



Aged Care Financial Performance Survey

Aged Care Sector Report



The StewartBrown September 2020 *Aged Care Financial Performance Survey* incorporates detailed financial and supporting data from 1,140 aged care homes and 52,534 home care packages across Australia. The Survey, which is performed quarterly, 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.

Three months ended 30 September 2020

CONTENTS

1.	HIGHLIGHTS FROM SEPTEMBER 2020 SURVEY	1
	StewartBrown Survey	2
	Survey Analytics.....	4
	StewartBrown Aged Care Reports.....	5
2.	EXECUTIVE SUMMARY.....	6
	Abstract	6
	COVID-19 Funding: Financial Effect.....	6
	Sep-20 Survey Results Summary	10
	Commentary.....	10
3.	RESIDENTIAL CARE ANALYSIS	13
	Operating Result.....	13
	EBITDAR Result.....	17
	Results by Geographic Location	18
	Snapshot: Sep-20 (3 months) Results By ABS Region	19
	Analysis of Results by Size of Aged Care Home.....	20
	Significant Financial Viability Concern - <i>Bottom 75%</i>	20
	ACFI (Direct Care) Result	21
	Direct Care Staffing Hours	23
	Accommodation Result	28
	Accommodation Pricing	29
	Administration Costs	31
	Operating Result After Administration Cost Allocation	32
	Occupancy	33
4.	HOME CARE ANALYSIS.....	34
	Overview	34
	Financial Performance Measures	35
	NPBT for Survey <i>First 25%</i>	36
	Revenue Utilisation	37
	Unspent Funds.....	38
	Staff Hours Worked per Care Recipient	40
5.	GLOSSARY	41
6.	CONTACT DETAILS	45

1. HIGHLIGHTS FROM SEPTEMBER 2020 SURVEY

Residential Aged Care

Excluding COVID-19 net funding



\$5.06 deficit

Operating Result
per bed day for Survey Average
(Sep-19: \$1.69 deficit)



\$26.14

Operating Result per bed day
for First 25%
(Sep-19: \$33.41)



\$5,025

Operating EBITDAR per bed per
annum for Survey Average
(Sep-19: 5,829)



\$15,911

Operating EBITDAR per bed per
annum for First 25%
(Sep-19: \$17,816)



28%

Proportion of Homes with
operating EBITDAR loss
(Sep-19: 27%)



52%

Proportion of Homes with
operating loss
(Sep-19: 51%)

Including COVID-19 net funding



\$2.60

Operating Result
per bed day for Survey Average
(Sep-19: \$1.69 deficit)



\$31.07

Operating Result per bed day
for First 25%
(Sep-19: \$33.41)



\$7,620

Operating EBITDAR per bed per
annum for Survey Average
(Sep-19: 5,829)



\$17,618

Operating EBITDAR per bed per
annum for First 25%
(Sep-19: \$17,816)



23%

Proportion of Homes with
operating EBITDAR loss
(Sep-19: 27%)

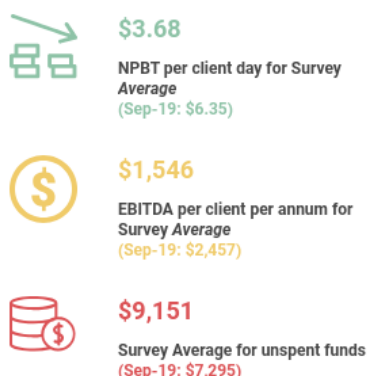


44%

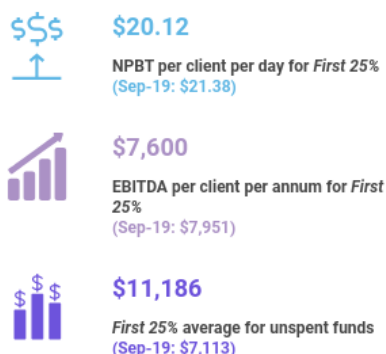
Proportion of Homes with
operating loss
(Sep-19: 51%)

Home Care Packages (HCP)

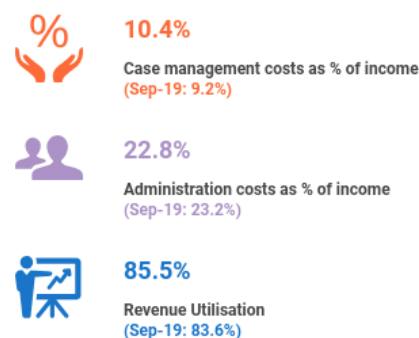
Survey Average



First 25%



Key KPIs



StewartBrown Survey

Background

The Survey, which commenced in 1995, is a subscription based quarterly data collection and analysis survey.

In addition to this report, every participant in the Survey also receives supplementary reports on their respective Residential Aged Care Homes and Home Care Program results - these contain finer granularity of analysis from a benchmarking viewpoint. With respect to residential aged care homes, individual participant organisations also receive specific comparative data relevant each home based on its location, size and other defining factors that can be filtered by the participant through their access to StewartBrown's interactive analysis website. Similar reporting is also available in relation to home care packages.

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

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

An important point to note, is that the Survey is not the same as an ABS Survey or Morgan Research Survey where respondents can potentially submit answers in a random manner, the participants of the StewartBrown Survey use the granular results as an important part of their internal financial KPI's, assessment of performance and forecasting at an individual residential aged care home and home care package level. The published Aged Care Sector Report is a subset of the detailed and extensive data obtained (quarterly) to provide a series of overall analyses.

Data Collection

Participant organisations are required to complete a detailed Data Collection Workbook which includes the following input worksheets:-

- Demographic data (client age profile; length of stay; average age of entry)
- Organisation Profile data (operational data; summary management accounts; financial policies)
- Residential data for each facility (operating revenue by category; operating expenses by category; non-recurrent revenue and expenses; accommodation payment details; staff hours by category; additional data - additional services, detailed catering costs, utilities costs, capital replacement policy)
- Residential bed days (accumulated) for each facility (number of days occupied; number of beds/places available to be occupied)
- Home Care data by program (operating revenue by category; operating expenses by category; non-recurrent revenue and expenses; package levels; unspent funds, revenue utilisation, client exit statistics; staff hours by category)
- Data definitions (detailed definitions and guidelines)

With respect to the Data Input sheets:-

- Each tab (spreadsheet) requires an extensive level of input (the “Residential Data” tab as an example which runs to 317 rows)
- Each row must be completed (if left blank it is referred back to the participant to complete). The only tabs not completed are where it is not applicable (ie a residential provider who does not provide HCP services)
- 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 which are lodged with ASIC or ACNC for the June year-end Survey
- The Data Definitions are critically important - these must be strictly adhered to as it ensures accurate comparability. Many software providers now use a Chart of Accounts that aligns itself with the benchmark input sheets as their default to allow ease of submitting that data

Data Cleansing

Upon receipt of the Data Input Sheets, in summary, the following process occurs using our team of analysts and the sophisticated proprietary software we have developed and enhanced over the years:-

- All data fields are entered into a temporary data collection table
- Missing data is requested from the participants (usually the analysts assist in obtaining this data)
- The \$ dollar data fields are converted in \$ per bed day (residential) and \$ per client day (HCP) to allow comparison
- The results (by individual residential home) and by individual HCP program are compared to the previous 4 quarters for those home/programs and to comparison data for similar sized, ACFI, demographic homes and HCP programs
- All outliers are then referred back to the providers for responses/reasons. As a guide, an average of around 60% of completed input requires some form of clarification/response/amendments as part of this process each quarter (not always the same providers)
- The data tables are then uploaded to the software
- The software program then performs a further cleansing process using the same range of checking and comparisons as performed by the analysts
- Any further outliers (normally around 2-3% of data) from this process are referred back to the participant(s) for clarification/amendments

- All results outside the range that have abnormal results (homes under sanction; undergoing refurbishment; Covid-19 affected) are excluded (these totalled 77 homes in the June 2020 Survey from 1,267 homes where detailed data was collected)
- Each participant then receives their individual detailed reports (residential and HCP) and access to the Survey website to provide substantial comparison, trend analysis, and “stop light” reports
- A further period of one (1) week allows any participant to advise of any potential omission or amendment to the input data they previously provided. Once approved, the data base is amended to reflect this (this occurs in less than 1% of all data) but is a final cleansing process
- The Sector and Participants reports are then prepared which include the overall macro analyses

Survey Analytics

Respondents to the *Aged Care Financial Performance Survey* (Survey) include some of the largest providers nationally, independent stand-alone providers, faith-based and community providers, and culturally specific providers. In addition, subscribers to the survey reports include government bodies including the Department of Health (DOH) and Aged Care Financing Authority (ACFA), aged services sector peak bodies and other service providers to the sector.

The Survey takes in residential care and home care packages. This Sector Report includes StewartBrown’s analysis of the operating income and expenses of participants. The Survey included the detailed responses of:-

- ◆ 211 approved provider organisations
- ◆ 1,140 residential aged care homes (*70 homes were excluded due to their operational circumstances*)
- ◆ 52,534 home care packages (*473 programs of which 105 were excluded*)

In respect of residential care, participants to the Survey represent approximately 45% of aged care homes within Australia. The profile of the residential care participants, based on the geographical spread, is:-

Table 1: Residential Care Survey Metrics

Number of aged care homes/ABS Remoteness	Major City	Inner Regional	Rural & Remote	Total
<i>StewartBrown Residential Care Survey</i>				
Total Survey aged care homes	725	287	128	1,140
Aged care homes included	691	272	105	1,068
Aged care homes excluded	34	6	8	48
State/local government	0	9	15	24
Survey less state/local government (A)	725	278	113	1,116
<i>GEN aged care Data Service Listing (30 June 2020)</i>				
Total	1,709	652	361	2,722
State/local government	33	113	89	235
Service Listing less state/local government (B)	1,676	539	272	2,487
Coverage % = (A)/(B)	43.3%	51.6%	41.5%	44.9%

Please note - to be consistent with the Department of Health’s preferred terminology, the terms “residential facilities” and “residential aged care homes” are used as appropriate and they can be considered to be interchangeable.

StewartBrown Aged Care Reports

StewartBrown issues various detailed financial reports and analysis involving the aged care sector, including the following:-

- Residential and Home Care Sector Participants Reports (quarterly)
- Aged Care Sector Report (quarterly)
- Provider Organisation Report (bi-annual)
- Listed Provider Analysis Report (bi-annual)
- Corporate Administration Report (annual)
- Managing Prudential Risk in Residential Aged Care (submission to DOH)

For copies of these reports, please go to <http://www.stewartbrown.com.au/>

2. EXECUTIVE SUMMARY

Abstract

StewartBrown acknowledges the tragic impact of the COVID-19 virus pandemic that health, personal and financial hardship which is affecting all levels of our society, and particularly the many vulnerable persons.

The COVID-19 pandemic followed shortly after the devastating bush fire period and together these events have stretched the capacity of aged care providers to an extent never before experienced.

While the significant outbreaks in aged care homes were mainly restricted to those homes in Victoria during this survey period, other jurisdictions continued to have restrictions imposed on their homes from time to time as outbreaks in the community continued to occur.

The aged care sector has continued to show outstanding compassion, expertise, resilience and professionalism at all levels in responding to, and maintaining the care for all elderly and ensuring their wellbeing. When we witness what is occurring elsewhere in the world, Australian aged care providers have performed very well in limiting the number of outbreaks within their homes.

As one of the sectors that does care for vulnerable members of our society it has been under additional scrutiny during this period as well as under additional financial strain, particularly in Victoria.

This 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 Aged Care Financial Performance Survey (Survey) for the three months ended 30 September 2020 (Quarter 1 FY21).

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.

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.

COVID-19 Funding: Financial Effect

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

For the purpose of this report, we have undertaken our analysis on the basis of removing the effects of the revenue measures as well as any additional costs relating to the pandemic. The rationale for this is to ensure comparability of results and trends across periods and examine the underlying financial returns for aged care providers - to compare “apples to apples” as far as practicable.

The other issue in relation to COVID support measures is the variance in funding across different sections of the aged care sector as well as the timing differences between the revenues being received and the expenses being incurred.

To illustrate, many homes received the workforce retention bonus close to the end of the financial year (late June) but will have remitted (paid) the bonus to employees early in July (next financial period). For others, expenditure will occur over a period of time on PPE and additional staff both before and after the receipt of the one-off targeted payments to homes.

Similarly, homes that have had outbreaks have incurred significant additional expenditure but are now making claims and most will not have received the grant funds in relation to those claims until well after the expense was incurred.

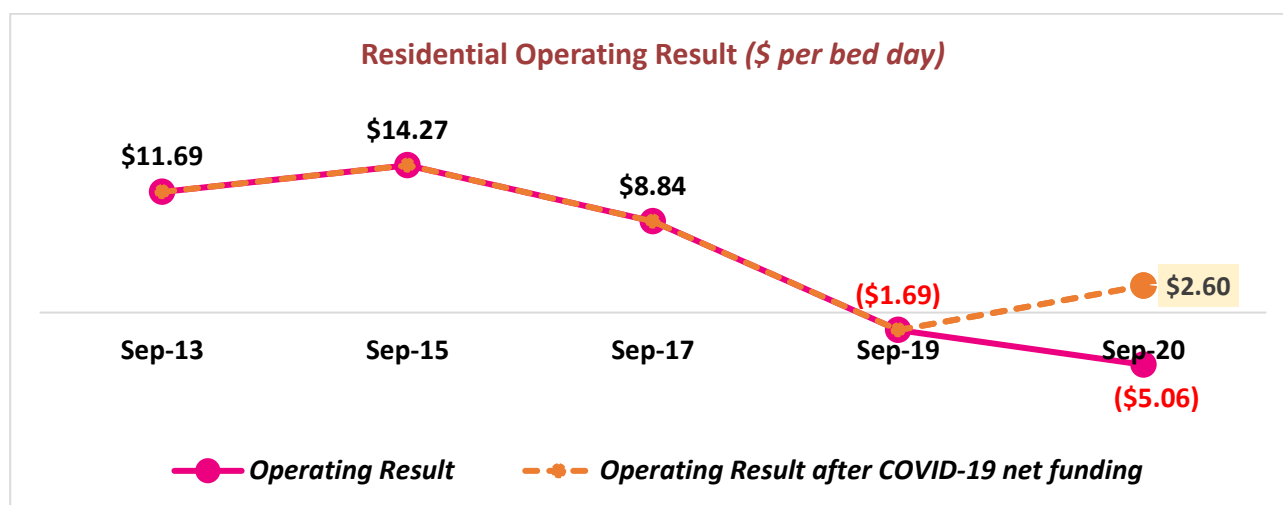
Through our data cleansing process, we are confident of the extraction of the COVID revenue data, however, for providers it has been more difficult to identify all the additional costs associated with the pandemic. Much of the additional staffing costs relate to overtime rather than additional staff (unless there was an outbreak) so this information is much more difficult to extract.

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

In relation to home care providers, the additional subsidy provided did not significantly benefit home care providers because the revenue they are able to report is based on services provided to clients - not receipts from funding sources. We are aware of some providers that received the JobKeeper payments but this was generally a result of reductions in revenues in other parts of their business.

Based on the data that was available, the COVID revenue exceeded the COVID expenditure by an average of \$7.66 per bed day at the aged care home level in the September quarter. For FY20, revenue exceeded expenditure by an average of \$2.62 per bed day. This means that for the September 2020 quarter, the average operating result after COVID revenue and expenditure was a surplus of \$2.60 per bed day compared to a deficit of \$1.69 per bed day for the same period in 2019.

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



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

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

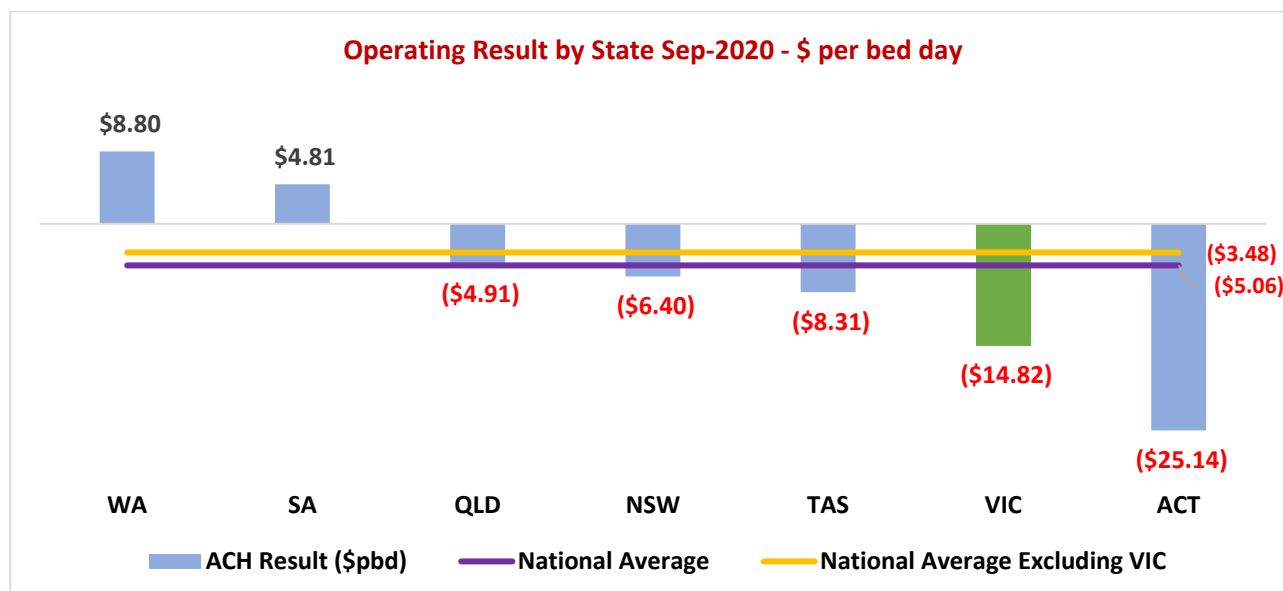
Victoria

The major centres of Victoria were locked down for the whole of the September quarter with some earlier easing of restrictions in regional centres. The September Quarter also saw outbreaks in NSW, albeit not as dramatic as the second wave in Victoria. During these lockdowns, aged care homes were under strict rules regarding visitation. In NSW, the two major outbreaks in aged care homes came in the first wave and this mainly affected two aged care homes. In Victoria, the majority of outbreaks came during the second wave affecting 115 homes that had staff, residents or both contracting COVID up until the end of September 2020 resulting in 639 deaths at that point.

