and forwards between Bands as a result of shifting revenue.

However, even if we were to reduce the number of bands there will still be facilities that that sit on the threshold between Bands and will move backwards and forwards. Unfortunately, this cannot be totally avoided.

Ultimately, and after some experimentation, we decided on increasing threshold of each of the bands by \$15. This has evened the distribution of facilities across the bands somewhat as well as providing a greater focus on those facilities with higher Care Revenue. Band 1 had become the largest band and that has now been redistributed somewhat so that Band 1 now truly represents the traditionally labelled ‘high care facilities’ again.

Table 10: ACFPS Bands 2012 until today

	2017 Surveys	2016 Surveys	2015 Surveys	2014 Surveys	2012 & 2013 Surveys
Band 1	Over \$235	Over \$220	Over \$210	Over \$210	Over \$195
Band 2	\$220 to \$235	\$205 to \$220	\$190 to \$210	\$190 to \$210	\$175 to \$195
Band 3	\$205 to \$220	\$190 to \$205	\$170 to \$190	\$170 to \$190	\$155 to \$175
Band 4	\$190 to \$205	\$175 to \$190	\$150 to \$170	\$150 to \$170	\$135 to \$155
Band 5	Under \$190	Under \$175	Under \$150	Under \$150	Under \$135

9. GLOSSARY

Averages

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 facilities in the group. For example, the *average* for contract catering across all facilities would be the total amount submitted for that line item divided by the total occupied bed days for all facilities in the survey.

Average by line item

This measure is *averaged* across only those facilities that provide data for that line item. All other measures are *averaged* across all the facilities 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

Benchmark

We consider the benchmark to be the *average* of the *Top Quartile* in the group of facilities being examined. For example, if we are examining the results for facilities in Band 1, then the benchmark would be the *average* of the *Top Quartile* of the facilities in Band 1.

Care Result

This is the element of the facility result that includes the direct care expenses and everyday living costs as shown in the diagram below.

Care Result = Care Revenue - Care Expenses



Care Revenue

Revenue of residential aged care operations



Daily care fees



Means tested fee



Extra service fees



Optional service fees



ACFI subsidies



Respite subsidies



Care Expenses

Expenses of residential aged care operations



Direct care costs



Catering



Cleaning



Laundry



Utilities



Administrative & support services

Dollars per bed day

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

EBITDA

This measure represents earnings before interest (including investment income), taxation, depreciation and amortisation. The calculation excludes interest (and investment) revenue as well as interest expense on borrowings.

The main reason for this is to achieve some consistency in the calculation. Different organisations allocate interest and investment income differently at the “facility level”. To ensure that the measure is consistent across all organisations we exclude this revenue stream.

EBIT

Earnings before interest (including investment income) and taxation. This is a measure that excludes those variables relating to the tax status and financial position of an entity but recognises the consumption of capital in the form of depreciation and amortisation.

EBT

Earnings before tax. This may also be referred to as the Facility Result.

Facility EBITDA

The starting point for this calculation is the Facility Result which is a combination of the Care and Accommodation results. It excludes all “provider revenue and expenditure” including fundraising revenue, investment revenue from other than interest, capital grants and sundry revenue. It also excludes those items excluded from the EBITDA calculation above. This measure is more consistent across the facilities because it excludes all those items which are generally allocated at the facility level on an inconsistent and arbitrary basis depending on the policies of the individual provider.

*** The previous metric of Provider EBITDA is no longer included in the reporting as it is not considered to be a key indicator of facility performance.*

Facility Result

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

Location - City

Facilities 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

Facilities 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.

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 expanded 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 | Benchmarking & Business Analysis

Tracy is a Chartered Accountant with over six years post qualification experience. Since joining StewartBrown in April 2016, she has been 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

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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