



Aged Care Financial Performance Survey

Sector Report



Celebrating
80 YEARS
1939 to 2019

The StewartBrown March 2020 *Aged Care Financial Performance Survey* incorporates detailed financial and supporting data from 1,108 aged care homes and 46,938 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.

Nine months ended 31 March 2020

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1. HIGHLIGHTS FROM MARCH 2020 SURVEY

Residential Aged Care



(\$8.23)

Aged Care Home (ACH) Result per bed day for Survey Average (Mar-19: \$1.65)



\$21.08

ACH Result per bed day for First 25% (Mar-19: \$29.78)



\$3,819

ACH EBITDAR per bed per annum for Survey Average (Mar-19: 6,873)



\$13,831

ACH EBITDAR per bed per annum for First 25% (Mar-19: \$16,507)



30.7%

Proportion of facilities with negative ACH EBITDAR (Mar-19: 19.7%)



58.3%

Proportion of facilities with negative ACH Result (Mar-19: 45.1%)

Home Care



\$4.51

NPBT per client day for Survey Average (Mar-19: \$3.48)



\$14.72

NPBT per client day for First 25% (Mar-19: \$18.02)



\$1,796

EBITDA per client per annum for Survey Average (Mar-19: \$1,419)



\$5,501

EBITDA per client per annum for First 25% (Mar-19: \$6,690)



\$8,250

Survey Average for unspent funds (Mar-19: \$6,788)



85.1%

Survey Average revenue utilisation (Mar-19: 88.5%)



10.4%

Case management costs as % of income (Mar-19: 9.7%)



23.0%

Administration costs as % of income (Mar-19: 24.1%)

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:-

- ◆ 201 approved provider organisations
- ◆ 1,108 residential aged care homes (*46 homes were excluded due to their operational circumstances*)
- ◆ 46,938 home care packages (*513 programs of which 84 were excluded*)

In respect of residential care, participants to the Survey represent approximately 44% 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	709	277	122	1,108
Aged care homes included	682	261	97	1,040
Aged care homes excluded	27	9	10	46
State/local government	-	7	15	22
Survey less state/local government (A)	709	270	107	1,086
<i>GEN aged care Data Service Listing (30 June 2019)</i>				
Total	1,697	656	365	2,718
State/local government	34	114	90	238
Service Listing less state/local government (B)	1,663	542	275	2,480
Coverage % = (A)/(B)	42.6%	49.8%	38.9%	43.8%

Please note - to be consistent with the Department of Health's preferred terminology, we have transitioned from the term "residential facilities" to "residential aged care homes" for the 2019/20 Survey year. In the interim we will use both terms where 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 has caused health, personal and financial hardship which is affecting all levels of our society, and particularly the many vulnerable persons.

The aged care sector has again shown outstanding compassion, expertise, resilience and professionalism at all levels in responding to, and maintaining the care for all elderly and ensuring their wellbeing.

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 nine months ended 31 March 2020.

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

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

The trend analyses contained in this Sector Report are a subset of the data received from participants. It needs to be noted that the primary purpose of the Survey is for participant organisations to obtain a granular comparison for each residential 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 target setting into the future, forecasting and strategic decision-making.

The Royal Commission into Aged Care Quality and Safety, which issued its Interim Report on 31 October 2019, has already identified a number of critical issues that require resolution, including appropriate staffing hours, staff training and conditions which would have a direct link to quality of care.

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 factually based and objective and be supported by good data.

Mar-20 Survey Results Summary

Following is a summary of the key financial performance results and indicators by segment from participants in the Mar-20 *Aged Care Financial Performance Survey*. Comparisons are generally year-on-year (from Mar-19) with some analysis against the FY19 results.

Residential Care

- 60% of aged care homes recorded an operating loss for the nine months to Mar-20
- 34% of aged care homes recorded an EBITDAR loss (operating cash loss) for the nine months to Mar-20
- Average ACFI per bed day (pbd) for Survey participants increased by \$2.37 pbd to \$180.75 pbd (1.33% pa)
- Occupancy levels for all survey participants decreased to 92.1% average occupancy (93.6% Mar-19)
- Total care hours per resident per day increased by 0.09 hours to 3.23 hours (Mar-19: 3.14 hours)
- ACFI direct care services costs increased to \$155.81 pbd (year-on-year) (6.5% pa)
- Costs for providing everyday living services exceeded revenue by \$8.72 pbd (*excluding administration*)
- Average Operating Result for aged care homes reduced by \$3,408 per bed per annum (pbpa) to a loss of \$2,835 pbpa (year-on-year)
- Average EBITDAR for aged care homes reduced by \$3,054 pbpa to \$3,819 pbpa
- Supported ratio slight reduction to 46.4%
- Average full RADs taken in the March nine months increased to \$427,037 (nationally) and increase of \$27,567 in the year from Mar-19

Home Care Packages

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

- Revenue per client per day (pcpd) average for Survey participants decreased by 5.69% (being \$4.22 pcpd)
- The average operating profit per client day increased by \$1.03 pcpd to \$4.51 pcpd (\$3.48 Mar-19; \$3.65 FY19)
- Direct service costs decreased by \$3.55 pcpd (61.04% of total revenue)
- Revenue utilisation has declined by 3.5% to 85.1%
- The average unspent funds per client has increased by \$1,463 per client (to average \$8,250 per client)
- Staff hours per client per week reduced by 0.71 hours (average 5.88 hours per week)

Survey First 25% (Year-on-Year)

- Revenue per client per day (pcpd) average for Survey participants decreased by 12.2% (being \$11.04 pcpd)
- The average operating profit per client day decreased by \$3.30 pcpd to \$14.72 pcpd (\$18.02 Mar-19; \$18.28 FY19)
- Direct service costs increased by \$4.90 pcpd (51.6% of total revenue)
- Revenue utilisation has declined by 2.2% to 86.6%
- The average unspent funds per client has increased by \$1,482 per client (to average \$7,894 per client)
- Staff hours per client per week reduced by 0.69 hours (average 6.35 hours per week)

Commentary

The Survey for the nine months ended 31 March 2020 continues to highlight that the financial sustainability of the residential aged care sector has deteriorated in all geographic regions well above the impact of covid-19, 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.

The headwinds are also becoming a major concern in relation to in-home care where the profit levels have deteriorated for the period to October to March, revenue has decreased with the offset being a further reduction in direct care staff hours (and the associated cost) which may be unsustainable going forward.

The financial impact of COVID-19 has impacted the results, in particular the month of March, to a certain extent, however it is likely to heavily influence the results for the June and subsequent quarters until the virus is fully stabilised and the economy commences the journey to recovery. The Government has introduced a number of funding initiatives which will assist providers, including the recent one-off grant of \$900 per bed except regional aged care homes which will receive \$1,350 per bed.

We will be separately identifying the covid-19 additional funding and expenses (including additional staff costs) for the June 2020 report to analyse the overall net impact of covid-19 from a financial perspective and to allow the trend analysis of recurrent (non covid-19) revenue and expenses to also be properly assessed.

We continue to highlight that the residential aged care sector, in particular, requires significant funding reform apart from the covid-19 issues to maintain financial viability and sustainability.

Residential Care a significant concern in relation to ongoing financial viability. The nine months to Mar-20 also saw the first significant decrease in occupancy levels for at least eight years. 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 1.33% pa is primarily as a result of the COPE inflation increase and indicates that the average acuity of residents has plateaued to a large extent. However, the costs of providing direct care has increased by 6.5% pa and this differential is not supportable under the current funding envelope.

Direct care staff costs represented 86.2% 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 19 “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 \$8.72 per resident per day without any allowance for the administration costs. If the administration costs specifically related to these services was included, the deficit is **\$21.36 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 \$5,098 per bed per annum (\$15.30 loss per resident per day). This has resulted in 74% of these homes having an operating loss and 55% having a cash operating deficit. These percentages will further deteriorate over the next six 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 \$17.72 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.

[Residential Care Scenario Analysis](#) was prepared to ascertain the effects of additional subsidy and accommodation revenues would have on the overall financial performance of the residential aged care homes (refer page 25). This scenario analysis further confirms the significant financial issues that this sector faces, as even with such additional revenues the percentage of homes making an operating loss would still be 35% and making an EBITDAR (cash) loss would be 17%.

This confirms that the funding envelope will require a major recalibration to ensure the immediate and ongoing sustainability.

[In-home Care](#) (Home Care Packages) has experienced an improved operating performance for the Mar-20 nine months, with an overall increase of \$1.03 per client per day in comparison to the Mar-19 nine month period. Please note 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 financial performance of in-home care has deteriorated for the six month period October 2019 to March 2020 to be a deficit of \$1.84 per client day for this period.