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

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

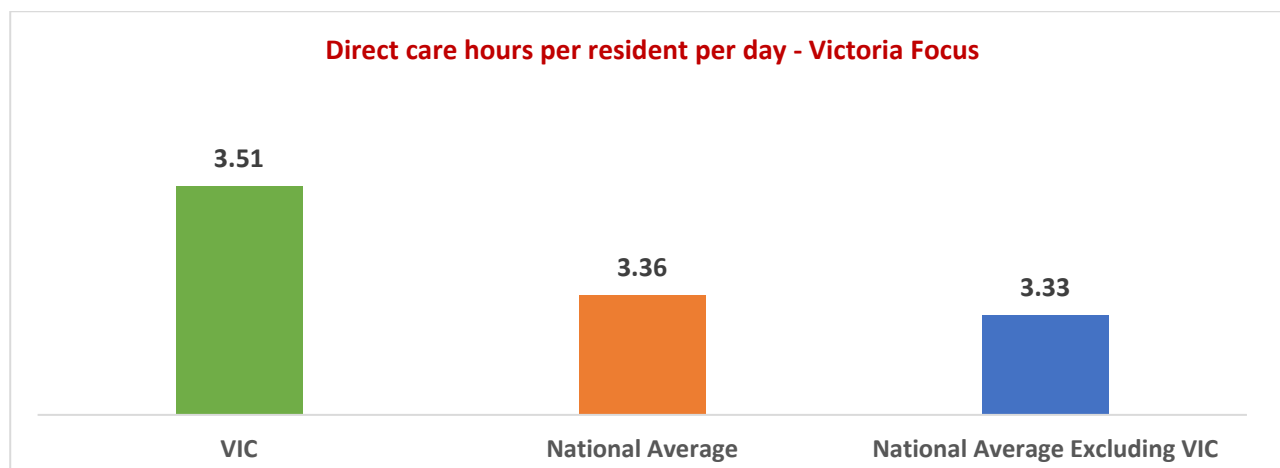
Figure 2: Operating result by State for the September 2020 quarter expressed in dollars per bed day



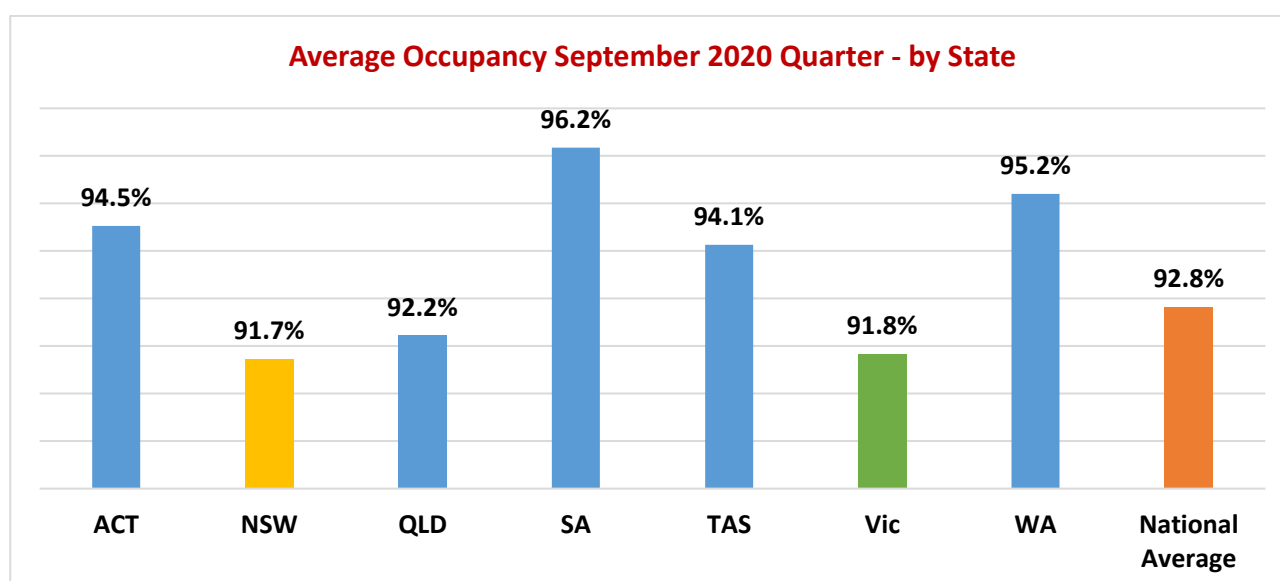
In fact, the average operating result nationally was a **deficit of \$5.06 per bed day**, however if the Victorian facilities were removed from the analysis, the results would have been improved to a **deficit of \$3.48 per bed day**.

The other key metrics that were reflective of what was happening in Victoria during the September quarter is the additional staff hours worked as shown in the graph below:

Figure 3: Comparison of direct care hours worked per resident per day in the September 2020 quarter with a focus on Victoria



The other factor that reflects where there was a series of outbreaks and lockdowns in residential aged care is the occupancy rates.



The states of Victoria and NSW show much lower occupancy rates than the other states as these jurisdictions were more severely hit by the virus either through lockdowns, limitations on visits to residential aged care, resident deaths and a general downturn in confidence in the sector. Other jurisdictions such as WA, Tasmania and SA have achieved much higher levels of occupancy during the quarter as there was little, if any community transmission during that period and as such there were fewer impacts on the aged care homes.

For the remainder of this report, all data and analysis will be reported without this COVID effect. These measures are not recurrent, and it is important to measure the underlying results of aged care homes and home care programs on a trend basis, including to ascertain the likely results once these measures are removed, as some already have been.

Sep-20 Survey Results Summary

Following is a summary of the key financial performance results from the Sep-20 *Aged Care Financial Performance Survey*. Comparisons are generally year-on-year (from Sep-19) with some analysis against the FY20 results. **Sep-20 Operating Results exclude COVID-19 subsidies and expenses.**

Residential Care

- 52% of aged care homes recorded an operating loss for the three months to Sep-20
- 28% of aged care homes recorded an EBITDAR loss (operating cash loss) for the three months to Sep-20
- Average ACFI per bed day (pbd) for Survey participants increased by \$4.95 pbd to \$185.94 pbd (2.73% pa)
- ACFI direct care services costs increased to \$157.01 pbd (year-on-year) (3.2% pa)
- Occupancy levels for all survey participants decreased to 91.5% average occupancy (92.3% Sep-19)
- Total care hours per resident per day increased by 0.10 hours to 3.36 hours (Sep-19: 3.26 hours)
- Costs for providing everyday living services exceeded revenue by \$9.19 pbd (*excluding administration*)
- Average Operating Result for aged care homes reduced by \$1,132 per bed per annum (pbpa) to a loss of \$1,714 pbpa (year-on-year)
- Average EBITDAR for aged care homes reduced by \$804 pbpa to \$5,025 pbpa
- Supported ratio was a slight reduction of 0.2% to 47.0%
- Average full RADs taken in the September 2020 quarter increased to \$423,925 (nationally) an increase of \$17,162 in the year from Sep-19 but down from \$433,252 for FY20

Home Care Packages

Survey Average (all) (Year-on-Year)

- Revenue per client per day (pcpd) average for Survey participants decreased by 4.5% (being \$3.28 pcpd)
- Average operating profit per client day decreased by \$2.67 pcpd to \$3.68 pcpd (\$6.35 Sep-19; \$3.59 FY20)
- Direct service costs decreased by \$0.36 pcpd (60.6% of total revenue compared to 58.4% at Sep-19)
- Revenue utilisation has increased by 2.0% to 85.5% (Sep-19: 83.6%; FY20: 84.8%)
- The average unspent funds per client has increased by \$1,856 per client (to average \$9,151 per client)
- Staff hours per client per week reduced by 0.37 hours (average 5.39 hours per week)

Survey First 25% (Year-on-Year)

- Revenue per client per day (pcpd) average for Survey participants decreased by 6.9% (being \$6.41 pcpd)
- The average operating profit per client day decreased by \$1.25 pcpd to \$20.12 pcpd (\$21.38 Sep-19; \$14.30 FY20)
- Direct service costs decreased by \$2.18 pcpd (52.2% of total revenue)
- Revenue utilisation has increased by 3.4% to 89.1%
- The average unspent funds per client has increased by \$4,073 per client (to average \$11,186 per client)
- Staff hours per client per week reduced by 2.06 hours (average 5.06 hours per week)

Commentary

The Survey for the three months ended 30 September 2020 continues to highlight that the underlying financial sustainability of the residential aged care sector continues to deteriorate in all geographic regions and unless additional specific targeted funding and structural reform is implemented it may lead to closure of residential aged care homes and will risk further necessary investment into the sector. Non-recurrent COVID support measures has improved overall operating results for the September quarter, however many of these measures ceased at the end of that period.

It should also be noted that the September quarter is historically the best performing quarter from an operating results perspective, with each later quarter having a declining result. This is primarily due to the COPE (indexation) increase on subsidies being effective from 1 July, however the expense CPI increases occur progressively throughout the year as well as COVID measures now being wound back.

[Residential Care](#) continues to be a significant concern in relation to ongoing financial viability. The three months to Sep-20 shows a continued historical weakness in occupancy levels which is likely to be sustained for the short term as the accelerated release of home care packages and the fall-out from the Royal Commission continues. As noted in previous reports, occupancy and financial result are significantly inter-related, and accordingly any decline in occupancy directly affects the operating performance.

The ACFI revenue increase of 2.7% pa (year on year) is primarily a result of the COPE inflation increase of 1.6% as well as increases in some supplements. There has also been a slight shift in the acuity of residents that has seen a rise in ACFI above the COPE indexation, but this is not as pronounced as in previous years and indicates that the average acuity of residents has plateaued to a large extent. The costs of providing direct care increased by 3.2% pa meaning that the ACFI margin only marginally differs from the level at September 19. This is expected to decline over the course of the year as costs continue to rise with little increase in revenue.

Direct care staff costs represented 79.4% of the ACFI (direct care) subsidy, and the ongoing disparity between the subsidy COPE increase and staff cost increases continues to cause considerable concern.

We have retained Administration costs as a separate cost centre as providers prefer to monitor and benchmark their total administration costs. Refer to page 27 “Operating Result after Administration Cost Allocation” which includes the allocation of the administration costs to the respective revenue cost centres (ACFI, Everyday Living and Accommodation) to determine the overall result for each of these cost centres.

A significant issue in relation to residential care is the unsustainable loss in providing everyday living (indirect care) services. The cost of providing these essential services exceeds the revenue (largely the Basic Daily Fee) by an average of \$9.19 per resident per day without any allowance for the administration costs. This result supports the recommendation of Counsel Assisting the Royal Commission for the Government to provide a further subsidy of \$10 per bed day to supplement the basic daily fee. We have been advocating for this measure for over twelve months.

If an allocation of administration costs related to these services was included, the deficit is more likely to approach **\$22.14 per resident per day**. This has a direct consequence in the ability to utilise the ACFI subsidy for providing direct care services.

Outer regional, rural and remote homes continue to deteriorate in their financial performance and viability. These homes have an average operating loss of \$1,680 per bed per annum (\$5.07 loss per resident per day). This has resulted in 65% of these homes having an operating loss and 47% having a cash operating deficit. These percentages will deteriorate over the next nine months.

We have again highlighted that the *major cause for the financial concern* in relation to the residential aged care sector is the operating results for the *Bottom 75%* of aged care homes included in the Survey. This is a very large cohort and the average result is an **operating loss of \$15.14 per resident per day**. Given the number of homes this represents, this confirms that there is an urgent requirement for additional funding and a sustainable funding model going forward.

Investment in the residential aged care sector, be it new builds or major refurbishment and improvements to existing homes, continues to have significant downturn. Much of this is due to the regulatory uncertainty and the poor financial performance of the sector which is a major disincentive to investment confidence.

[In-home Care](#) (Home Care Packages) has experienced a reduction in operating performance for the Sep-20 three months, with an overall decrease of \$2.67 per client per day in comparison to the Sep-19 three month period. It is a slight improvement on the FY20 results of \$3.59 pcpd but given that the September quarter is usually the most profitable, the results are less than what might be expected.

It is possible that, given current circumstances with COVID and the increased levels of competition, that providers may have been reluctant to make adjustments to their pricing structures at 1 July 2020 although cost will have increased. Please note that that the improved performance was not as a result of increased revenue, but due to reduced costs, and particularly staff costs (and resultant staffing hours). Whether this is sustainable is open to conjecture.

The biggest single issue in relation to Home Care Packages remains in relation to the level of Unspent Funds. This level has kept rising each quarter, and now averages \$9,151 per client (care recipient). In aggregate, this represents in excess of \$1.25 billion of funding that is not being utilised.

This continued growth in Unspent Funds, and many probable instances of their use for capital-related expenditure for care recipients (probably for a short-term benefit in many instances) is not sustainable. The announced changes to the subsidy payment arrangements (being in arrears rather than in advance) and the potential further reforms for providers to be reimbursed for actual services provided rather than for the funding package by care recipient will largely address the unspent funds concerns in this regard. These changes are legislated to commence on 1 February 2021.

The cash flow implications to providers of the proposed reforms need to be considered and monitored. We understand that it is proposed that the current unspent funds will only be remitted back to the Government over a reasonable time period, and this should ease much of the initial cash flow concerns. There is also a limited grants scheme available to assist some vulnerable providers, particularly in regional and remote areas.

The Government has also announced further package releases to be rolled out over the coming twelve months to assist in easing the current waiting list for packages.

[In Conclusion](#): the overall funding arrangements for aged care urgently requires considerable additional funding and an substantial realignment. Residential care is critically under-funded, both from a government and consumer perspective. The financial concerns in relation to residential care cannot be overstated.

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

3. RESIDENTIAL CARE ANALYSIS

Operating Result

The residential aged care sector has experienced a continued decline in Operating (Facility) Result year on year with the predominant impact being indirect care expenses increasing at a higher rate (3.5% pa) than everyday living revenue (2.2% pa) as well as direct care costs rising at 3.2% compared to increases in ACFI revenue of 2.7%. The Operating Result as shown below has decreased from a deficit of \$1.69 per bed day (pbd) in the three months to Sep-19 to a deficit of \$5.06 pbd in the three months to Mar-20.

Table 2: Summary Profit & Loss Results for Sep-20 and Sep-19 periods

	Survey Average		Survey First 25%	
	Sep-20	Sep-19	Sep-20	Sep-19
	1,070 homes	984 homes	268 homes	246 homes
ACFI				
Revenue	\$185.94	\$180.99	\$191.00	\$188.24
Expenditure				
Labour costs	\$147.59	\$143.72	\$130.37	\$129.47
Other direct costs	\$9.42	\$8.50	\$8.21	\$6.82
	\$157.01	\$152.21	\$138.57	\$136.30
ACFI RESULT (A)	\$28.93	\$28.78	\$52.42	\$51.94
EVERYDAY LIVING				
Revenue	\$54.03	\$52.86	\$55.20	\$54.09
Expenditure				
Catering	\$31.97	\$30.34	\$31.03	\$29.16
Cleaning	\$8.93	\$8.32	\$8.06	\$7.56
Laundry	\$4.03	\$4.04	\$3.54	\$3.56
Payroll tax - hotel services	\$0.09	n.a	\$0.22	n.a
Overhead allocation (workcover & education)	\$0.70	\$0.68	\$0.63	\$0.50
Utilities	\$7.56	\$7.34	\$6.94	\$6.74
Routine maintenance & motor vehicle	\$9.94	\$10.38	\$8.67	\$8.83
	\$63.22	\$61.11	\$59.08	\$56.36
EVERYDAY LIVING RESULT (B)	(\$9.19)	(\$8.25)	(\$3.88)	(\$2.27)
ADMINISTRATION COST (C)	\$36.99	\$34.50	\$33.34	\$29.45
CARE RESULT (D) (A + B - C)	(\$17.25)	(\$13.96)	\$15.20	\$20.22
ACCOMMODATION				
Revenue				
Residents	\$12.90	\$13.39	\$12.77	\$13.16
Government	\$20.26	\$18.83	\$19.00	\$18.71
	\$33.17	\$32.21	\$31.76	\$31.86
Expenditure				
Depreciation	\$18.75	\$17.84	\$18.55	\$16.75
Property rental	\$1.14	\$0.81	\$1.19	\$0.74
Other	\$1.08	\$1.29	\$1.08	\$1.18
	\$20.97	\$19.94	\$20.82	\$18.68
ACCOMMODATION RESULT (E)	\$12.19	\$12.27	\$10.94	\$13.19
OPERATING RESULT (\$ per bed day) (D + E)	(\$5.06)	(\$1.69)	\$26.14	\$33.41
OPERATING RESULT (\$ per bed per annum)	(\$1,714)	(\$582)	\$9,066	\$11,693
EBITDAR (\$ per bed per annum)	\$5,025	\$5,829	\$15,911	\$17,816

The majority of the comparisons and trend analysis in this sector report are year-on-year (YoY) as it reflects a better perspective on the movements in financial performance for a similar period (ie three months).

Summary of Results

Revenue

- Increase in ACFI and supplements revenue by \$4.95 pbd from \$180.99 pbd at Sep-19 to \$185.94 at Sep-20 is mostly due to the COPE (inflation) subsidy rate increase of 1.6% from 1 July 2020 – and approximately 1% due to higher acuity mix of residents, which is less than in past periods
- Increase in Every Day Living revenue by \$1.17 pbd with only a marginal increase in additional services revenue (average \$0.16 pbd)
- Increase in Accommodation revenue by \$0.95 pbd

Expenses

- Increase in total direct care costs of \$4.80 pbd and increase of approximately 6 minutes per resident per day in total direct care hours (total direct care hours: 3.36 hours per resident per day)
- Increase in hotel services \$2.34 pbd (5.4%)
- Increase in utilities of \$0.22 pbd
- Increase in administration of \$2.49 pbd (effect of covid-19 for would be a contributing reason)
- Increase in accommodation expenditure by \$1.03 pbd (5.2%) mainly relating to depreciation and rent

Operating Results

- Care result (*excluding administration component*) declined by \$0.80 pbd (to an overall average surplus of \$19.74 pbd) – after the allocation of the administration component this reduces to a deficit of \$2.46 pbd
- Accommodation result (*excluding administration component*) declined by \$0.08 pbd to an average of \$12.19 pbd – after the allocation of the administration component this reduces to a deficit of \$2.60 pbd
- Operating result was a deficit of \$5.06 pbd (Sep-19 deficit \$1.69 pbd)
- EBITDAR decreased by \$804 per bed per annum to \$5,025 pbpa

Additional Trends

- Occupancy - decrease from 93.6% to 92.8% (*based on mature operational beds*)
- Overall occupancy (including aged care homes with low occupancy out of scope and refurbishments declined to 91.5% (*regional homes was 88.6%*))
- Supported resident ratio slightly increased from 44.6% to 45.7%
- Increase in average amount of Refundable Accommodation Deposit held and received during the year by \$20,461

Table 3: Summary KPI Results for Mar-20 Survey (All Facilities)

Residential Homes - Summary Results	Sep-20 1,070 homes	Sep-19 984 homes		Difference (YoY)	FY20 1,113 homes
OPERATING RESULT (\$pbd)	(\$5.06)	(\$1.69)	↓	(\$3.37)	(\$9.84)
OPERATING RESULT (\$pbpa)	(\$1,714)	(\$582)	↓	(\$1,132)	(\$3,371)
EBITDAR (\$pbpa)	\$5,025	\$5,829	↓	(\$804)	\$3,333
Average Occupancy (all homes)	91.5%	92.3%	↓	(0.9%)	91.4%
Average Occupancy (mature homes)	92.8%	93.6%	↓	(0.8%)	93.6%
Average ACFI (\$pbd)	\$185.94	\$180.99	↑	\$4.95	\$181.42
Direct care hours per resident per day	3.36	3.26	↑	0.10	3.21
ACFI services costs as a % of ACFI	84.4%	84.1%	↑	0.3%	86.5%
Supported ratio	47.0%	47.2%	↓	(0.2%)	46.8%
Average Full RAD/Bond held	\$387,879	\$367,417	↑	\$20,461	\$386,631
Average Full RAD taken during period	\$423,925	\$406,763	↑	\$17,162	\$433,252

Trend Analysis

The following graphs highlight the trends for the three month periods Sep-16 to Sep-20 respectively for the Survey Average (all aged care homes) and by geographical remoteness (based on the Australian Bureau of Statistics (ABS) ARIA definitions).

This analysis indicates that the financial performance has declined in all geographic segments, with the exception of rural & remote located homes which has seen a permanent increase in viability supplements improving their results.

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

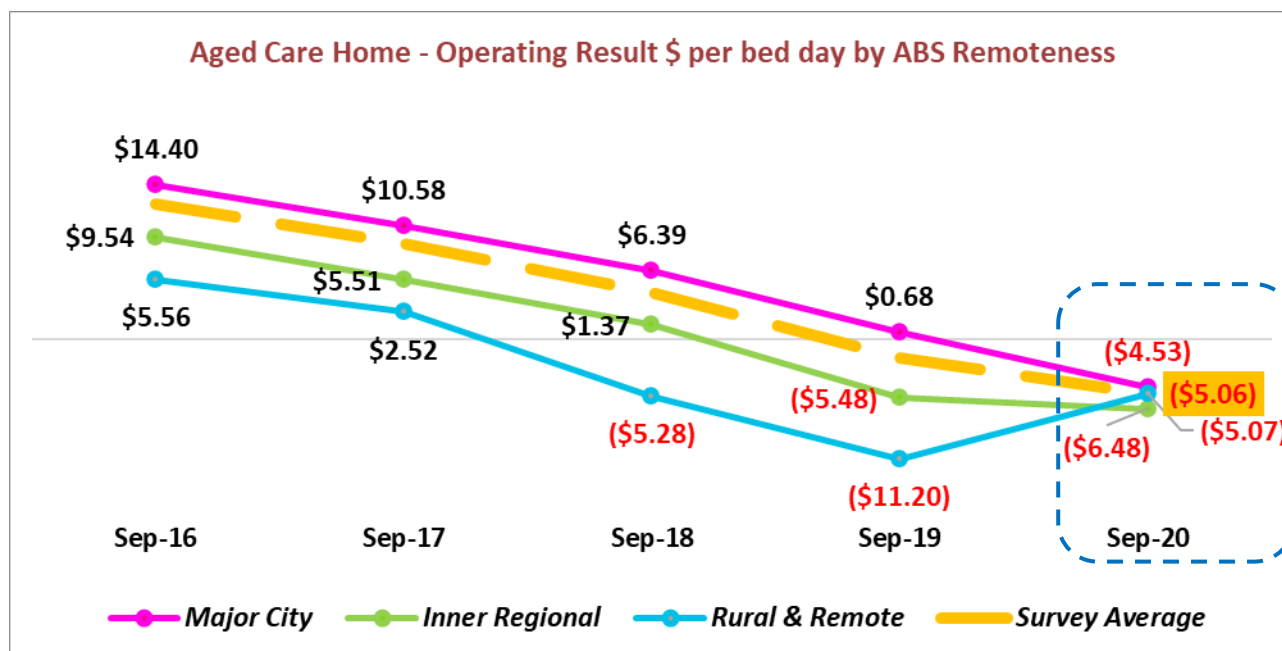
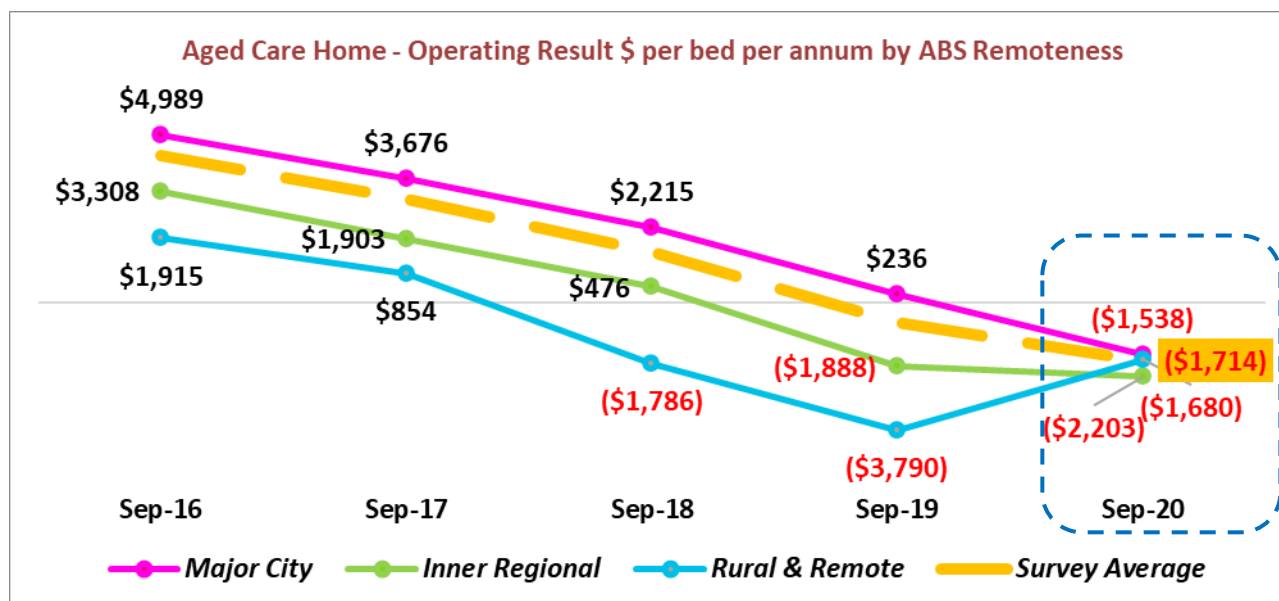


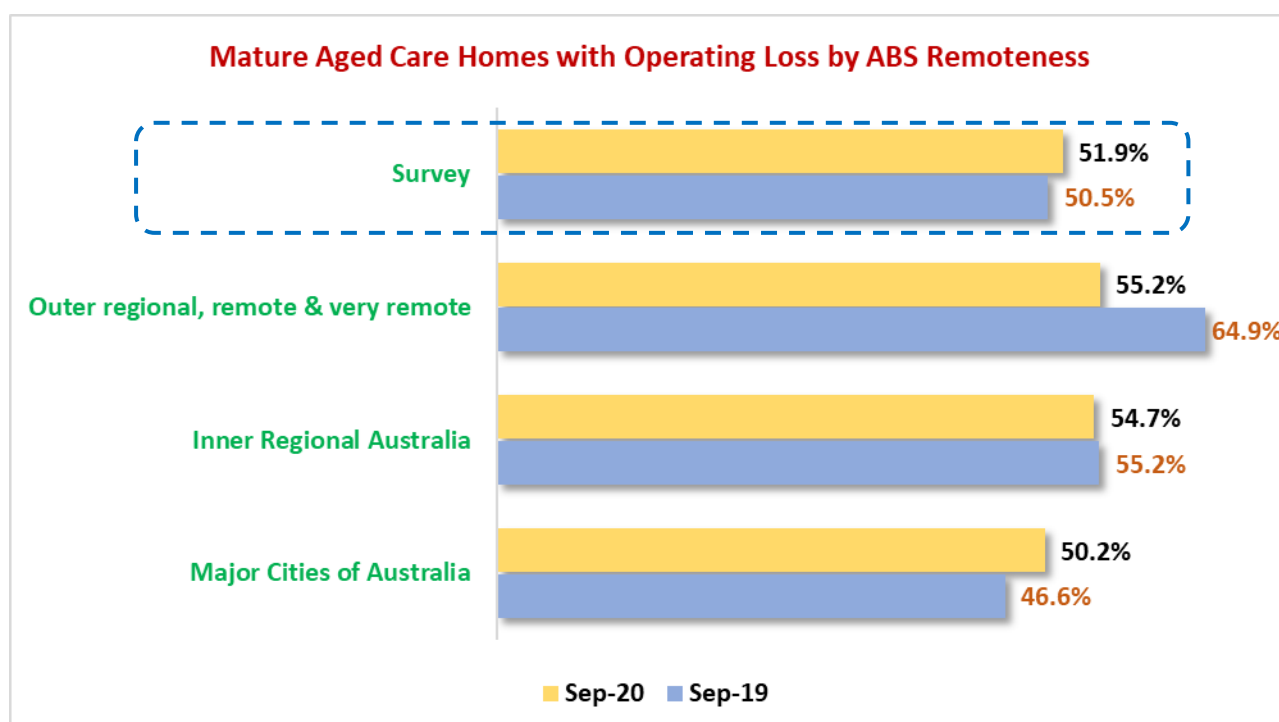
Figure 5: Operating Result for each geographic area and Survey Average trend line (expressed as \$ per bed per annum)



Number of Aged Care Homes making an Operating Loss

The following graph highlights the percentage of aged care homes nationally that are operating at a loss. Under the current funding arrangements, it is highly likely that the percentage number will further increase in the ensuing period(s) (even after allowing for additional unfunded covid-19 related costs).

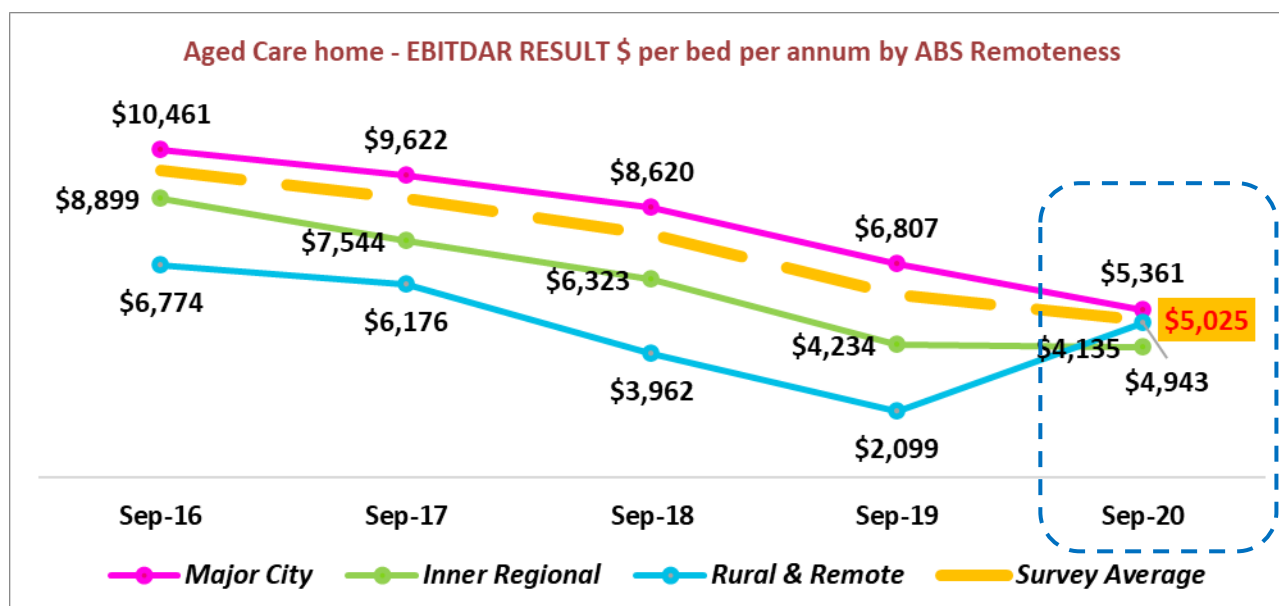
Figure 6: Analysis of aged care homes making an operating loss by ABS remoteness in total Survey



EBITDAR Result

The below graph shows the ACH EBITDAR (Earnings Before Interest, Taxation, Depreciation, Amortisation and Rent) trend for the Sep-16 to Sep-20 three month periods.

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

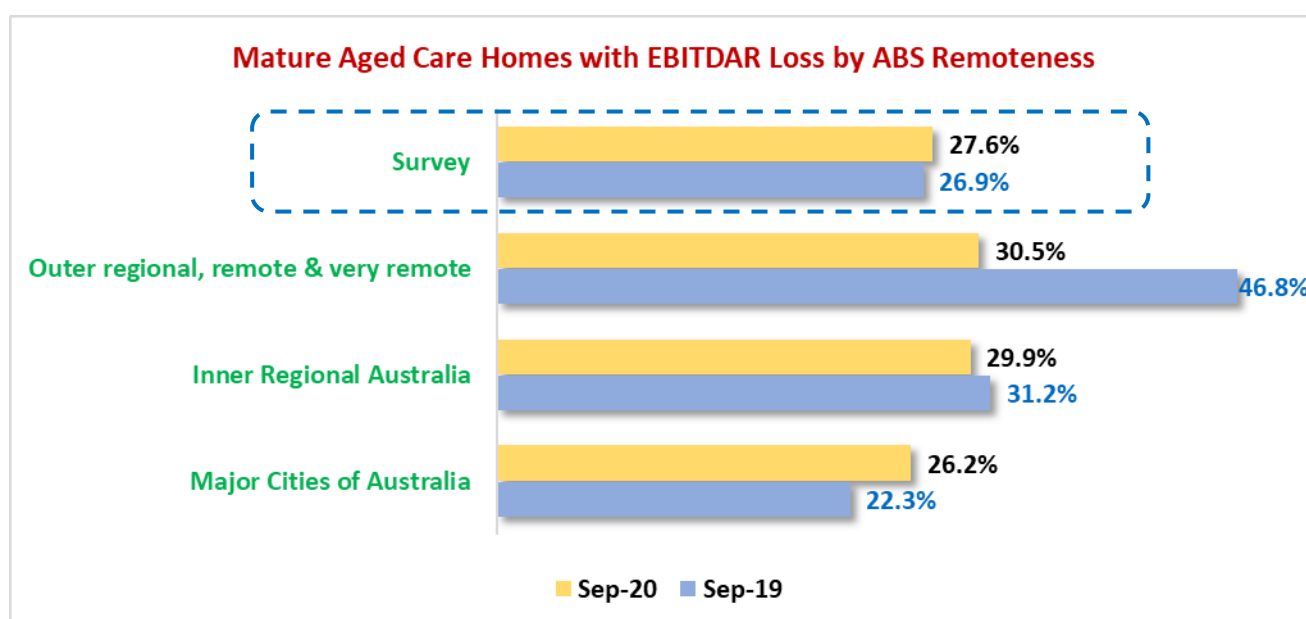


Number of Aged Care Homes making an EBITDAR Loss

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

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

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



Results by Geographic Location

At a regional level the financial performance results deteriorate further where the average operating loss for regional aged care homes averaged \$6.48 per bed day (deficit of \$4,943 per bed per annum). These latest results reflect the benefit of maintaining higher viability supplements for many rural and remote homes. The snapshot on the following page highlights the financial issues that these homes currently face.