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 \$8,250 per client (care recipient). In aggregate, this represents in excess of \$1 million 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 recently announce 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.

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.

[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 which the predominant impact being direct care expenses increasing at a much higher rate (6,5% pa) than care revenue (1.33% pa). The Operating Result as shown below has decreased from a surplus of \$1.65 per bed day (pbd) in the nine months to Mar-19 to a deficit of \$8.23 pbd in the nine months to Mar-20. The deficit increased by a \$1.80 pbd over the March quarter.

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 9 months).

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

	Survey Average		Survey First 25%	
	Mar-20	Mar-19	Mar-20	Mar-19
	1,040 Homes	952 Homes	260 Homes	238 Homes
ACFI				
Revenue	\$180.75	\$178.37	\$183.69	\$182.35
Expenditure				
Labour costs	\$147.25	\$138.05	\$130.56	\$122.55
Other direct costs	\$8.61	\$8.18	\$7.31	\$6.71
	\$155.86	\$146.24	\$137.87	\$129.26
ACFI RESULT (A)	\$24.88	\$32.14	\$45.82	\$53.09
EVERYDAY LIVING				
Revenue	\$53.42	\$51.98	\$54.06	\$53.27
Expenditure				
Catering	\$31.16	\$29.56	\$29.48	\$28.45
Cleaning	\$8.54	\$8.19	\$7.63	\$7.61
Laundry	\$4.09	\$3.88	\$3.55	\$3.51
Overhead allocation (workcover & education)	\$0.67	\$0.65	\$0.52	\$0.54
Utilities	\$7.05	\$7.10	\$6.41	\$6.54
Routine maintenance & motor vehicle	\$10.64	\$10.34	\$9.50	\$9.44
	\$62.14	\$59.71	\$57.11	\$56.08
EVERYDAY LIVING RESULT (B)	(\$8.72)	(\$7.73)	(\$3.05)	(\$2.81)
ADMINISTRATION COST (C)	(\$36.08)	(\$33.94)	(\$32.91)	(\$30.55)
CARE RESULT (D) (A + B + C)	(\$19.92)	(\$9.54)	\$9.86	\$19.73
ACCOMMODATION				
Revenue				
Residents	\$13.61	\$13.17	\$13.64	\$12.78
Government	\$18.63	\$17.78	\$17.03	\$15.97
	\$32.25	\$30.95	\$30.67	\$28.75
Expenditure				
Depreciation	\$18.35	\$17.09	\$17.54	\$16.48
Property rental	\$0.96	\$1.08	\$0.70	\$0.66
Other	\$1.24	\$1.59	\$1.21	\$1.57
	\$20.55	\$19.76	\$19.45	\$18.71
ACCOMMODATION RESULT (E)	\$11.69	\$11.19	\$11.22	\$10.04
OPERATING RESULT (\$ per bed day) (D + E)	(\$8.23)	\$1.65	\$21.08	\$29.78
OPERATING RESULT (\$ per bed per annum)	(\$2,835)	\$573	\$7,415	\$10,477
EBITDAR (\$ per bed per annum)	\$3,819	\$6,873	\$13,831	\$16,507

Summary of Results

Revenue

- Increase in ACFI and supplements revenue by \$2.37 pbd from \$178.37 pbd at Mar-19 to \$180.75 at Mar-20 is mostly due to the COPE (inflation) subsidy rate increase from 1 July 2019 – as a result there has been no real increase in average ACFI due to higher acuity mix of residents
- Increase in Every Day Living revenue by \$1.44 pbd with only a marginal increase in additional services revenue (average \$0.43 pbd)
- Increase in Accommodation revenue by \$1.30 pbd

Expenses

- Increase in total direct care costs of \$9.62 pbd and increase of approximately 5.4 minutes per resident per day in total direct care hours (total direct care hours: 3.23 hours per resident per day)
- Increase in hotel services \$2.16 pbd (5.1%)
- Decrease in utilities of \$0.05 pbd (likely due to greater use of solar energy)
- Increase in administration of \$2.14 pbd (effect of covid-19 for March a contributing reason)
- Increase in accommodation expenditure by \$0.79 pbd (4.0%)

Operating Results

- Care result (*excluding administration component*) declined by \$8.24 pbd (to an overall average surplus of \$16.16 pbd) – after the allocation of the administration component this reduces to a deficit of \$5.50 pbd
- Accommodation result (*excluding administration component*) improved by \$0.50 pbd to an average of \$11.69 pbd – after the allocation of the administration component this reduces to a deficit of \$2.73 pbd
- Operating result was a deficit of \$8.23 pbd (Mar-19 surplus \$1.65 pbd)
- EBITDAR decreased by \$3,054 per bed per annum to \$3,819 pbpa

Additional Trends

- Occupancy - decrease from 95.0% to 94.1% (*based on mature operational beds*)
- Overall occupancy (including aged care homes with low occupancy out of scope and refurbishments declined to 92.1% (*regional homes was 86.4%*)
- Supported resident ratio slightly decreased from 47.0% to 46.4%
- Increase in average amount of Refundable Accommodation Deposit held and received during the year

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

Summary Results	Jun-19 1,045 homes	Mar-20 1,040 homes	Mar-19 952 homes		Difference (YoY)
OPERATING RESULT (\$pbd)	(\$2.62)	(\$8.23)	\$1.65	↓	(\$9.88)
OPERATING RESULT (\$pbpa)	(\$904)	(\$2,835)	\$573	↓	(\$3,408)
EBITDAR (\$pbpa)	\$5,531	\$3,819	\$6,873	↓	(\$3,054)
Average Occupancy (<i>all homes</i>)	92.3%	92.1%	93.6%	↓	(1.5%)
Average Occupancy (<i>mature homes</i>)	94.4%	94.1%	95.0%	↓	(0.9%)
Average ACFI (\$pbd)	\$177.79	\$180.75	\$178.37	↑	\$2.37
Direct care hours per resident per day	3.13	3.23	3.14	↑	0.09
ACFI services costs as a % of ACFI	83.8%	86.2%	82.0%	↑	4.3%
Supported ratio	47.6%	46.4%	47.0%	↓	(0.5%)
Average Full RAD/Bond held	\$362,312	\$384,073	\$362,093	↑	\$21,980
Average Full RAD taken during period	\$402,384	\$427,037	\$399,470	↑	\$27,567

Trend Analysis

The following graphs highlight the trends for the nine month periods Mar-17 to Mar-20 respectively for the Survey Average (all aged care homes) and by geographical remoteness (based on the Australian Bureau of Statistics (ABS) ARIA definitions).

This analysis indicates that the financial performance has declined in all geographic segments, with the rural & remote located homes being particularly vulnerable.

Figure 1: Operating Result for each geographic area and Survey Average trend line (expressed as \$ per bed day)

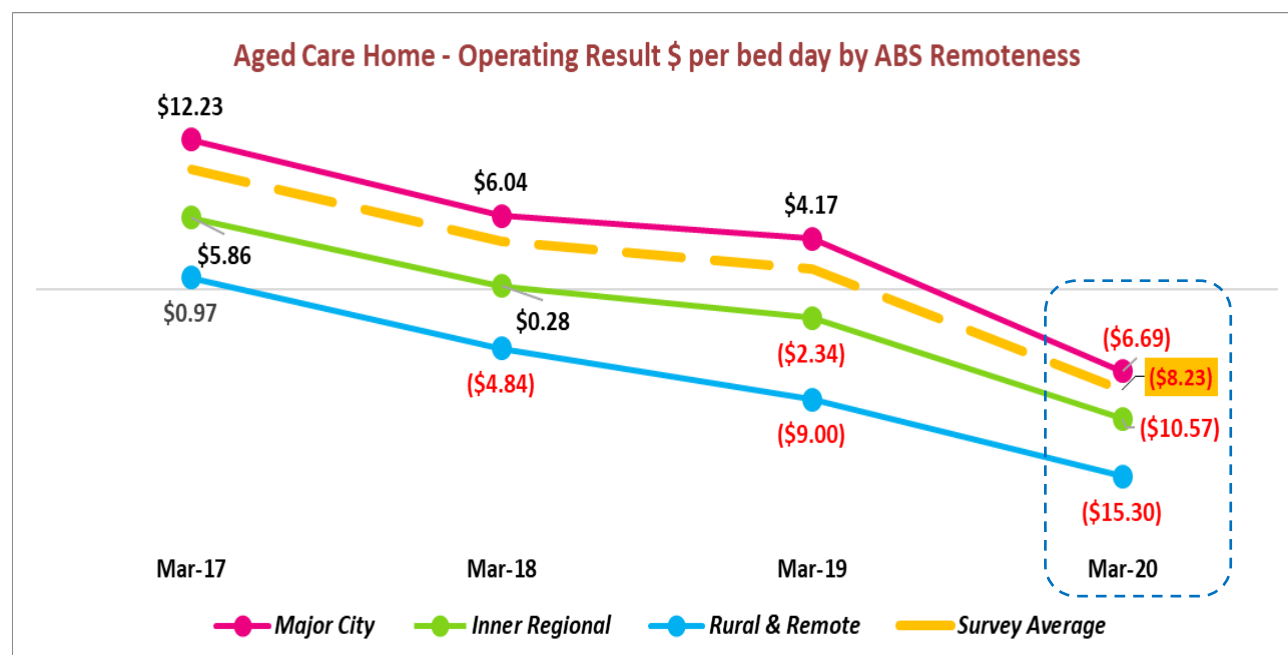
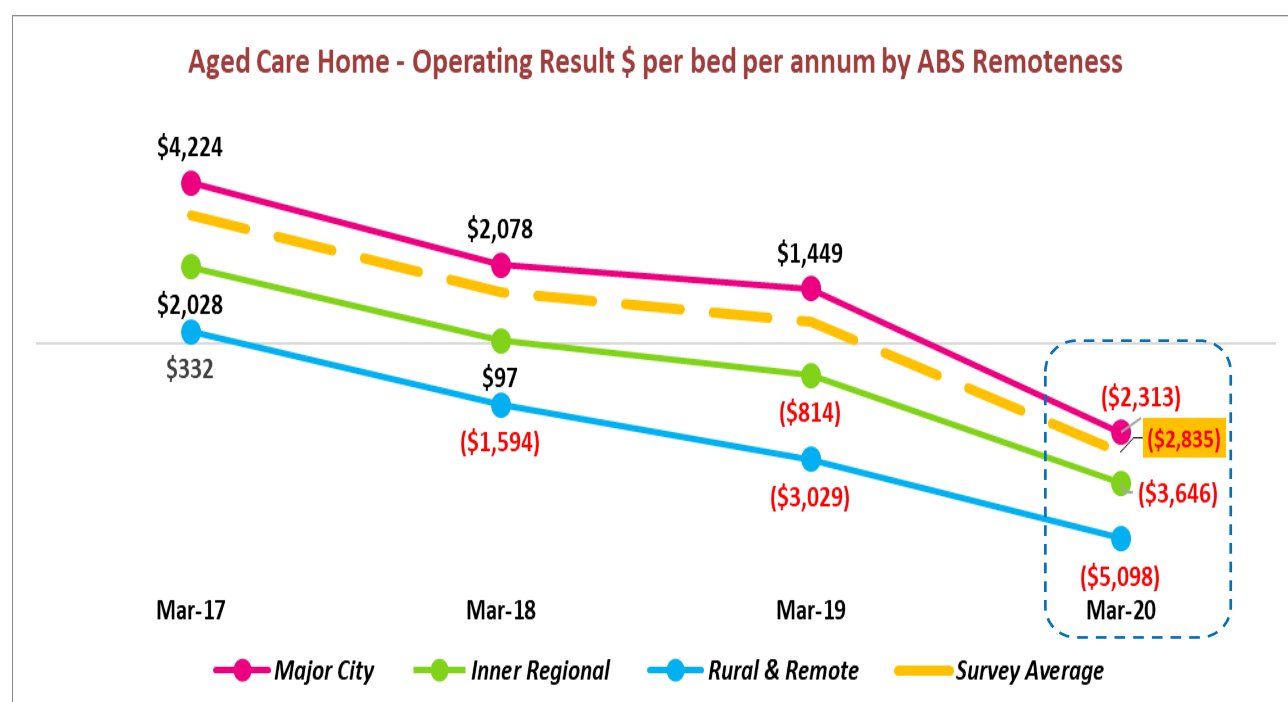


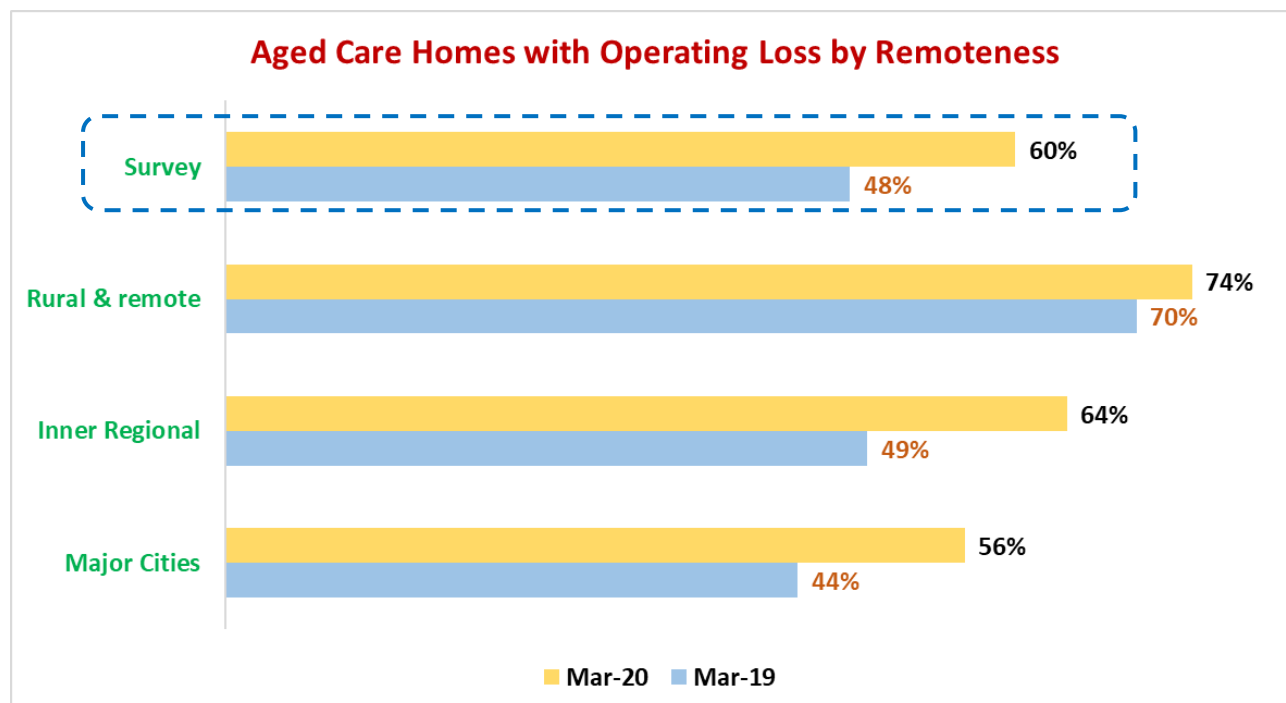
Figure 2: Operating Result for each geographic area and Survey Average trend line (expressed as \$ per bed per annum)



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).

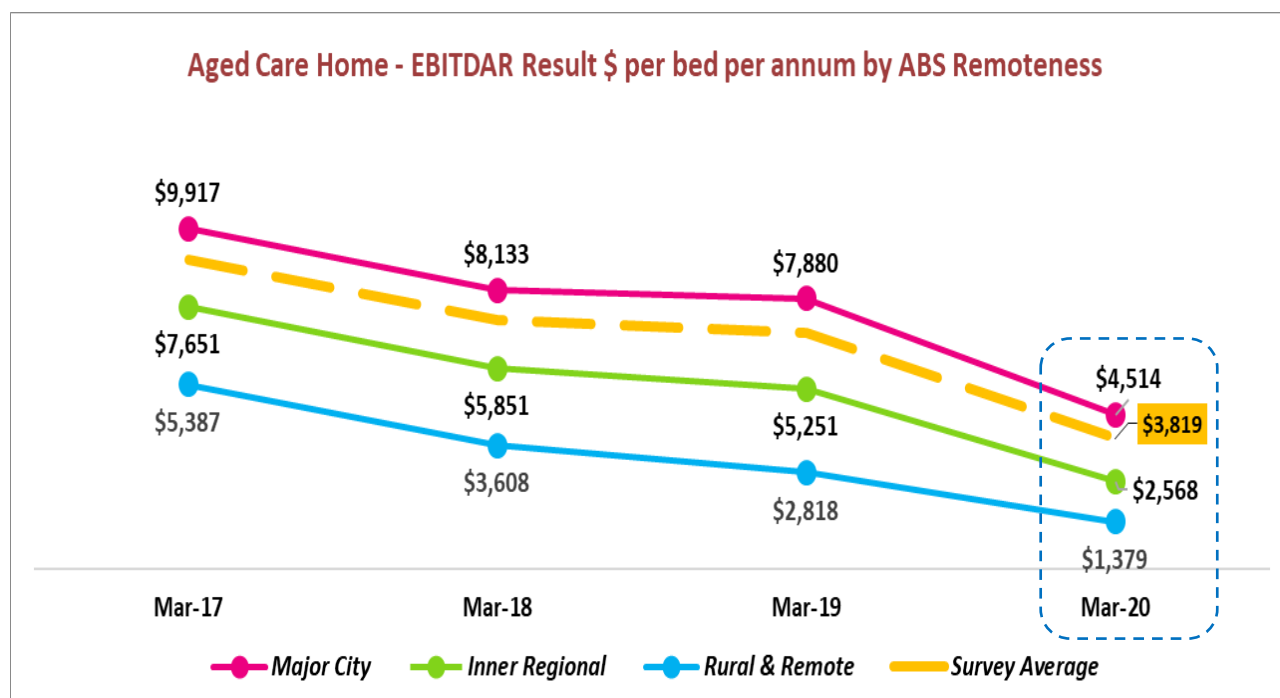
Figure 3: Analysis of aged care homes making an operating loss by ABS remoteness in total Survey