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

FUNDING REFORM CONSIDERATION

StewartBrown has been recommending that consideration be given to Regional aged care homes being fully funded for ACFI based on 100% occupancy (*subject to financial viability analysis for vulnerable homes*)

(Estimated additional annual subsidy - \$140 m)

While this funding reform has not been included in the recommendations of the Counsels Assisting to the Commissioners, they did recommend that those remote facilities catering largely for Aboriginal and Torres Strait Islanders should be block funded and that the viability supplements paid to homes should be permanently increased by 30%.

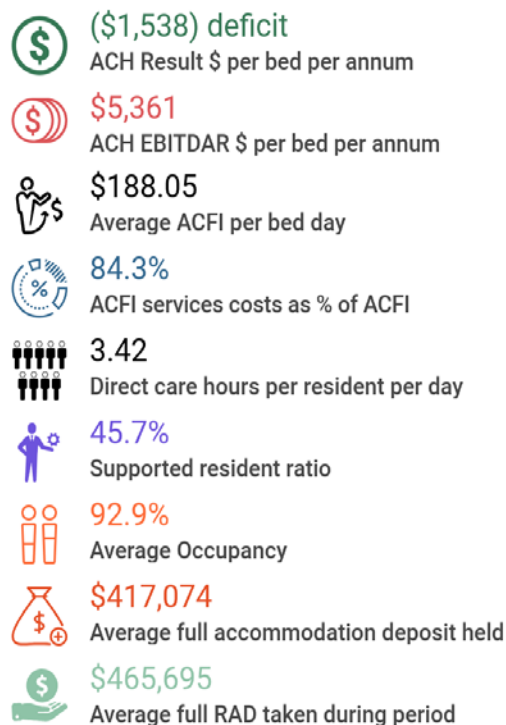
These changes, should they be adopted, will be welcomed by regional providers.

Snapshot: Sep-20 (3 months) Results By ABS Region

Major Cities



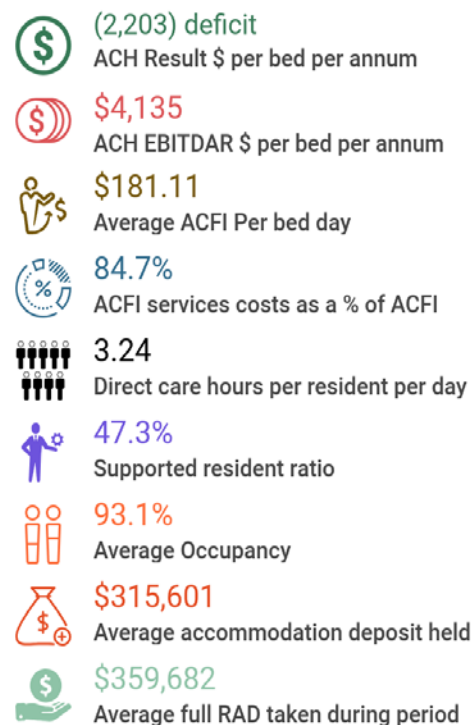
691 Aged Care Homes (ACHs)



Inner Regional



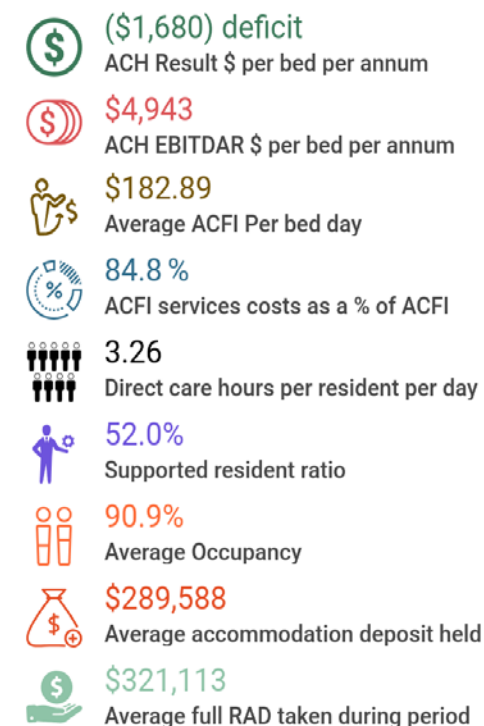
274 Aged Care Homes



Rural & Remote



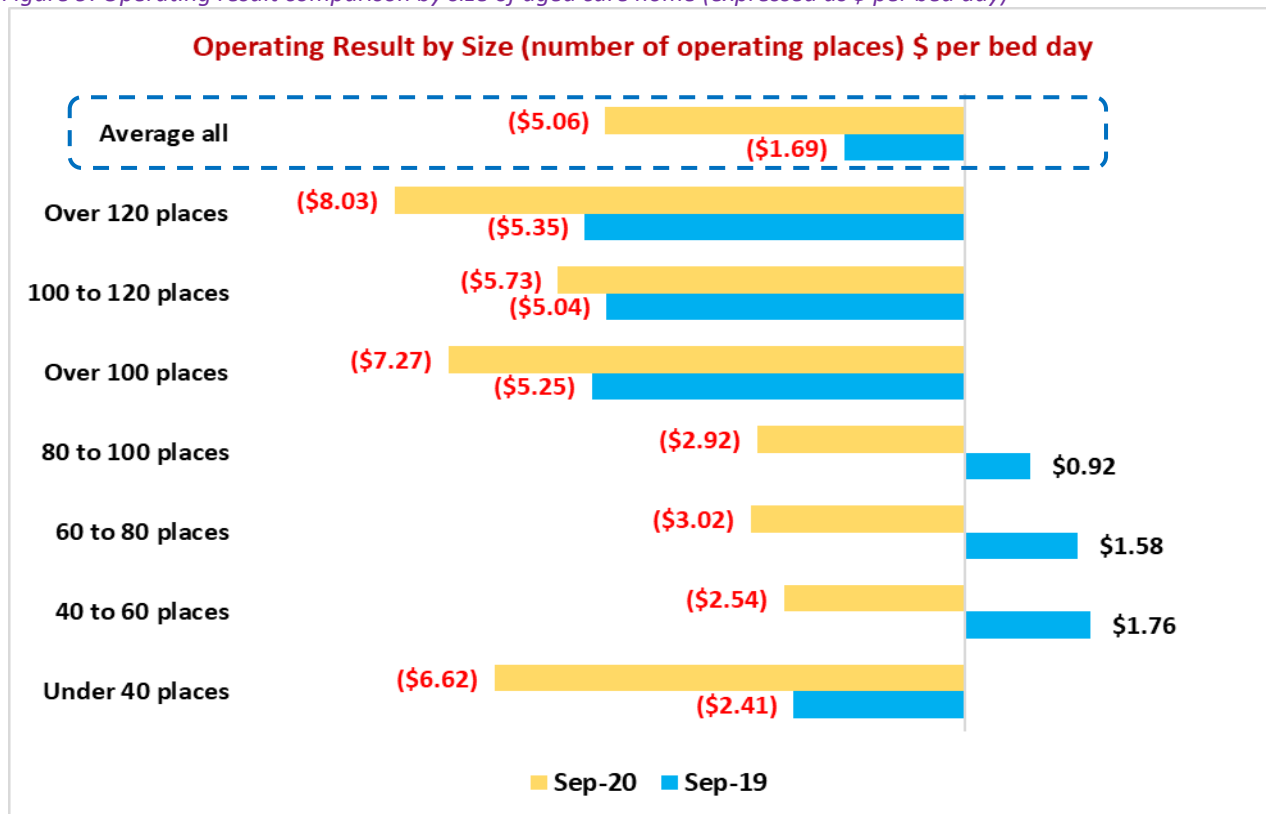
105 Aged Care Homes



Analysis of Results by Size of Aged Care Home

The following graph indicates a changing shift in the operating performance of aged care home based on the size (available beds) in an aged care home. All aged care homes, regardless of size, have experience a decline in operating result. Mid-range size homes generally perform better than the other sizes.

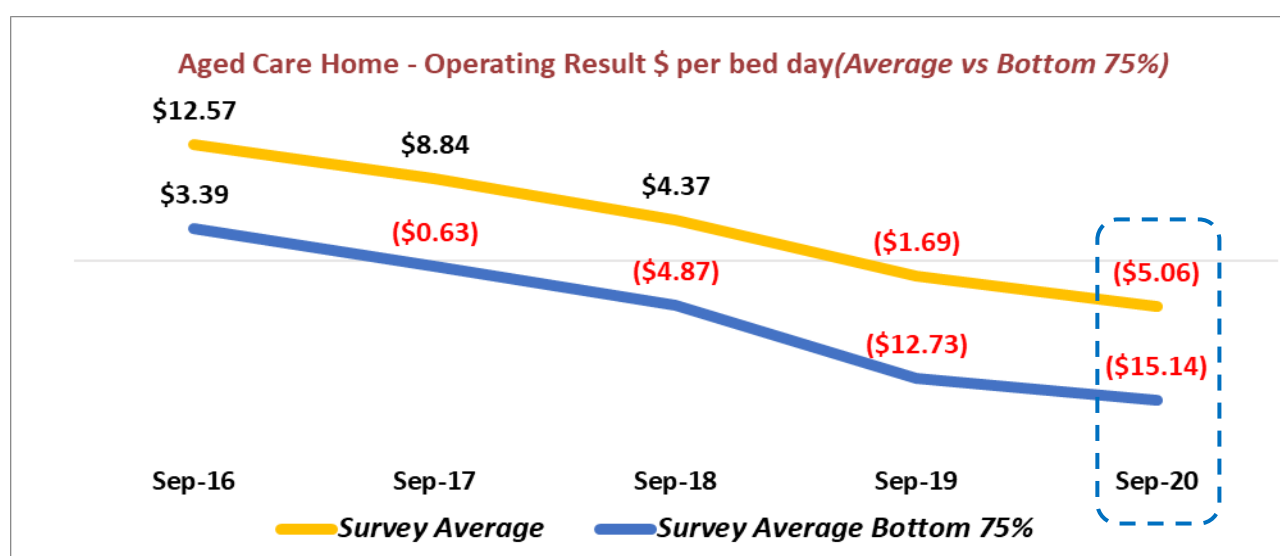
Figure 9: Operating result comparison by size of aged care home (expressed as \$ per bed day)



Significant Financial Viability Concern - Bottom 75%

The operating results of the *Bottom 75%* of aged care homes continue to decline to now record an average loss of \$15.14 per bed day. The *Bottom 75%* represent a very large cohort of aged care homes.

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



ACFI (Direct Care) Result

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

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

The following graph illustrates how the ACFI result is determined (*excluding the administration cost component*)

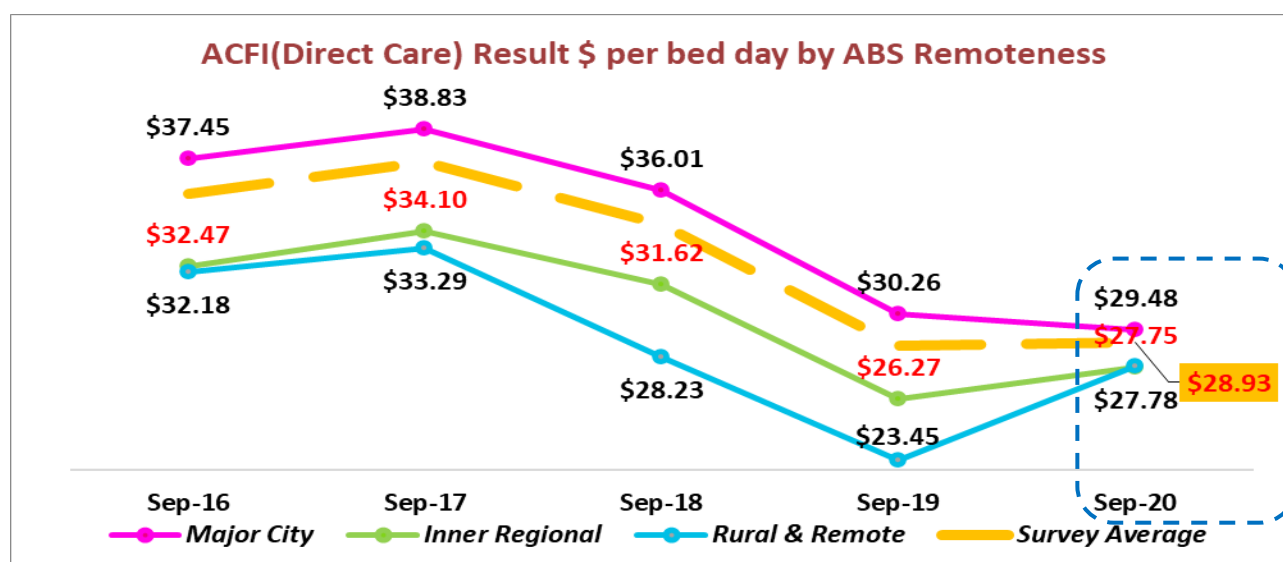
Figure 11: Components of the ACFI (direct care) result



The ACFI result (surplus) continues to decline in all geographic sectors, with a significant reduction occurring in the Sep-20 three months. Direct care costs increased by \$4.80 per bed day as compared to the Sep-19 period.

Direct care staffing costs average \$147.59 pbd and represents 79.4% of ACFI revenue (79.4% Sep-19).

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

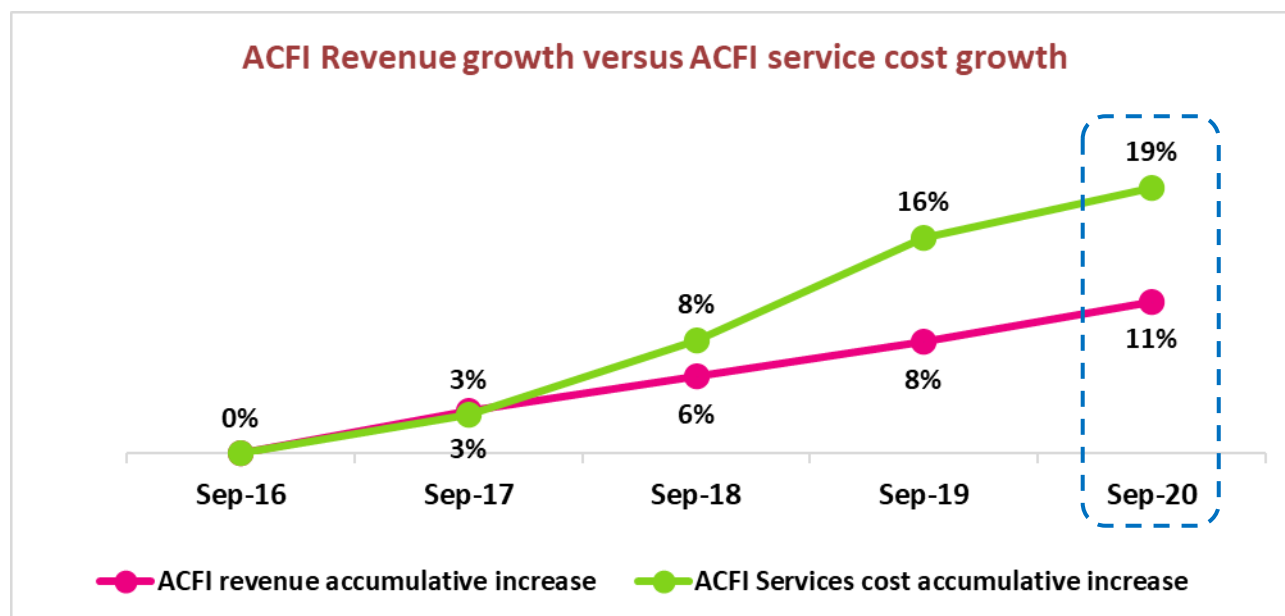


ACFI Revenue and Direct Care Costs Trend

The relationship between ACFI subsidy received (based on resident assessed acuity) and direct care costs is important in maintaining a sustainable care operating financial model. The following graph indicates that the direct care costs are now rising at a greater rate than the corresponding ACFI subsidy: this gap is likely to increase as the staff cost increases (average of 3.0% annually) are greater than ACFI COPE (inflation) increases (1.6% for FY21).

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

Figure 13: Cumulative increases in ACFI subsidy, Direct Care costs as compared to CPI with Sep-16 results as base



FUNDING REFORM CONSIDERATION

StewartBrown has been recommending that the COPE (inflation) subsidy to be calculated based on annual ABS Wage Price Index plus 1% (additional 1% to allow for award/EA increases for aged care workers) (*staff cost represent over 80% of ACFI revenue*)

(Estimated additional annual subsidy - \$240 m)

This recommendation was made to the Royal Commission during the testimony of Grant Corderoy and was also acknowledged in the closing remarks on the final hearing days for the Funding and Financing hearings.

In the recommendations by Counsel Assisting the following recommendation was made to Commissioners which follows the general principles outlined above:

All care subsidies and viability supplement would be indexed by the weighted average of:

- 45% of the yearly percentage increase to the minimum wage of an aged care employee level 3 under the Aged Care Award 2010
- 30% of the yearly percentage increase to the minimum wage of registered nurse level 2 under the Aged Care Award 2010
- 25% of the yearly percentage increase of the ABS CPI (year to March preceding the subsidy rate increase)

These arrangements would continue until the recommended Aged Care pricing Authority starts to determine the prices for residential aged care.

This change, should it be adopted would certainly arrest the current trend of there being a shortfall in the indexation of revenue compared to the increases in costs of operating a residential aged care home and providing the care needed by the residents.

Direct Care Staffing Hours

Direct Care staffing metrics include care staff costs and care staff hours. Improvement in the financial performance of an aged care home is directly related to appropriately aligning staffing hours and levels to the funding and ensuring that the design of the home is operationally efficient.