EBITDAR Result

The below graph shows the ACH EBITDAR (Earnings Before Interest, Taxation, Depreciation, Amortisation and Rent) trend for the Mar-17 to Mar-20 nine month periods.

Figure 4: EBITDAR Result for each geographic area and Average result trend line (expressed as \$ per bed per annum)

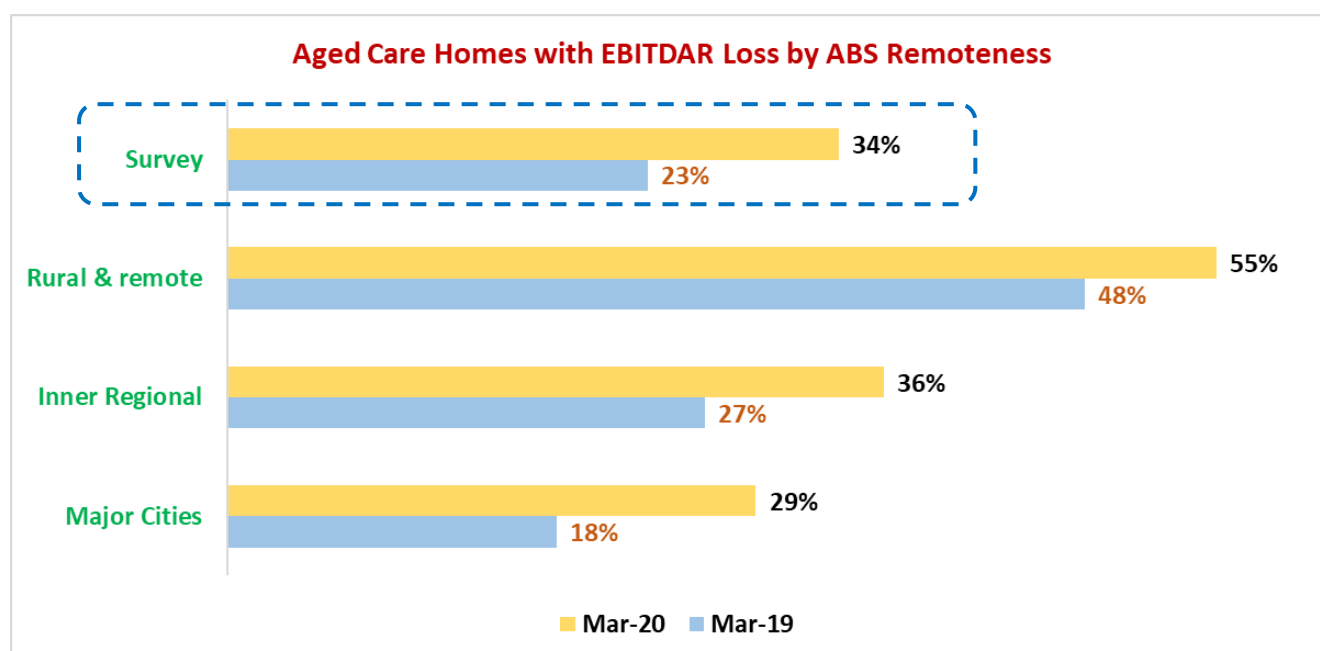


Number of Aged Care Homes making an EBITDAR Loss

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 5: 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 \$15.30 per bed day (deficit of \$5,098 per bed per annum). These results are unsustainable. 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

Regional aged care homes to be fully funded for ACFI based on 100% occupancy (*subject to financial viability analysis for vulnerable homes*)

(*Estimated additional annual subsidy - \$140 m*)

Snapshot: Mar-20 (9 months) Results By ABS Region

Major Cities



682 Aged Care Homes (ACHs)



(\$2,313) deficit

ACH Result \$ per bed per annum



\$4,514

ACH EBITDAR \$ per bed per annum



\$183.16

Average ACFI per bed day



85.8%

ACFI services costs as % of ACFI



3.27

Direct care hours per resident per day



45.4%

Supported resident ratio



94.4%

Average Occupancy



\$411,956

Average full accommodation deposit held



\$458,145

Average full RAD taken during period

Inner Regional



261 Aged Care Homes



(3,646) deficit

ACH Result \$ per bed per annum



\$2,568

ACH EBITDAR \$ per bed per annum



\$174.77

Average ACFI Per bed day



87.1%

ACFI services costs as a % of ACFI



3.12

Direct care hours per resident per day



46.8%

Supported resident ratio



94.3%

Average Occupancy



\$312,833

Average accommodation deposit held



\$350,395

Average full RAD taken during period

Rural & Remote



97 Aged Care Homes



(\$5,098) deficit

ACH Result \$ per bed per annum



\$1,379

ACH EBITDAR \$ per bed per annum



\$177.62

Average ACFI Per bed day



87.7%

ACFI services costs as a % of ACFI



3.28

Direct care hours per resident per day



50.0%

Supported resident ratio



91.1%

Average Occupancy



\$291,383

Average accommodation deposit held



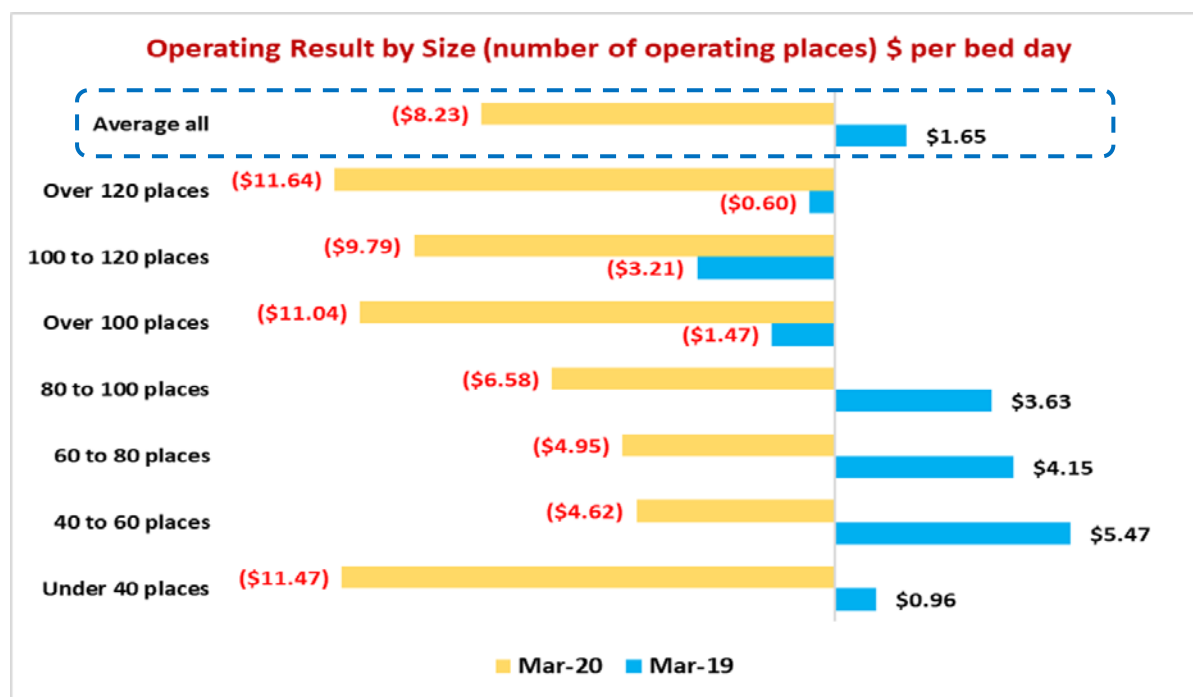
\$336,115

Average full RAD taken during period

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.