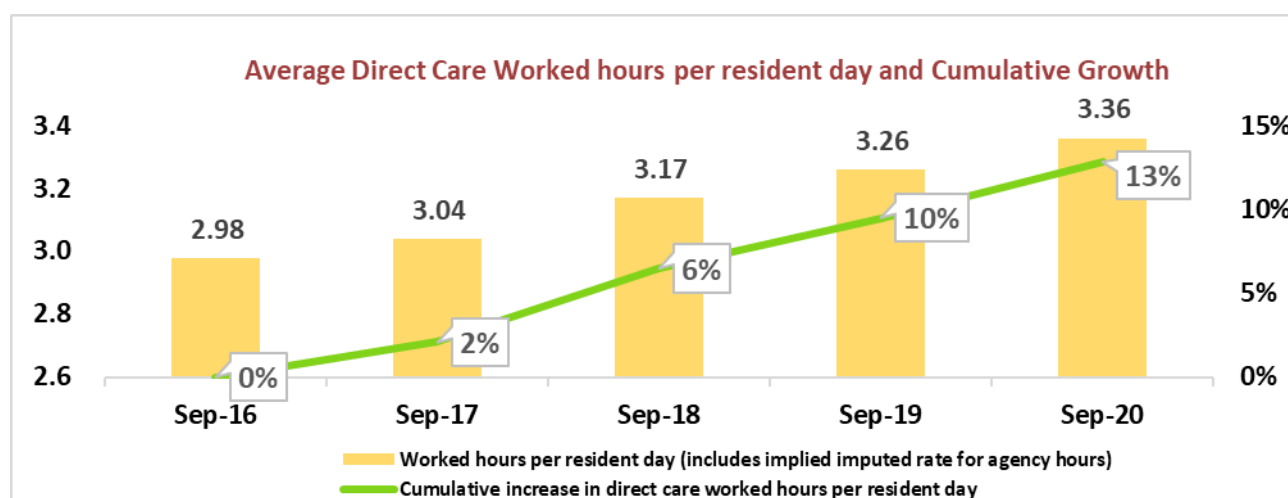
A summary of the direct care staff hours by category per resident per day for the Survey Average and Survey First 25% is included in the table below.

Table 4: Direct Care staffing metrics for Survey Average and Survey First 25%

Hours by Staff Category - hours worked per resident per day

	Survey Average			Survey First 25%		
	Sep-20	Sep-19		Sep-20	Sep-19	
Care management	0.14	0.11	↑	0.16	0.10	↑
Registered nurses	0.44	0.41	↑	0.40	0.39	↑
Enrolled & licensed nurses	0.29	0.33	↓	0.26	0.22	↑
Other unlicensed nurses & personal care staff	2.22	2.20	↑	1.97	2.11	↓
Allied health & lifestyle	0.24	0.18	↑	0.32	0.19	↑
Imputed agency care hours implied	0.03	0.02	↑	0.02	0.04	↓
Total Care Hours	3.36	3.26	↑	3.13	3.05	↑

Figure 14: Cumulative increases in average Direct Care Worked Hours per resident day



Brief commentary

- ◆ Total care labour costs have increased for both the Survey Average and First 25% since Sep-19 by 2.7% and 0.7% respectively
- ◆ Total care hours have increased for both the Survey Average and for the First 25% by 3.0% and 2.5% respectively, and are now at 3.36 hours and 3.13 hours worked per resident per day respectively
- ◆ It is also notable that these increases are spread across the wage categories and not consigned to the staff category with the lowest cost
- ◆ These increases in staffing hours have occurred during a time of significant financial pressures for most providers when the acuity levels of residents have not been increasing at the same rate

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

FUNDING REFORM CONSIDERATION

StewartBrown has been recommending an ongoing 2.5% training subsidy (based on ACFI revenue) to finance staff skill and training (subsidy includes costs of staff to attend training). We recommend that the training subsidy be on an acquittal basis to ensure that it is properly directed to training purposes
(Estimated additional annual subsidy - \$315 m)

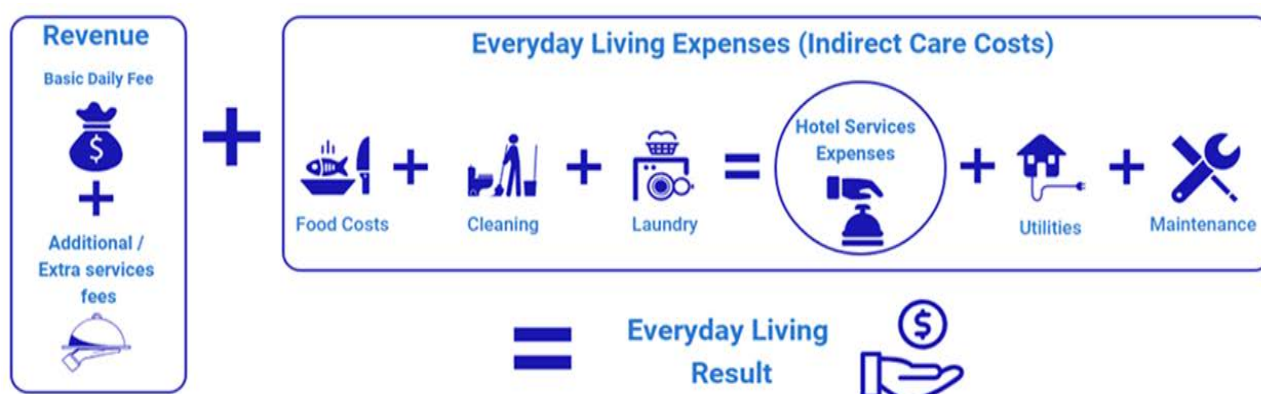
Counsel assisting the Royal Commission has recommended that the Government establish a two-year scheme to improve the quality of the current aged care workforce. The scheme would reimburse providers for the cost of education and training of the direct care workforce. This reimbursement would be for eligible training and education costs as determined by the government.

This should be a welcome reform for providers and aged care staff.

Everyday Living (Indirect Care) Result

The providing of everyday living services to residents is of equal significance to providing direct care and the cost of this is often not appreciated when considering the overall funding model. The respective components of the Everyday Living result are illustrated in the following graphic.

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



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

With a supported resident ratio averaging 45.7% across all aged care homes, this will continue to be an issue for providers in addressing the introduction of additional services.

For the Sep-20 three months period the direct costs of providing everyday living services (excluding the administration component) exceeded the revenue by \$9.19 pbd (Sep-19 \$8.25 pbd). However, with the inclusion of normal administration costs (including procurement, payroll, rosters, accounts, quality control, insurances, human resources and corporate costs) the deficit (loss) increases to be \$22.14 per bed day.

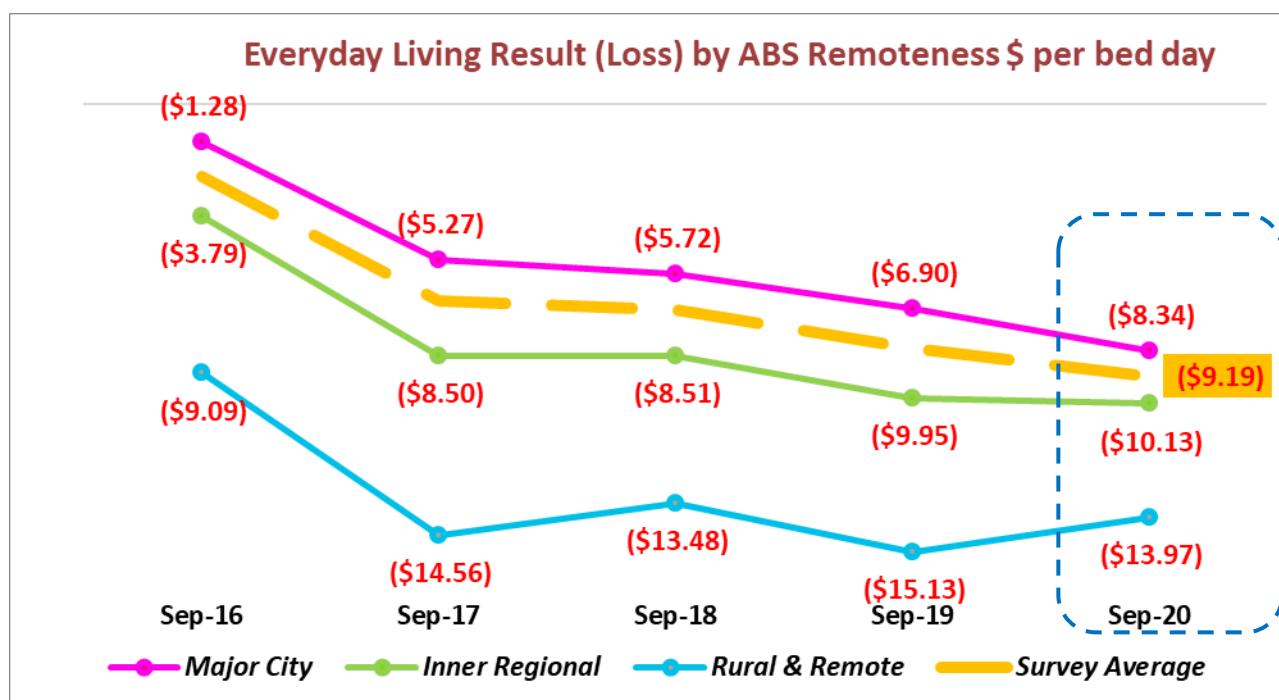
Table 5: Everyday living revenue and expense summary (expressed as \$ per resident bed day)

Survey Average Results	Jun-20 (1113 Homes)	Sep-20 (1070 Homes)	Sep-19 (984 Homes)	YoY Movement
Basic daily fee	51.67	52.15	51.14	1.01
Other resident income	2.22	1.88	1.72	0.17
Everyday Living revenue	\$53.89	\$54.03	\$52.86	\$1.17
Hotel services	44.63	44.93	42.70	2.23
Allocation of W/Comp to hotel services	0.50	0.50	0.48	0.02
Allocation of Payroll Tax to hotel services	0.13	0.09	-	0.09
Utilities	7.05	7.56	7.34	0.22
Maintenance costs (regular) and motor vehicles	10.64	9.94	10.38	(0.44)
Quality and education allocation to everyday living	0.19	0.19	0.20	(0.00)
Everyday living expenses	\$63.13	\$63.22	\$61.11	\$2.12
Everyday Living Result	(\$9.24)	(\$9.19)	(\$8.25)	(\$0.94)

Everyday Living Result Trend Analysis

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

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



The Everyday Living Result has declined since Sep-16 by an average of \$6.73 per bed day. In the past 12 months, the Everyday Living Result has declined by an average of \$0.94 per bed day.

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

FUNDING REFORM CONSIDERATION

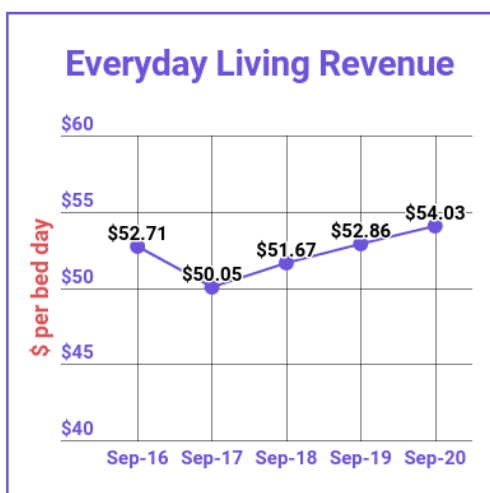
StewartBrown has been recommending an increase the base amount for the Basic Daily Fee (which relates to Everyday Living costs) by \$10 per bed per day - government subsidy to compensate for all residents in the interim (first 2-3 years) and then progressively means-tested. We further recommend the full deregulation of the Basic Daily Fee in line with the Tune Legislative Review recommendation

(Estimated additional annual subsidy - \$700 m)

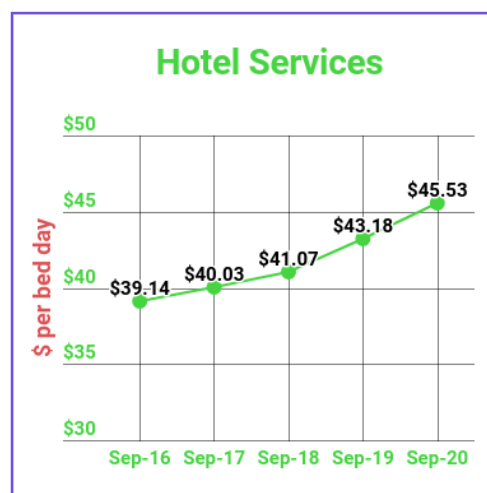
The Counsel Assisting the Royal Commission has taken up this recommendation and in their submission to the Commission they have recommended that commencing no later than 1 July 2021, offer to provide funding to each residential aged care provider an addition of \$10 per resident per day to the Basic Daily Fee for all residents. There will be conditions attached including an annual attestation by the approved provider that the basic daily needs of the residents are being met, particularly in relation to nutrition and there will be a need to provide details of how the expenditure is made.

This reform, if adopted should be welcomed by the sector and there should be limited concerns regarding the additional reporting required which could be achieved through the ACFR.

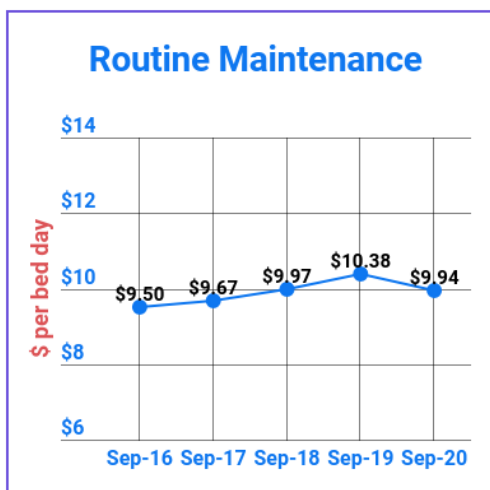
Figure 17: Everyday Living Revenue and Expense components trend from Sep-16 to Sep-20



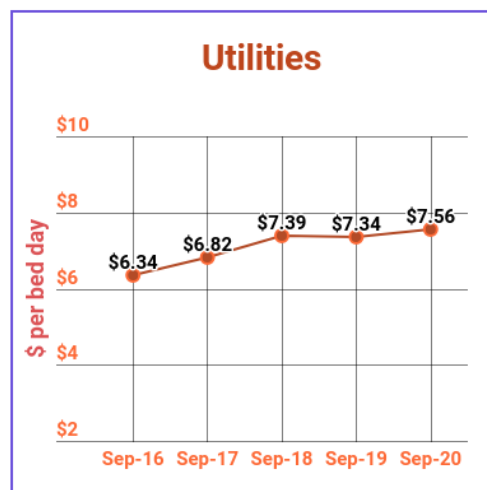
Since Sep-16 Everyday Living Revenue increased by an average of **\$1.32** per bed day or **2.5%**



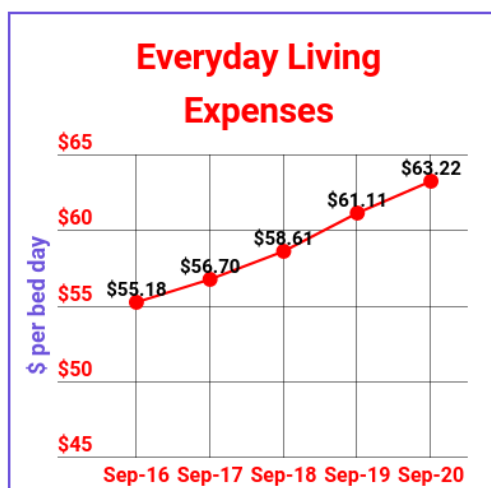
Hotel services costs increased by an average of **\$6.39** per bed day or **16.3%**



Routine Maintenance costs increased by an average of **\$0.44** per bed day or **4.6%**



Utility costs increased by an average of **\$1.22** per bed day or **19.3%**



Total Everyday Living Expenses have increased by an average of **\$8.04** per bed day or **14.6%** during the same period that revenue increased by only **\$1.32** per bed day

Accommodation Result

StewartBrown continues to note the importance for aged care homes in achieving a surplus from the Accommodation Result, due to this result being essential for the continued refurbishment, major maintenance and upkeep of the building and surroundings in line with current and future consumer expectations.

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

The Accommodation Surplus for the three months to Mar-20 was \$12.19 per bed day (Sep-19 \$12.27 pbd) which represents \$4,130 per room per annum. The increase in the percentage of new residents paying a Daily Accommodation Payment (DAP) rather than a RAD and the significant refurbishment subsidy have been contributing factors. This result is achieved after an average depreciation expense of \$6,353 pa.

The above amounts exclude the administration component and when this has been allocated, the accommodation result is a deficit of \$2.60 per bed day. This is a significant strategic concern and will not allow the required building accommodation to be maintained adequately.

As noted previously, the concern is that currently the surplus from the Accommodation Result is being used to offset the loss from the Care Result. In the three months to Sep-20 the Care Result was a deficit of \$17.25 per bed day which, when funded from the Accommodation Result, impacts on the ability of organisations to fund future refurbishment of a facility.

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

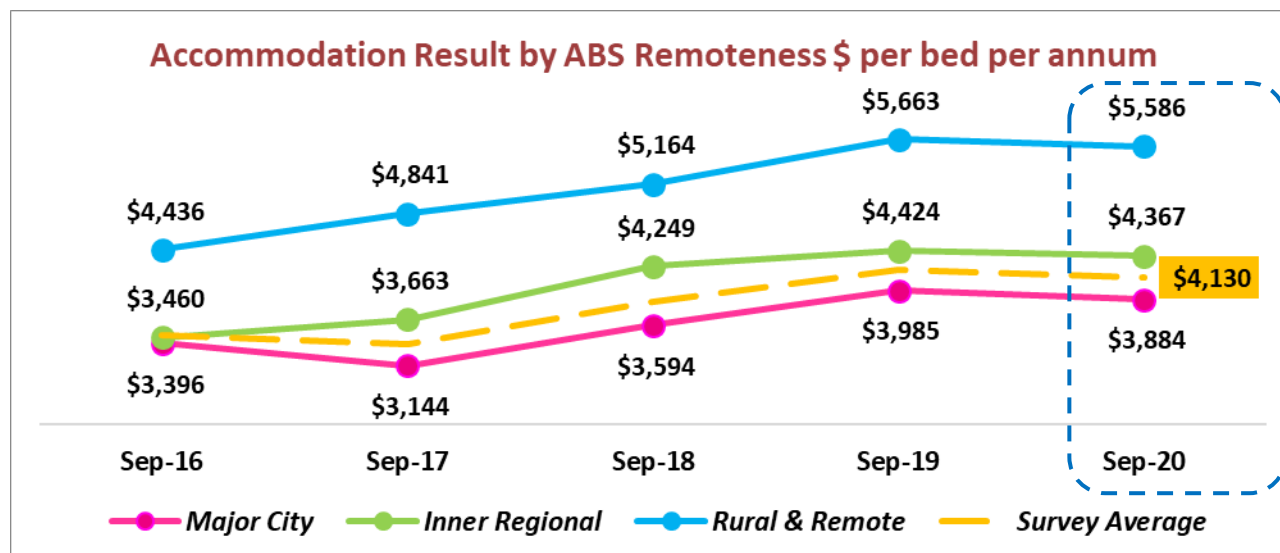
Table 6: Residential Care Accommodation Result comparison for Sep-20 and Sep-19

Survey Average Results	Jun-20 (1113 Homes)	Sep-20 (1070 Homes)	Sep-19 (984 Homes)	YoY Movement
Accommodation revenue	\$32.57	\$33.17	\$32.21	\$0.95
Accommodation expenses				
Depreciation	18.49	18.75	17.84	\$0.91
Property rental	1.08	1.14	0.81	\$0.33
Other accommodation costs	1.28	1.08	1.29	(\$0.21)
Accommodation expenses	\$20.85	\$20.97	\$19.94	\$1.03
Accommodation Result	\$11.71	\$12.19	\$12.27	(\$0.08)
Accommodation result \$ per bed per annum	\$4,012	\$4,130	\$4,205	(\$74)
Depreciation charge \$ per bed per annum	\$6,332	\$6,353	\$6,115	\$237

Accommodation Result Trend

The below graph indicates that there has been a small improvement in the Accommodation result other than for regional locations, however this is not of a sufficient amount to ensure future sustainability.

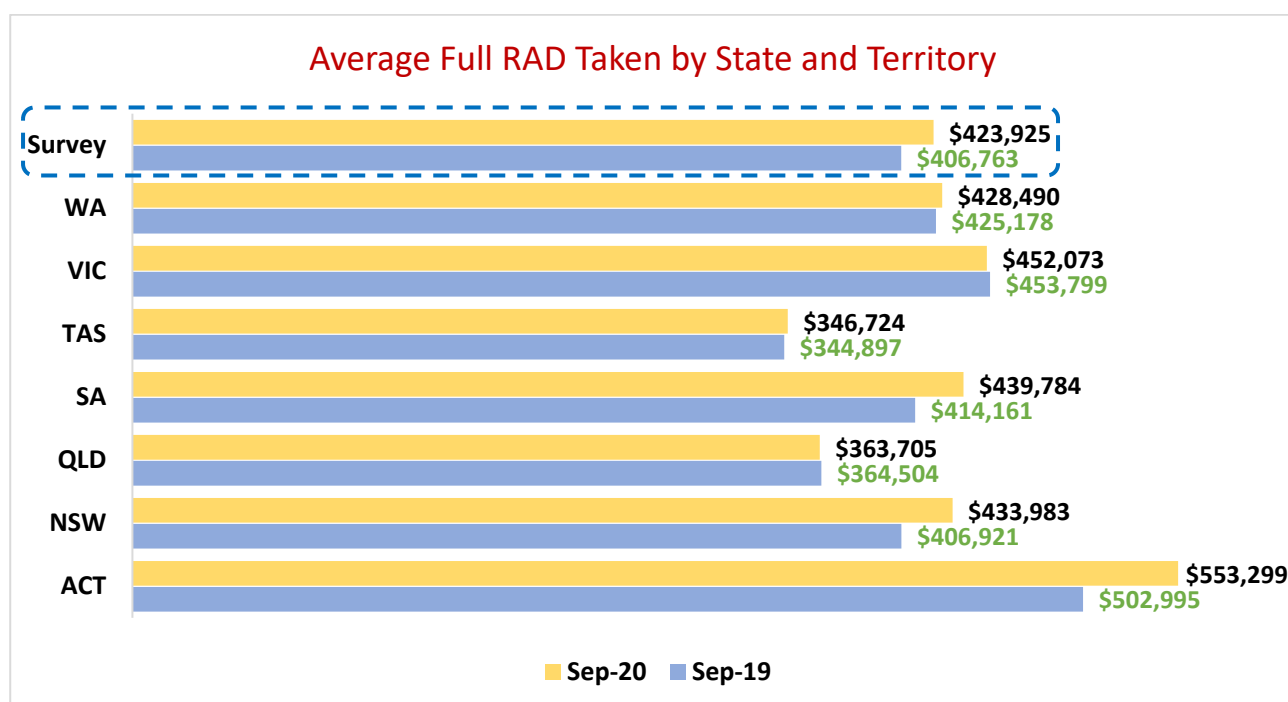
Figure 18: Residential Care Accommodation Result Trend (expressed as \$ per bed per annum)



Accommodation Pricing

We have observed a rise in the average published accommodation prices during the year-on-year period to Sep-20. Accommodation pricing is an important component for the sustainability of a residential care home. It is a revenue benefit (DAP) or a capital benefit (RAD) depending upon the equity position of the organisation.

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



Commentary

An area of constant feedback from both providers and consumers is that within the community there is still a lack of understanding about the pricing (and cost) of residential care accommodation. The concept of paying a RAD or a DAP or a combination of both is confusing to potential residents (and their family) and this decision is often made in the short time frame before a resident enters an aged care home.

There is often conflicting advice provided to the family by financial planners as their role is to minimise any effect on the pension or tax status, and also to protect any future inheritance. The complexities further arise with financially supported or semi-supported residents and how to calculate the RAC or DAC (or combination).

This has had an overall effect of some providers not having an effective strategy for accommodation pricing and incoming residents making decisions not based on the standard of care that should be provided but on the standard and cost of the accommodation.

The acuity (care needs) of a resident is directly related to the ACFI funding and expenditure. Everyday living (indirect care) expenses are offset against the Basic Daily Fee and additional services (if charged). Accommodation pricing, however, is not assessed on care needs but on the standard of accommodation and the financial ability of an incoming resident to meet the price through either a RAD, DAP or a combination of both. Any consumer or community expectation that the standard of accommodation, and accordingly the accommodation pricing, is relative to direct care provided is somewhat misconstrued.

The receipt of RADs is intended to assist in the repayment of external borrowing and to provide capital for providers to rebuild. It is arguable as to whether the use of RADs (which are in effect unsecured debt and requires ultimate repayment) for refurbishment of existing buildings is desirable as it will eventually negatively distort the debt to equity ratio. Refurbishment funds should be derived from the accommodation surplus where possible. There has also been a steady movement towards more DAPs as a percentage of accommodation pricing preference, which is creating cash flow uncertainty for providers as they replace an outgoing RAD with a DAP.

Accommodation Pricing Model Reform

The current RAD/DAP model needs to be reassessed. When a RAD is received and if fully invested in the current interest rate environment, it may yield an effective interest rate of 1.0% to 1.5%. Assuming the RAD is \$424,000 (being the average full RAD taken for the period to 30 September 2020 - refer *Figure 16*) the investment income will be \$5,300 per annum using a median interest rate of 1.25%.

However, the actual RAD coverage to liquid cash and financial assets is around 30%, hence the effective interest rate return would be \$1,600 per annum which is clearly an insufficient return.

By way of comparison, the DAP is calculated at the Maximum Permissible Interest Rate (MPIR) which is currently 4.1%. Therefore, if a DAP was received on the \$424,000 accommodation price, this would equate to a daily amount payable by the resident of \$47.63 per day (\$334.31 per week).

Therefore, for a full RAD paying resident, the maximum return is in the range of \$1,600 pa (\$30.77 per week) to \$5,300 pa (\$101.93 per week) which is significantly less than property rentals which are around \$436 per week (Australian average) and the equivalent DAP of \$334.31 per week.

Supported residents represent over 45% of the resident population, and accordingly neither a full RAD/DAP/Combination will be received. The current accommodation supplement subsidy paid for supported residents is \$37.93 per day (\$266.24 per week) and would represent a full RAD of \$337,000.

This analysis excludes the significant refurbishment supplement as this relates to capital expenditure to improve the accommodation of a home and is more of a capital revenue item.

FUNDING REFORM CONSIDERATION

1. The accommodation pricing model be amended to include a form of effective rent payment for full RADs and Combination RADs/DAPs
2. The deferred fee calculation be based on the MPIR less the 2-year government bond rate (the bond rate representing the potential interest forgone by a resident paying a RAD)
3. The MPIR be set at a minimum of 5%
4. The accommodation supplement be calculated as being 85% of the average Australian RAD taken multiplied by the MPIR

(Estimated additional annual subsidy with respect to the accommodation supplement - \$350 m)

Administration Costs

Administration costs have increased at a higher rate than CPI for the three months to Sep-20 (7.2% pa) in part due to significant covid-19 related costs for the September 2020 Quarter.

It is likely that administration costs will increase for the remainder of this financial year due to further covid-19 costs (with offsets due to incentive funding), increased compliance costs associated in relation to the new quality standards and greater scrutiny on direct care staffing costs and care service delivery by consumers and stakeholders.

Figure 20: Administration Costs trend (\$ per bed day) for period Sep-13 to Sep-20

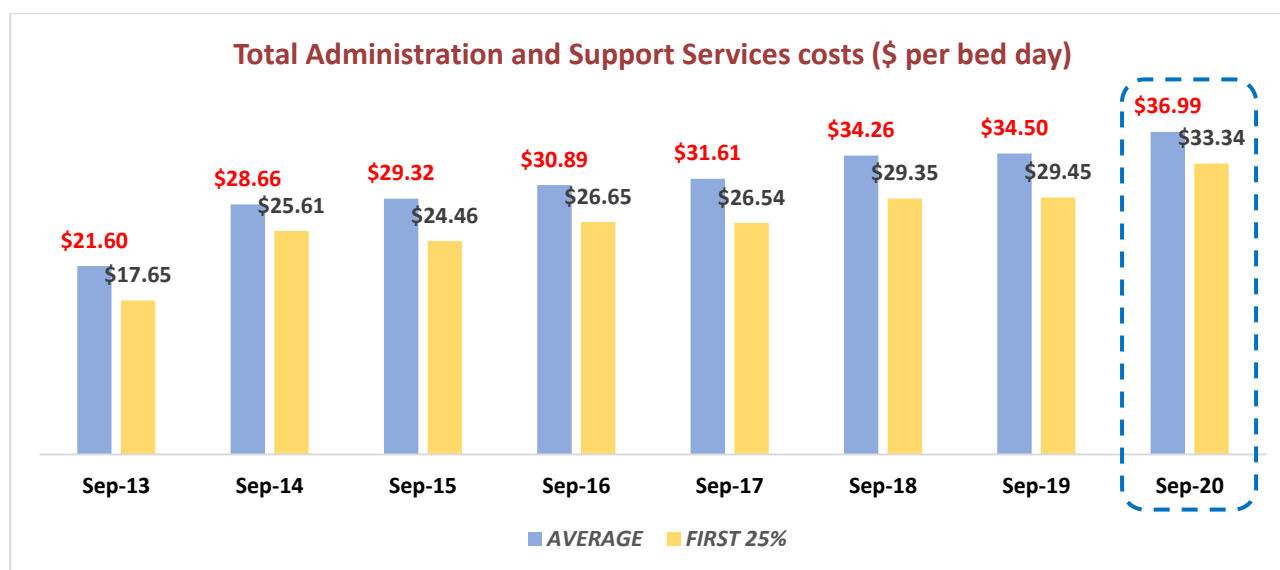


Table 7: Administration costs summary (expressed as \$ per resident bed day)

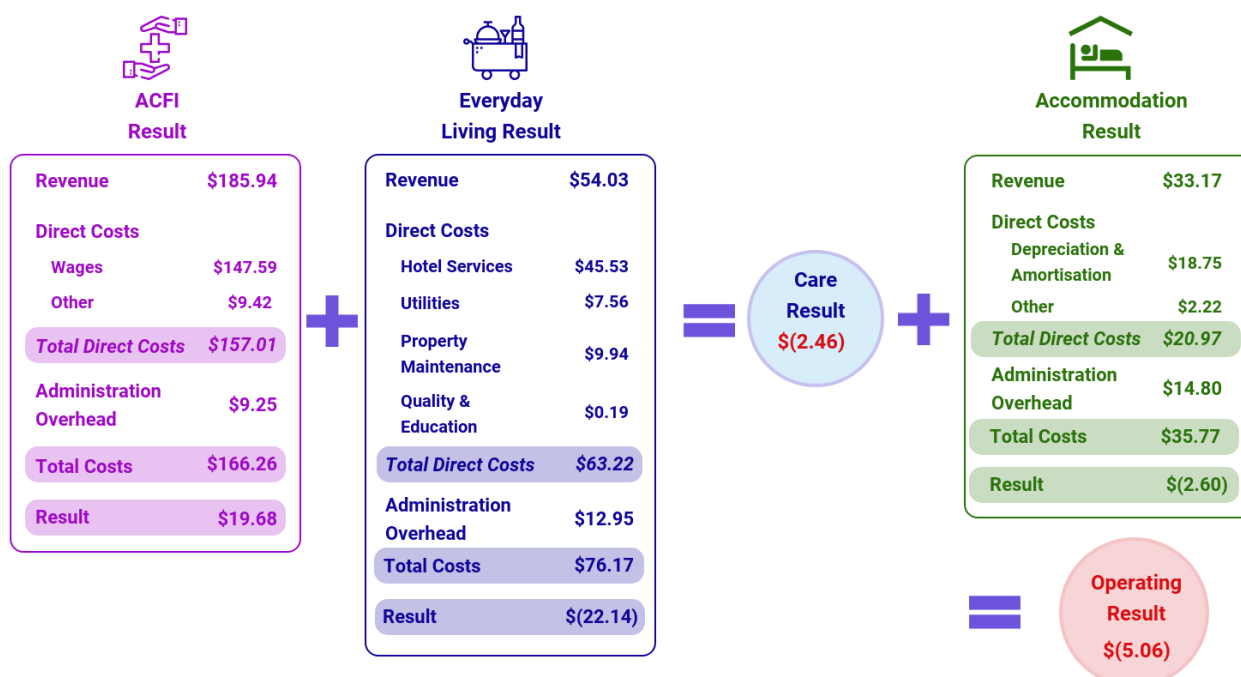
Survey Average Results	Jun-20 (1113 Homes)	Sep-20 (1070 Homes)	Sep-19 (984 Homes)	YoY Movement
Administration recharges	21.98	22.76	21.19	1.58
Labour costs - administration	7.33	7.29	7.06	0.22
Other administration costs	6.12	5.35	4.82	0.53
Workers' compensation - other	0.32	0.31	0.25	0.06
Payroll tax - administration staff	0.05	0.04	-	0.04
Quality & education - labour costs	0.04	0.04	0.04	(0.00)
Quality & education - other	0.02	0.02	0.02	0.00
Insurances	1.03	1.17	1.11	0.06
Total Administration Costs	\$36.88	\$36.99	\$34.50	\$2.49

Operating Result After Administration Cost Allocation

As noted previously, the administration costs are treated as a separate cost centre to allow the total costs to be monitored and compared to benchmarks, budgets and forecasts.

However, in reality, administration is required for each operating cost centre (ACFI/Everyday living/Accommodation). Therefore, to allow a true analysis of how each cost centre performs the administration costs need be spread. The below figure provides this analysis following the spread of administration costs.

Figure 21: Operating Result (\$ per bed day) following the allocation of administration costs



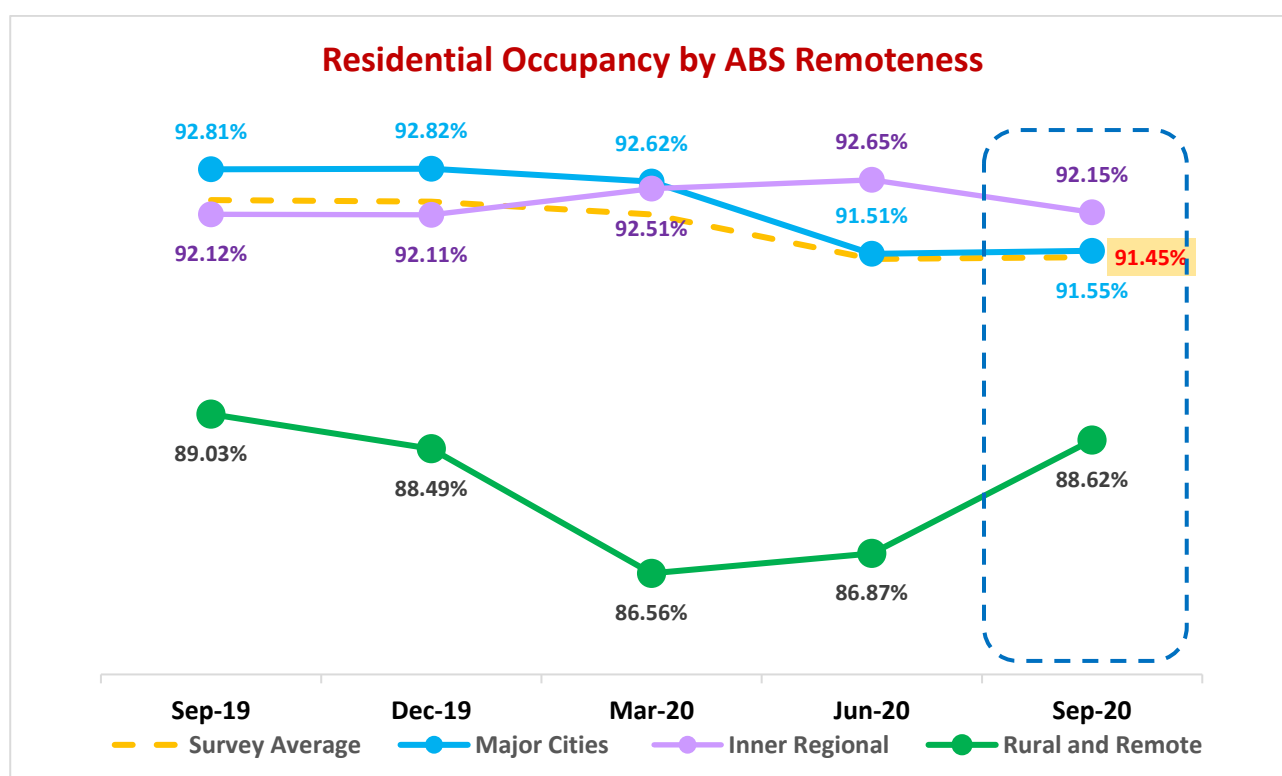
Occupancy

The overall occupancy percentage has suffered a significant decline to be 91.5% nationally (92.3% at Sep-19) with the occupancy for mature homes (within the Survey range) being of 92.8% (93.6% at Sep-19).