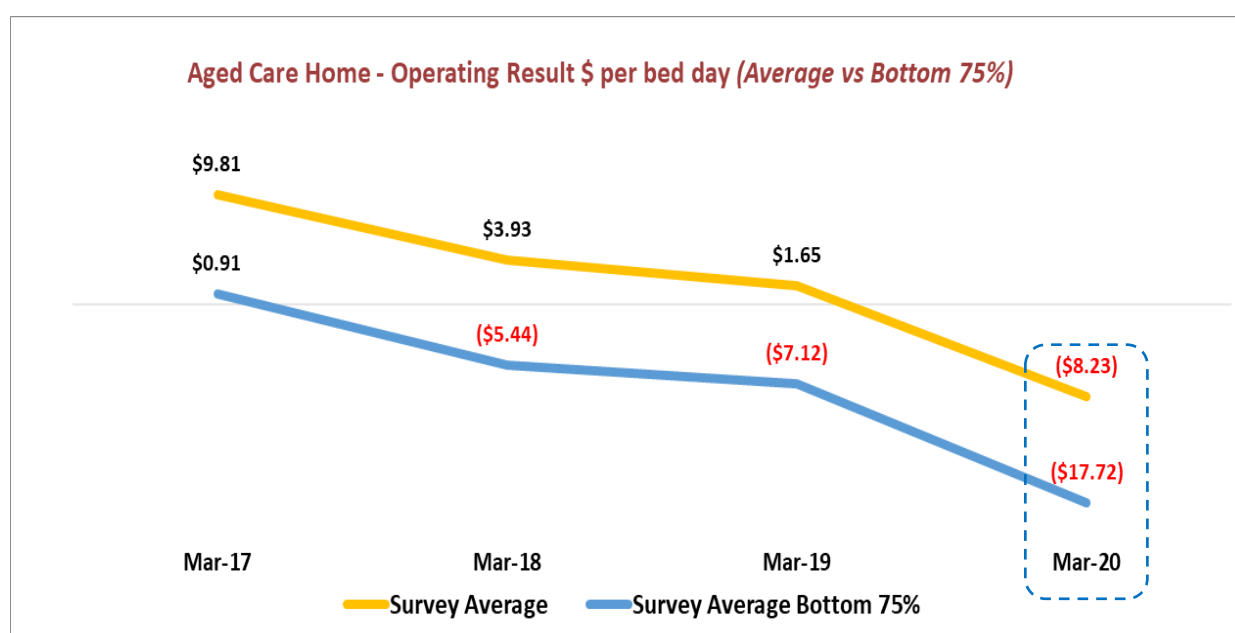
Figure 6: Operating result comparison by size of aged care home (expressed as \$ per bed day)



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 \$17.72 per bed day (a further decline of \$9.49 per bed day compared to the nine months to Mar-19). The *Bottom 75%* represent a very large cohort of aged care homes.

Figure 7: 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*)

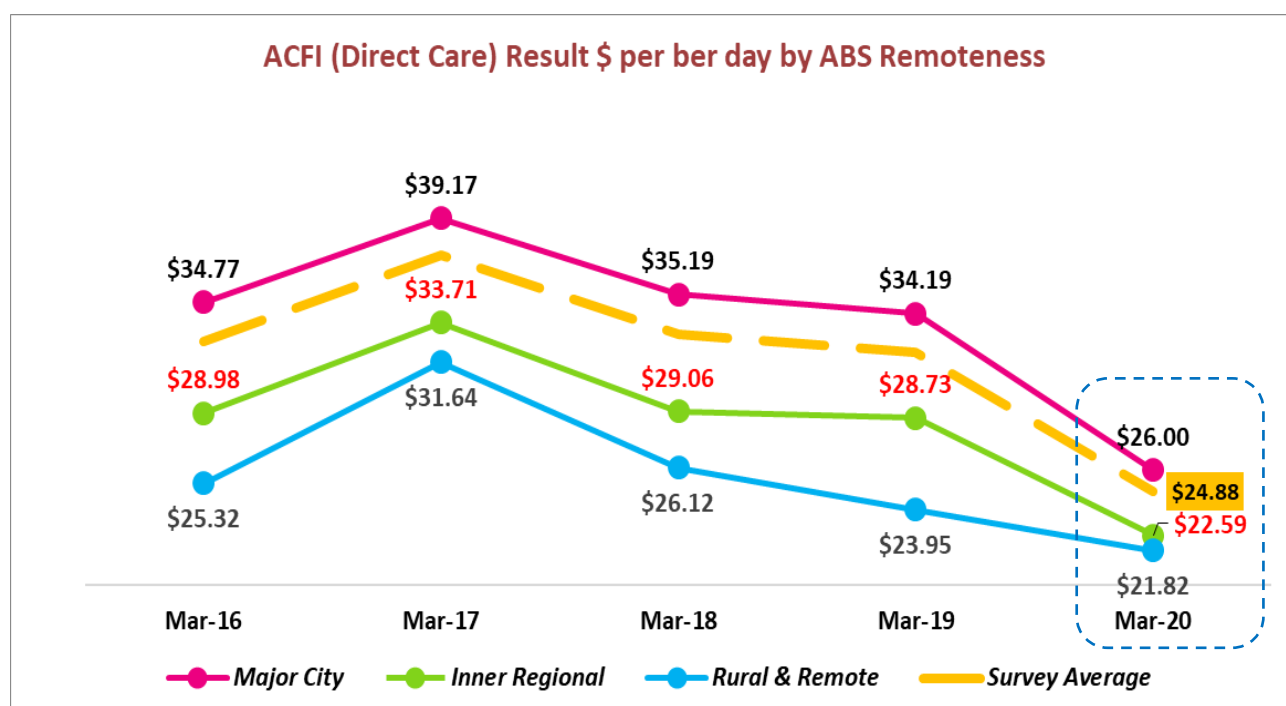
Figure 8: Components of the ACFI (direct care) result



The ACFI result (surplus) continues to decline in all geographic sectors, with a significant reduction occurring in the Mar-20 nine months. Direct care costs increased by \$9.62 per bed day as compared to the Mar-19 period.

Direct care staffing costs average \$147.25 pbd and represents 81.6% of ACFI revenue (77.6% Mar-19).

Figure 9: ACFI (direct care) result for Survey average and by ABS remoteness (expressed as \$ per resident bed day)

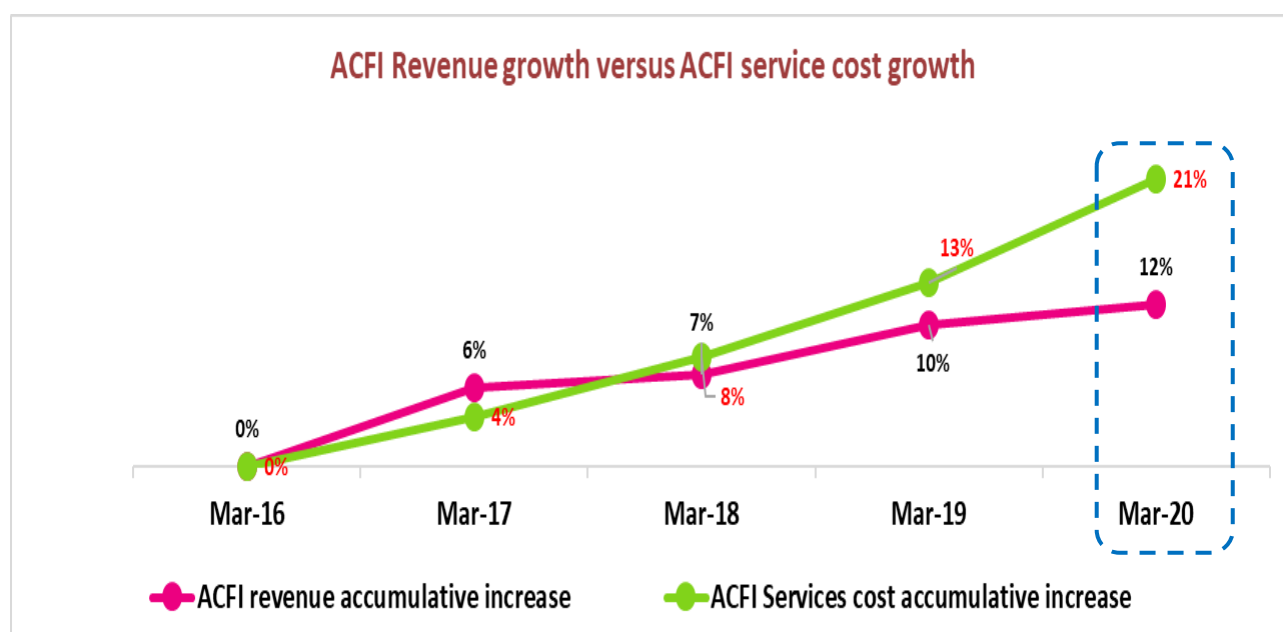


ACFI Revenue and Direct Care Costs Trend

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 (1.4% for FY20).

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 10: Cumulative increases in ACFI subsidy, Direct Care costs as compared to CPI with Mar-16 results as base



FUNDING REFORM CONSIDERATION

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 81% of ACFI revenue)

(Estimated additional annual subsidy - \$240 m)

Direct Care Staffing Hours

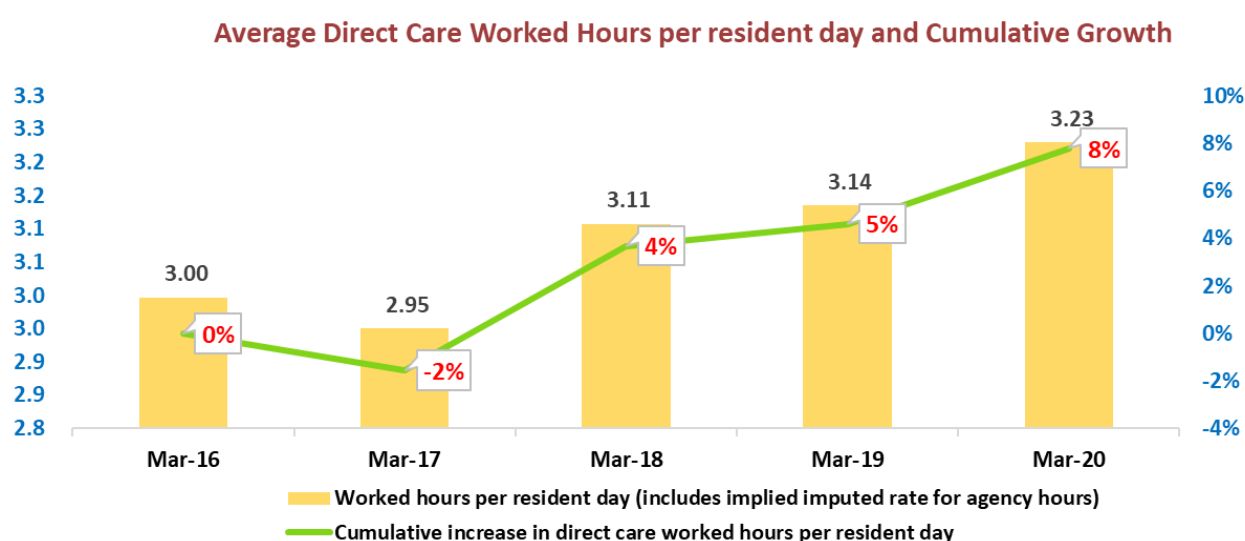
Direct Care staffing metrics include care staff costs and care staff hours. Improvement in the financial performance of an aged care home is directly related to appropriately aligning staffing hours and levels to the funding and ensuring that the design of the home is operationally efficient.

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%

Survey Average				Survey First 25%		
Hours by Staff Category - hours worked per resident per day						
	Mar-20	Mar-19		Mar-20	Mar-19	
Care management	0.12	0.12	-	0.11	0.12	↓
Registered nurses	0.40	0.38	↑	0.37	0.32	↑
Enrolled & licensed nurses	0.29	0.35	↓	0.24	0.29	↓
Other unlicensed nurses & personal care staff	2.21	2.11	↑	2.01	1.93	↑
Allied health & lifestyle	0.19	0.17	↑	0.19	0.19	↑
Imputed agency care hours implied	0.03	0.02	↑	0.03	0.02	↑
Total Care Hours	3.23	3.14	↑	2.95	2.86	↑

Figure 11: 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 Mar-19 by 6.7% and 6.5% respectively
- ◆ Total care hours have increased for both the Survey Average and for the First 25% by 2.9% and 3.1% respectively, and are now at 3.23 hours and 2.95 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 many 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.

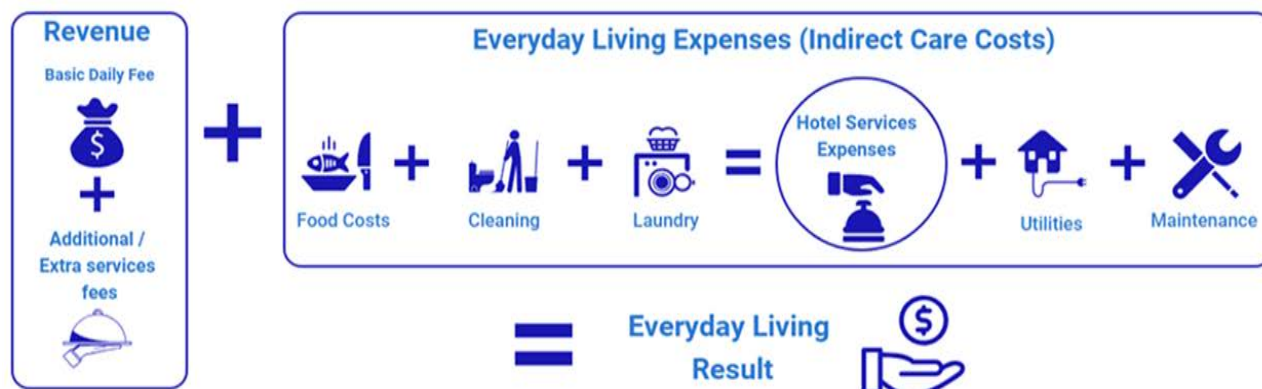
FUNDING REFORM CONSIDERATION

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)

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 12: 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 in excess of 46.4% across all aged care homes, this will continue to be an issue for providers in addressing the introduction of additional services.

For the Mar-19 nine months period the direct costs of providing everyday living services (*excluding the administration component*) exceeded the revenue by \$8.72 pbd (Mar-19 \$7.73 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 \$21.36 per bed day.

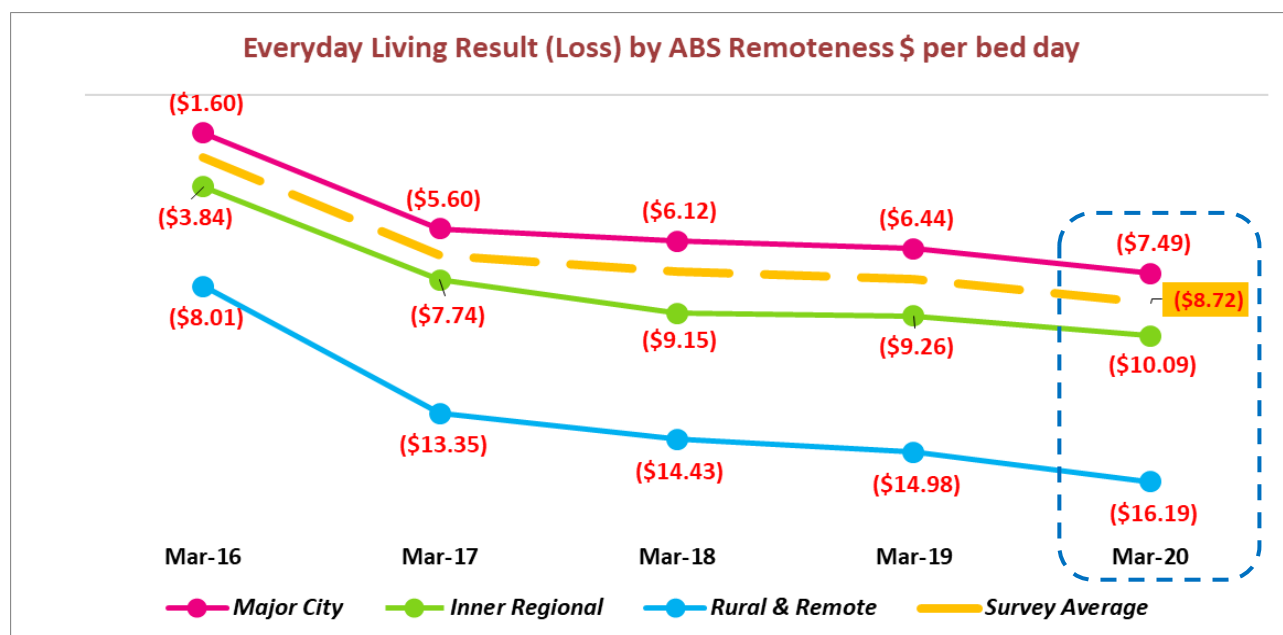
Table 5: Everyday living revenue and expense summary (expressed as \$ per resident bed day)