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

A trend analysis of occupancy levels for all homes included in the Survey (including low range occupancy and homes undergoing refurbishment) is included in the figure below. Average occupancy has dropped by 0.9% over the year and a combination of further releases of home care packages and Covid 19 is likely to see a slower rate of increase in occupancy in some of the key areas such as Melbourne and Sydney than has happened in the past when there have been sharp declines in occupancy.

Figure 22: Occupancy Percentage for All Homes Trend Analysis by ABS remoteness



4. HOME CARE ANALYSIS

Overview

For the three months to Sep-20, there has been an decline in the financial performance of Home Care Package providers for the Survey *Average* (All) when compared to the Sep-19 period.

The overall Survey *Average* NPBT result was a surplus of \$3.68 per client day (pcd) - a significant decrease compared to Sep-19 results of \$6.35 pcd. The revenue band 1 (based on care recipient acuity mix) shows an improved performance in comparison to the Sep-19 period.

The Survey *First 25%* had a decrease in surplus to \$20.12 pcd (Sep-19: \$21.38 pcd).

Revenue

- Decreased by 4.5% (\$3.28 per client day)
- Pricing pressure continues due to increased competition
- Revenue utilisation improved from 83.6% (Sep-19) to 85.5%
- Higher average unspent funds (Sep-20 \$9,151 per client compared to Sep-19 \$7,295 per client) which would represent an aggregate of over \$1 billion nationally

Expenses

- Decreased by 0.9% overall
- Direct service costs (including sub-contracted and brokered services) decreased by \$0.36 pcd
- Cost of direct service and brokered/sub-contracted as a percentage of total income has increased to 60.6% from 58.4% (Sep-19)
- Increase in case management and advisory as a percentage of total income by 1.2% (even after the pricing transparency reform)
- Decrease in administration costs as a percentage of total income by 0.4%

For both the Survey *Average* and *First 25%* there was a reduction in costs (and significantly the direct care costs) and the consequent reduction in staff hours per care recipient.

Table 8: Summary KPI Results for Sep-20 Survey (All programs)

Survey <i>Average</i> Results	Jun-20 42,821 packages	Sep-20 41,295 packages	Sep-19 33,269 packages	YoY Movement
Total revenue \$ per client per day	\$71.08	\$69.29	\$72.58	(\$3.28)
Operating result per client per day	\$3.59	\$3.68	\$6.35	(\$2.67)
EBITDA per client per annum	\$1,502	\$1,546	\$2,457	(\$911)
Average total Internal Staff hours per client per week	5.45	5.39	5.76	(0.37)
Median growth rate	21.3%	2.4%	5.0%	(2.6%)
Revenue utilisation rate for the period	84.8%	85.5%	83.6%	2.0%
Average unspent funds per client	\$8,841	\$9,151	\$7,295	\$1,856
Cost of direct care & brokered services as % of total revenue	59.8%	60.6%	58.4%	2.2%
Case management & coordination costs as % of total revenue	10.8%	10.4%	9.2%	1.2%
Administration & support costs as % of total revenue	23.7%	22.8%	23.2%	(0.3%)
Profit Margin	5.1%	5.3%	8.7%	(3.4%)

Financial Performance Measures

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

Figure 23: Comparison of Survey Average Operating Result \$ per client day for periods ending Sep-20 and Sep-19

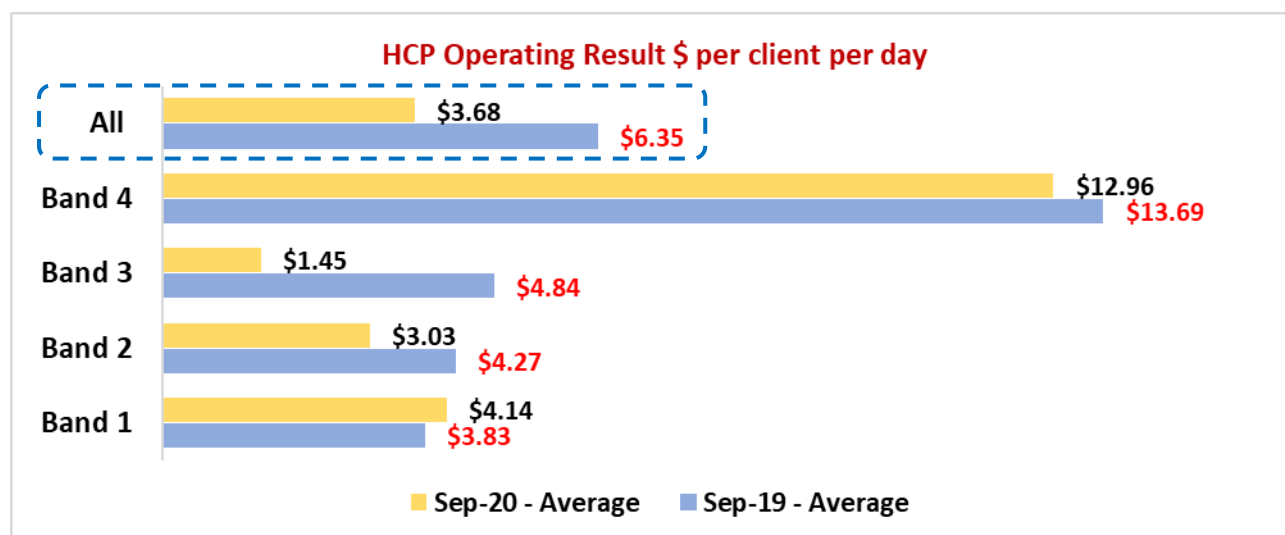


Figure 24: Comparison of Survey Average EBITDA \$ per client per annum for periods Sep-20 and Sep-19

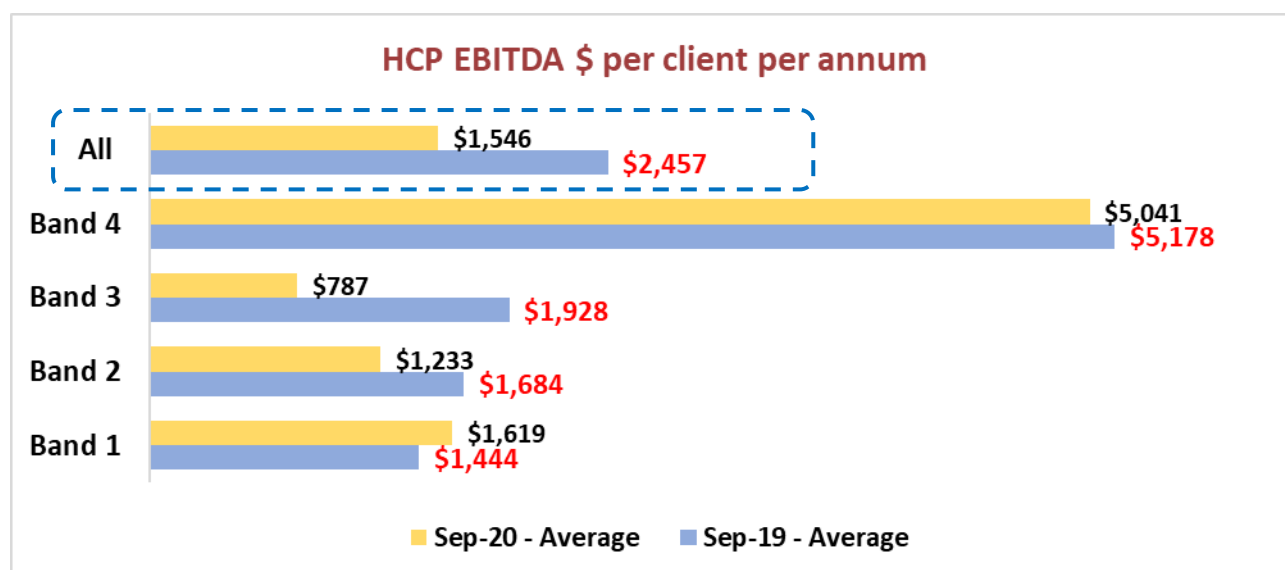
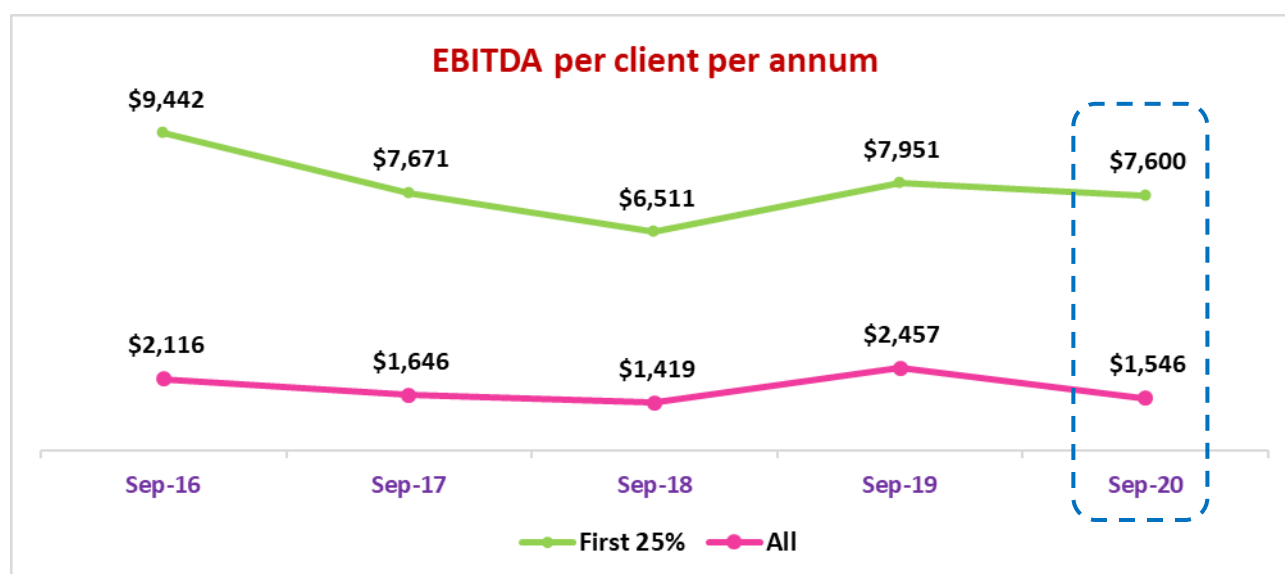


Figure 25: Comparison of Survey Average and Survey First 25% EBITDA (\$ per client per annum) trends



The trend graph above clearly shows a very clear and sturdy decline in the *First 25%* since Sep-16, whereas the trend for the survey *Average* is softer decline.

NPBT for Survey *First 25%*

Table 9: Summary KPI Results for Sep-20 Survey *First 25%*

Survey <i>First 25%</i> Results	Jun-20 7,466 packages	Sep-20 5,875 packages	Sep-19 6,655 packages	YoY Movement
Total revenue \$ per client per day	\$82.68	\$86.64	\$93.05	(\$6.41)
Operating result per client per day	\$14.30	\$20.12	\$21.38	(\$1.25)
EBITDA per client per annum	\$5,411	\$7,600	\$7,951	(\$351)
Average total Internal Staff hours per client per week	6.00	5.06	7.12	(2.06)
Median growth rate	21.6%	0.0%	4.3%	(4.3%)
Revenue utilisation rate for the period	85.4%	89.1%	85.7%	3.4%
Average unspent funds per client	\$8,841	\$9,151	\$7,295	\$1,856
Cost of direct care & brokered services as % of total revenue	59.8%	60.6%	58.4%	2.2%
Case management & coordination costs as % of total revenue	10.8%	10.4%	9.2%	1.2%
Administration & support costs as % of total revenue	23.7%	22.8%	23.2%	(0.3%)
Profit Margin	5.1%	5.3%	8.7%	(3.4%)

The NPBT performance of the Survey *First 25%* for Sep-20 three months has decreased in the compared to the same period to Sep-19. The predominant reasons relate to decreased revenue per client day by 6.9% - the reduction of direct care costs (due to lower staff hours per care recipient) and lower administration costs is not sufficient to offset this lower revenue.

Figure 26: Comparison of Survey First 25% NPBT (operating surplus) Sepr-20 and Sep-19

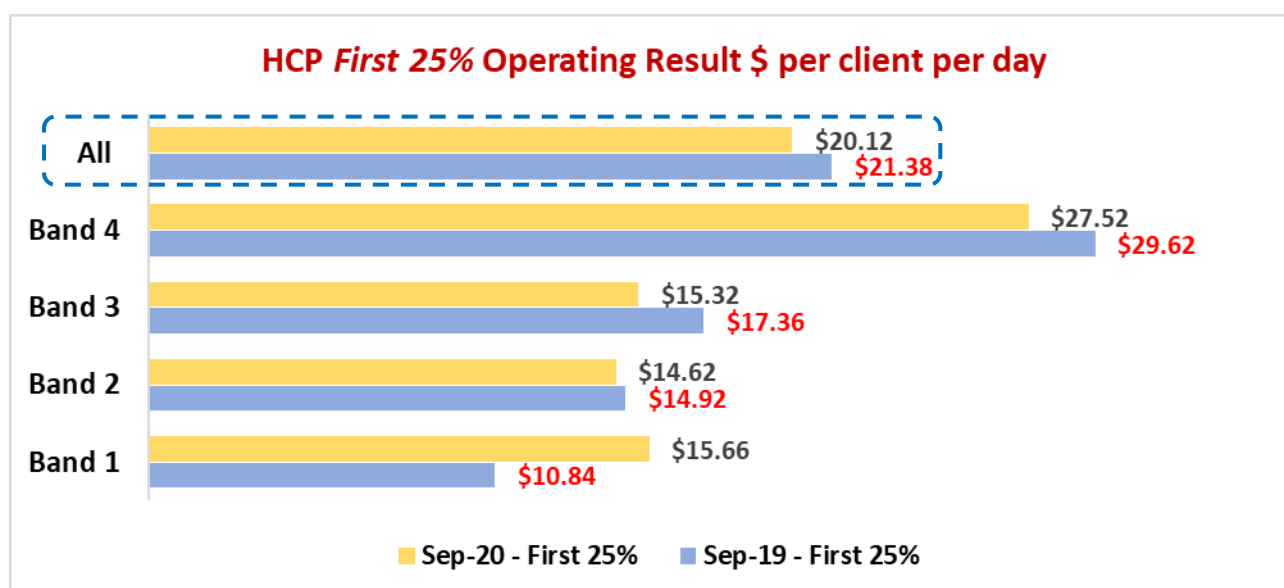
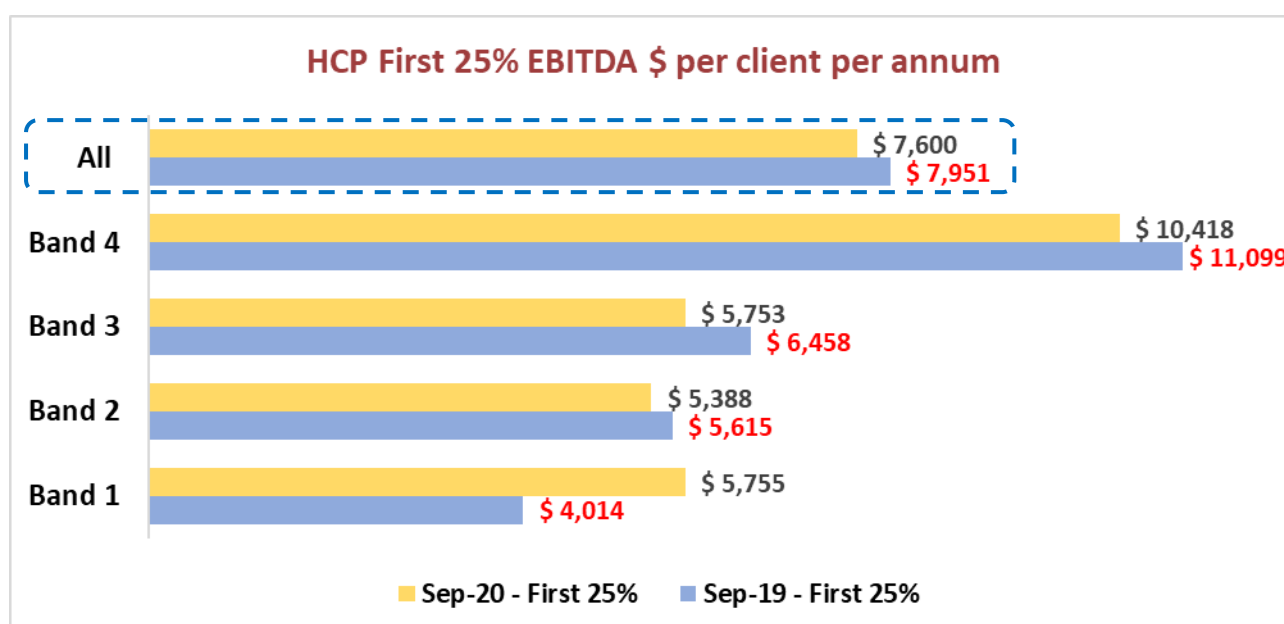