Survey Average Results	Jun-19 1,045 Homes	Mar-20 1,040 Homes	Mar-19 952 Homes	YoY Movement
Basic daily fee	50.67	51.50	50.49	↑
Other resident income	1.65	1.92	1.49	↑
Everyday Living revenue	\$52.32	\$53.42	\$51.98	↑
Hotel services	42.40	43.78	41.63	↑
Allocation of W/Comp to hotel services	0.45	0.48	0.47	↑
Utilities	7.06	7.05	7.10	↓
Maintenance costs (regular) and motor vehicles	10.67	10.64	10.34	↑
Quality and education allocation to everyday living	0.19	0.19	0.17	↑
Everyday living expenses	\$60.77	\$62.14	\$59.71	↑
Everyday Living Result	(\$8.45)	(\$8.72)	(\$7.73)	↓

Everyday Living Result Trend Analysis

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

Figure 13: Trend in the Everyday Living Result from Mar-16 to Mar-20 by Survey Average and geographic region



The Everyday Living Result has declined since Mar-16 by an average of \$6.11 per bed day. In the past 12 months, the Everyday Living Result has declined by an average of \$0.99 per bed day.

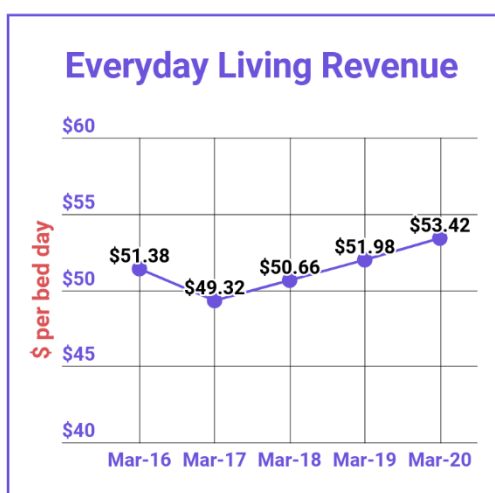
It is clear that the increase in the Basic Daily Fee has not kept pace with cost increases, particularly in catering, cleaning and laundry costs. As noted above, providers have had difficulty in introducing effective additional services to overcome this shortfall so that these costs are being subsidised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

FUNDING REFORM CONSIDERATION

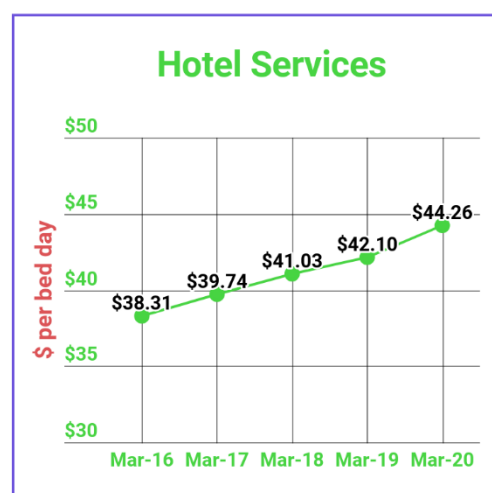
Increase the base amount for the Basic Daily Fee (which relates to Everyday Living costs) by \$10 per bed per day - government subsidy to compensate for all residents in the interim (first 2-3 years) and then progressively means-tested. We further recommend the full deregulation of the Basic Daily Fee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

(Estimated additional annual subsidy - \$700 m)

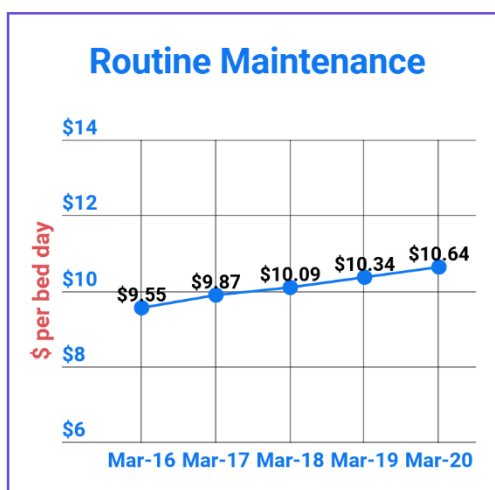
Figure 14: Everyday Living Revenue and Expense components trend from Mar-16 to Mar-20



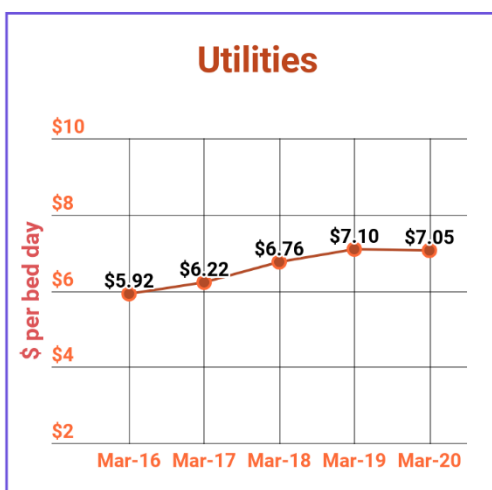
Since Mar-16 Everyday Living Revenue increased by an average of **\$2.04** per bed day or **4.0%**



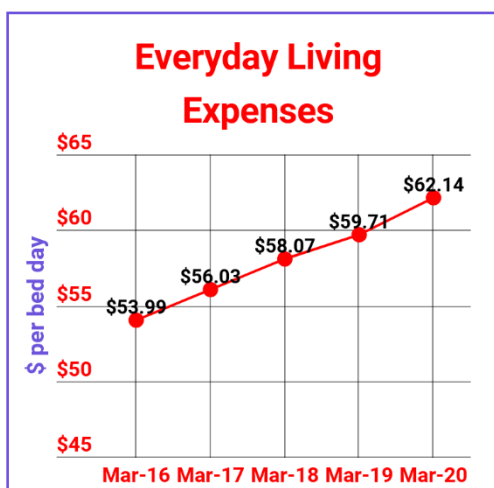
Hotel services costs increased by an average of **\$5.95** per bed day or **15.5%**



Routine Maintenance costs increased by an average of **\$1.09** per bed day or **11.4%**



Utility costs increased by an average of **\$1.13** per bed day or **19.1%**



Total Everyday Living Expenses have increased by an average of **\$8.15** per bed day or **15.1%** during the same period that revenue increased by only **\$2.04** 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 nine months to Mar-20 was \$11.69 per bed day (Mar-19 \$11.19 pbd) which represents \$4,028 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 \$6,321 pa.

The above amounts exclude the administration component and when this has been allocated, the accommodation result is a deficit of \$2.74 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 nine months to Mar-20 the Care Result was a deficit of \$19.92 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.

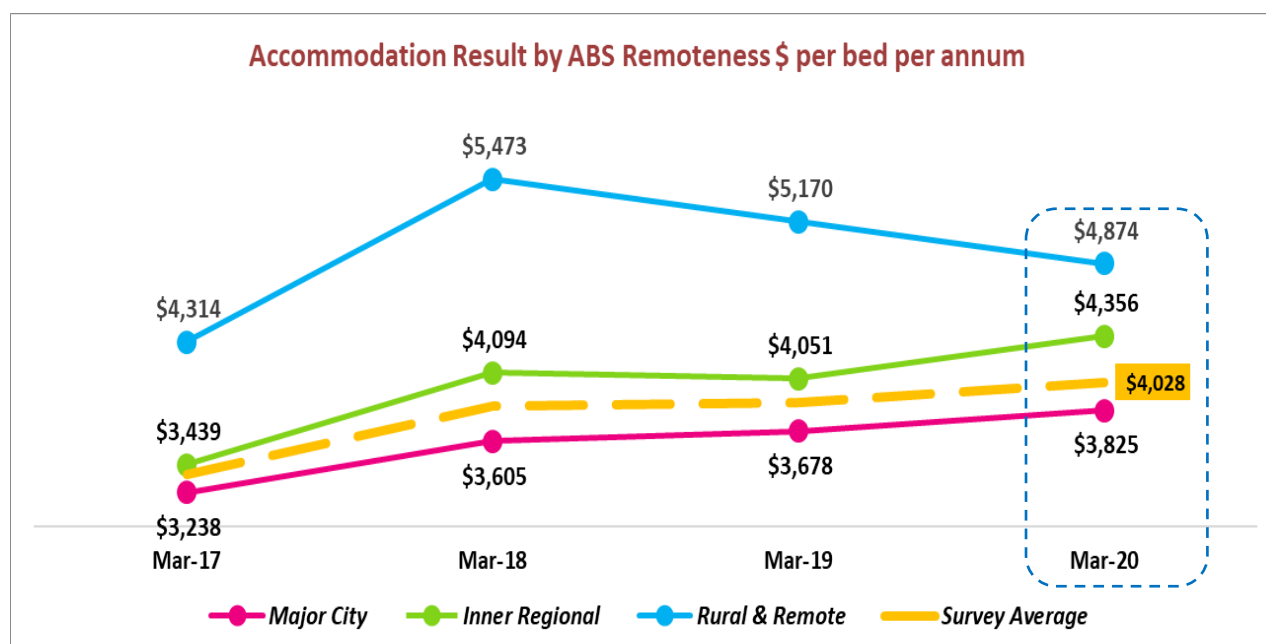
Table 6: Residential Care Accommodation Result comparison for Mar-20 and Mar-19