Figure 27: Comparison of Survey First 25% EBITDA per client per annum Sep-20 and Sep-19

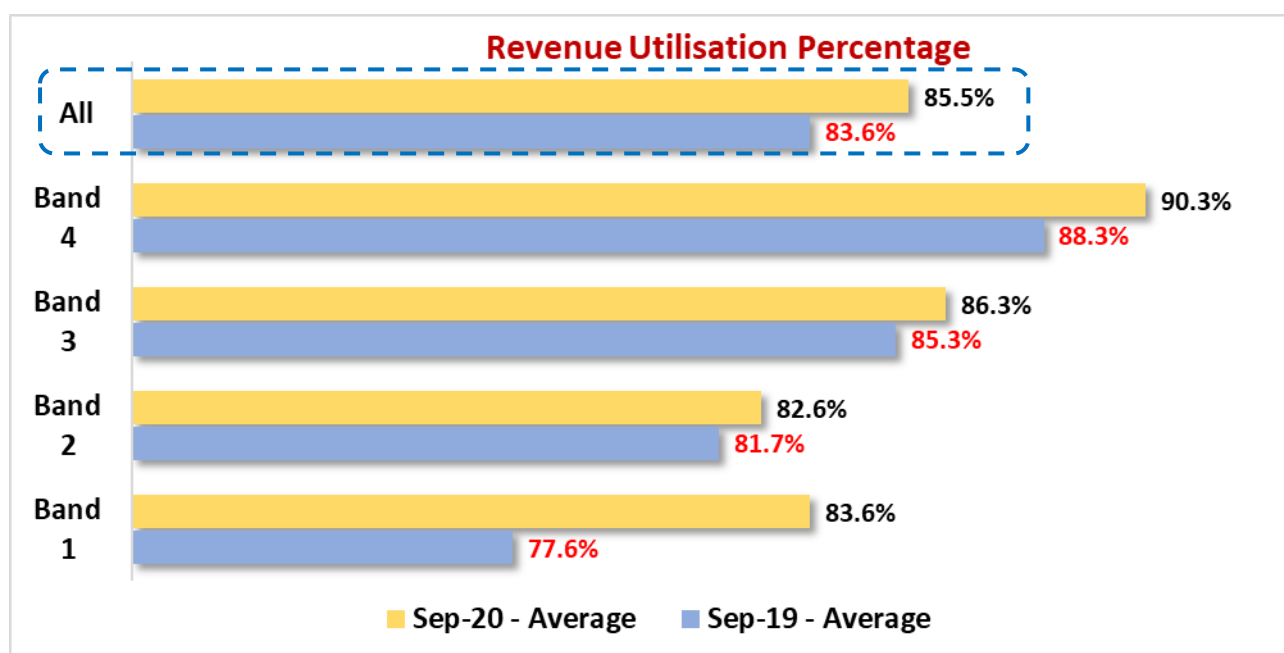


Revenue Utilisation

There had been a continued decline in revenue utilisation since FY16 year-on-year trend however, for the Sep-20 comparison, revenue utilisation has improved by 2% to 85.5% (Survey First 25% was 89.1%). This would normally affect profitability due to the fixed overhead costs being spread over slightly improved revenues and variable costs remaining proportional to revenue levels however, this effect is offset by declining revenues overall.

There requires an ongoing improvement in revenue utilisation to be a strategic priority for the remainder of FY21, and if possible, this should be through the provision of additional services directly by providers based on the care needs and agreed services of the care recipient.

Figure 28: Revenue Utilisation comparison for Sep-20 and Sep-19



Unspent Funds

As noted by the Government in the recent reform consultations in relation to the funding model, the continued increase in the quantum of unspent funds per client is a major issue. The average unspent funds per care recipient has risen for the three months to Sep-20 to \$9,151.

StewartBrown estimates the unspent funds liability at the end of the Sep-20 quarter to be in aggregate around **\$1,250 million** based on number of people with a package. Most of this balance of unspent funds relates to HCP subsidies and if these are not being utilised for direct care delivery, they could be diverted toward those care recipients on the national prioritisation queue that do not yet have access to in-home care funding.

Figure 29: Average Unspent Funds per client as at Sep-20 and Sep-19

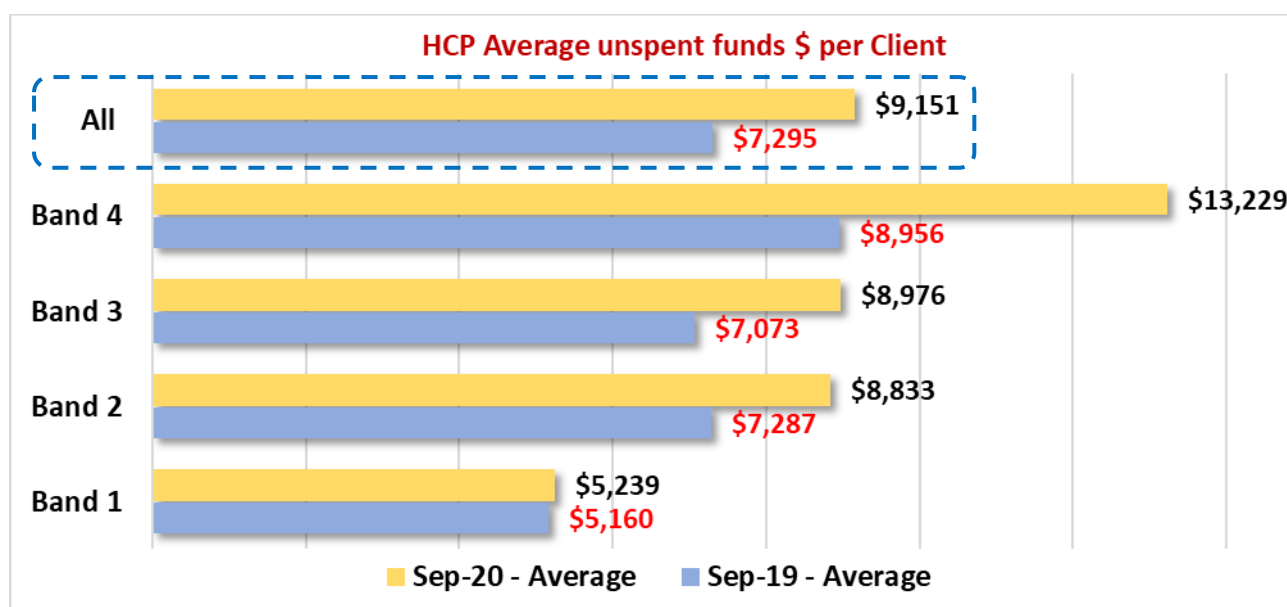
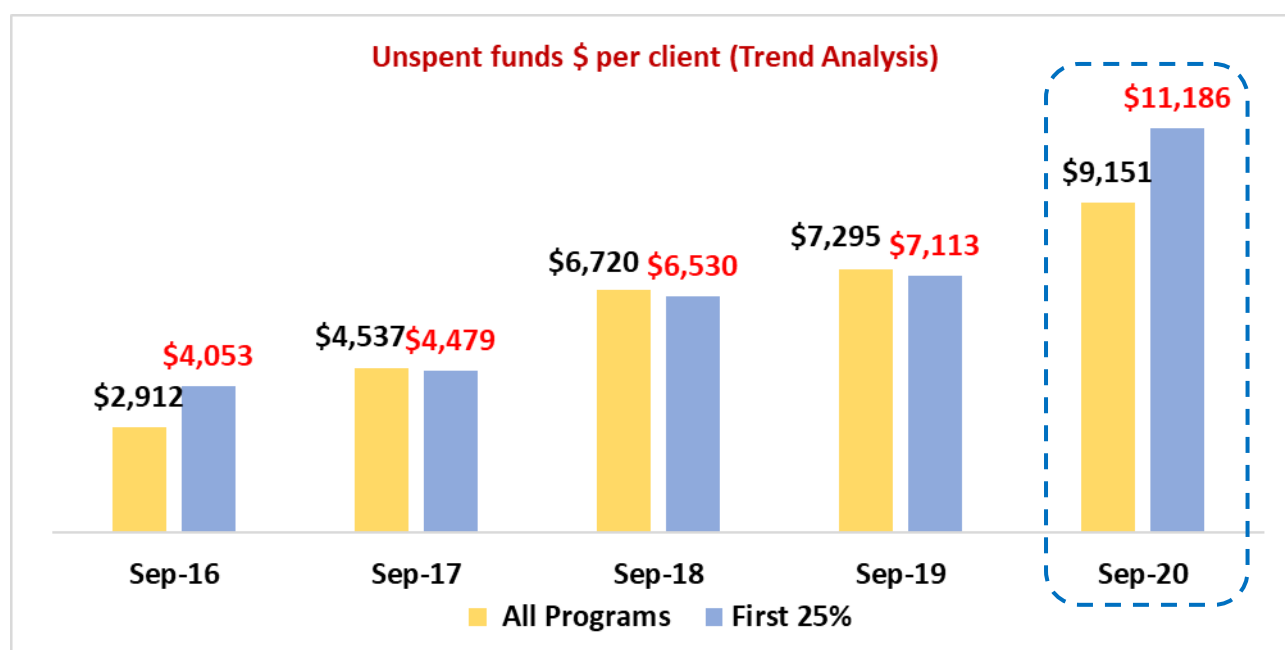


Figure 30: Unspent Funds trend analysis Sep-16 to Sep-20



Comment

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

From a care recipient's perspective, large unspent funds could be a result of not fully utilising the subsidy for the overall package of care and support that it is intended to provide based on the ACAT assessment. We note that the estimate of between 8% - 12% of unspent funds are later utilised by a care recipient.

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

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

Another related issue is that due to the high level of unspent funds per care recipient, there is a reluctance by some providers to levy (and consumers to be charged) a client contribution (basic daily care fee), as it would effectively only add to the quantum of unspent funds. In some cases, there have been instances where the means-tested fee also has not been levied for the same reason.

This practice distorts the overall funding model and discourages the notion of consumers "co-contributing" to their care needs.

The changes being made to the payment arrangements in Home Care commencing 1 February 2021 and then further changes to be implemented from 1 September 2021 will start to see the level of unspent funds held by providers decline, however it will not alleviate the overall level of unspent funds in the system.

Staff Hours Worked per Care Recipient

The average direct care hours per care recipient per week have declined from the levels in the FY17 to FY19 periods. This may be partly due to lower available package revenue as a direct result of the increased unspent funds, but also likely due to driving lower costs to improve profitability.

Direct service hours per care recipient per week has declined to 3.76 hours (on average) for the three months to Sep-20 compared to 4.28 hours for the corresponding period to Sep-19.

Agency hours have declined and case management & coordination hours have increased. Administration & support services staff hours have remained fairly stable across the Survey from Sep-19 to Sep-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.

Table 10: Home Care Staff Hours per care recipient per week for Sep-20 and Sep-19 (Survey Average and First 25%)

Survey (Average)

Internal staff hours worked per client week	Sep-20	Sep-19		Difference	FY20
Direct service provision	3.76	4.28	↓	(0.51)	3.93
Agency	0.15	0.23	↓	(0.07)	0.23
Case management & coordination	1.00	0.80	↑	0.20	0.81
Administration & support services	0.47	0.46	↑	0.01	0.48
Total Staff Hours	5.39	5.76	↓	(0.37)	5.45

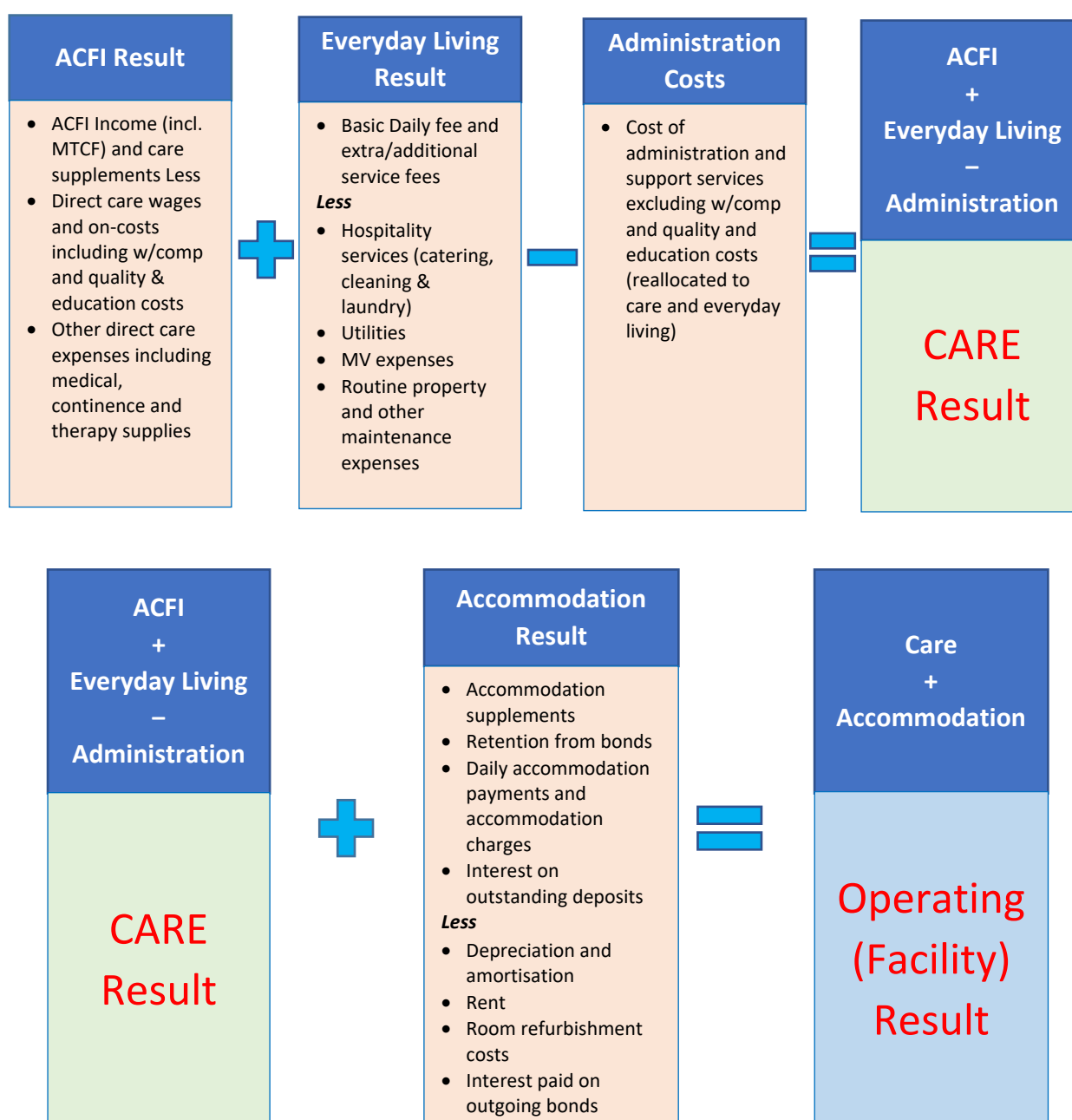
Survey (First 25%)

Internal staff hours worked per client week	Sep-20	Sep-19		Difference	FY20
Direct service provision	4.03	5.33	↓	(1.30)	4.48
Agency	0.09	0.21	↓	(0.12)	0.16
Case management & coordination	0.56	1.13	↓	(0.57)	0.92
Administration & support services	0.38	0.45	↓	(0.07)	0.44
Total Staff Hours	6.03	6.55	↓	(0.52)	6.00

5. GLOSSARY

Residential - Operating Result

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



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).

First 25% - 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.

First 25% - Residential Care

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

Location - City

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

Location - Regional

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

Survey

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

6. CONTACT DETAILS

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

StewartBrown Aged Care Executive Team

Grant Corderoy

Senior Partner - Consulting Division

Grant.Corderoy@stewartbrown.com.au

Stuart Hutcheon

Partner - Audit and Consulting Divisions

Stuart.Hutcheon@stewartbrown.com.au

David Sinclair

Partner - Consulting Division

David.Sinclair@stewartbrown.com.au

Steff Kearney

Director - Consulting Division

Steff.Kearney@stewartbrown.com.au

Andrew Coll

Director - Aged Care Division

Andrew.Coll@stewartbrown.com.au

Office Details

Level 2, Tower 1

495 Victoria Avenue

Chatswood NSW 2067

T: +61 2 9412 3033

F: +61 2 9411 3242

benchmark@stewartbrown.com.au

www.stewartbrown.com.au



Analyst, IT and Administration Team

Tracy Thomas

Senior Manager

Robert Krebs

Senior Business Analyst

Sabrina Qi

Business Analyst

Kieron Brennan

Business Analyst

Shan Wu

Business Analyst

Vicky Stimson

Survey Administrator

Queenie Min Zhou

Administration/Analyst

Rachel Corderoy

Media and Marketing

Reece Halters

IT Manager

Rhys Terzis

System Analyst

Min Joo Kim

Data Analyst