Accommodation Result	Jun-19 1,045 Homes	Mar-20 1,040 Homes	Mar-19 952 Homes	YoY Movement
Accommodation revenue	\$31.32	\$32.25	\$30.95	↑
Accommodation expenses				
Depreciation	17.60	18.36	17.09	↑
Refurbishment	0.25	0.21	0.25	↓
Other accommodation costs	2.22	1.99	2.42	↓
Accommodation expenses	\$20.07	\$20.56	\$19.76	↑
Accommodation Result	\$11.25	\$11.69	\$11.19	↑
Accommodation result \$ per bed per annum	\$3,897	\$4,028	\$3,878	↑
Depreciation charge \$ per bed per annum	\$6,097	\$6,308	\$5,923	↑

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.

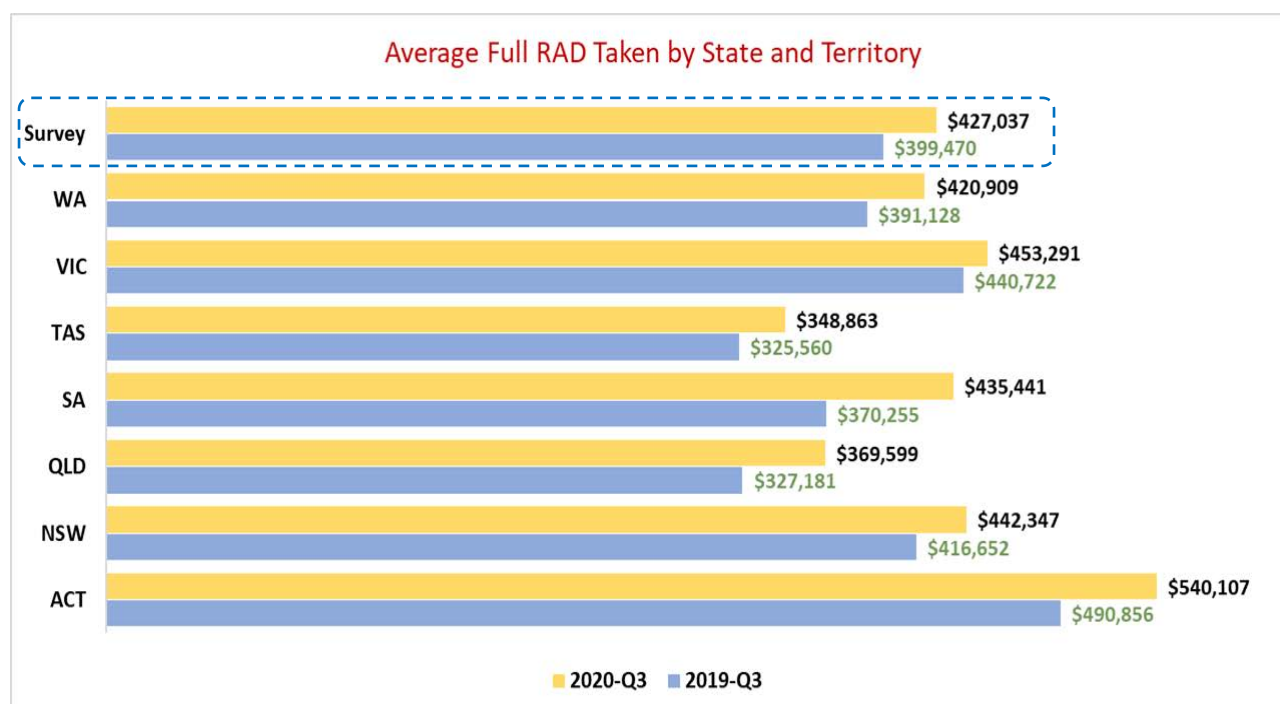
Figure 15: Residential Care Accommodation Result Trend (expressed as \$ per bed per annum)



Accommodation Pricing

We have observed a rise in the average published accommodation prices during the year-on-year period to Mar-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 16: Average Full Refundable Accommodation Deposits Received for Mar-20 and Mar-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 RAD 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 \$427,000 (being the average full RAD taken for the period to 31 March 2020 - refer *Figure 15*) the investment income will be \$5,337 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 4.91%. Therefore, if a DAP was received on the \$427,000 accommodation price, this would equate to a daily amount payable by the resident of \$57.44 per day (\$403.19 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 \$5,337 pa (\$102.64 per week) which is significantly less than property rentals which are around \$436 per week (Australian average) and the equivalent DAP of \$403.19 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 \$282,000.

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 nine months to Mar-20 (6.3% pa) in part due to significant covid-19 related costs for the month of March 2020.

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 17: Administration Costs trend (\$ per bed day) for period Mar-16 to Mar-20

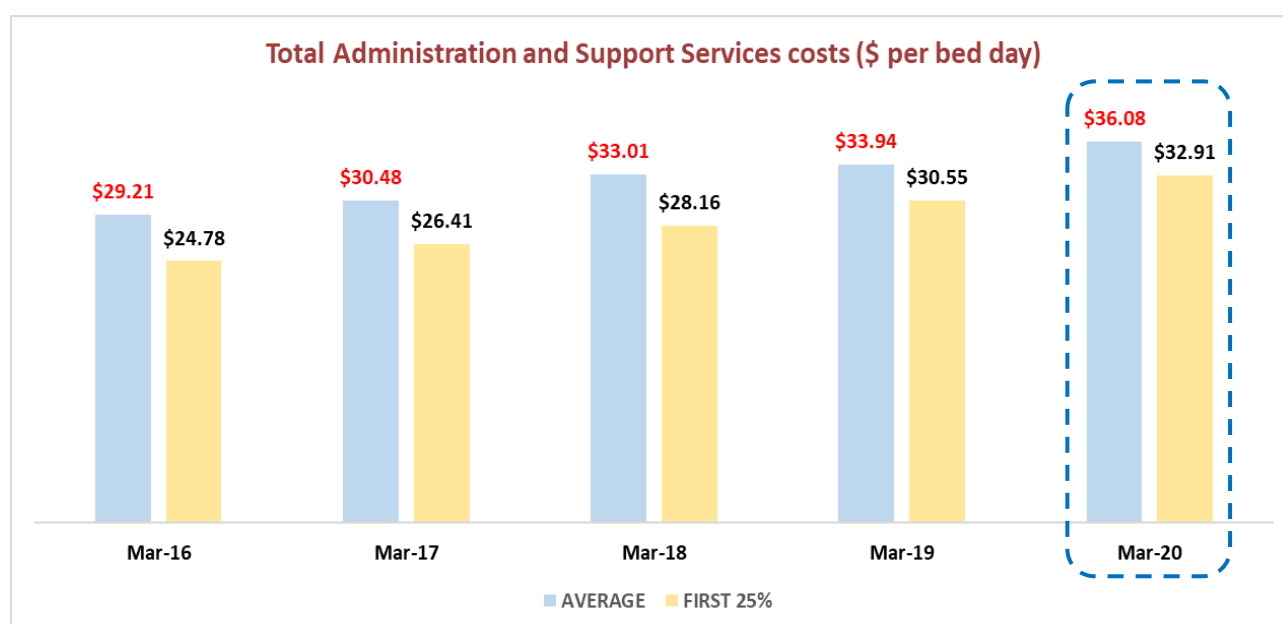


Table 7: Administration costs summary (expressed as \$ per resident bed day)

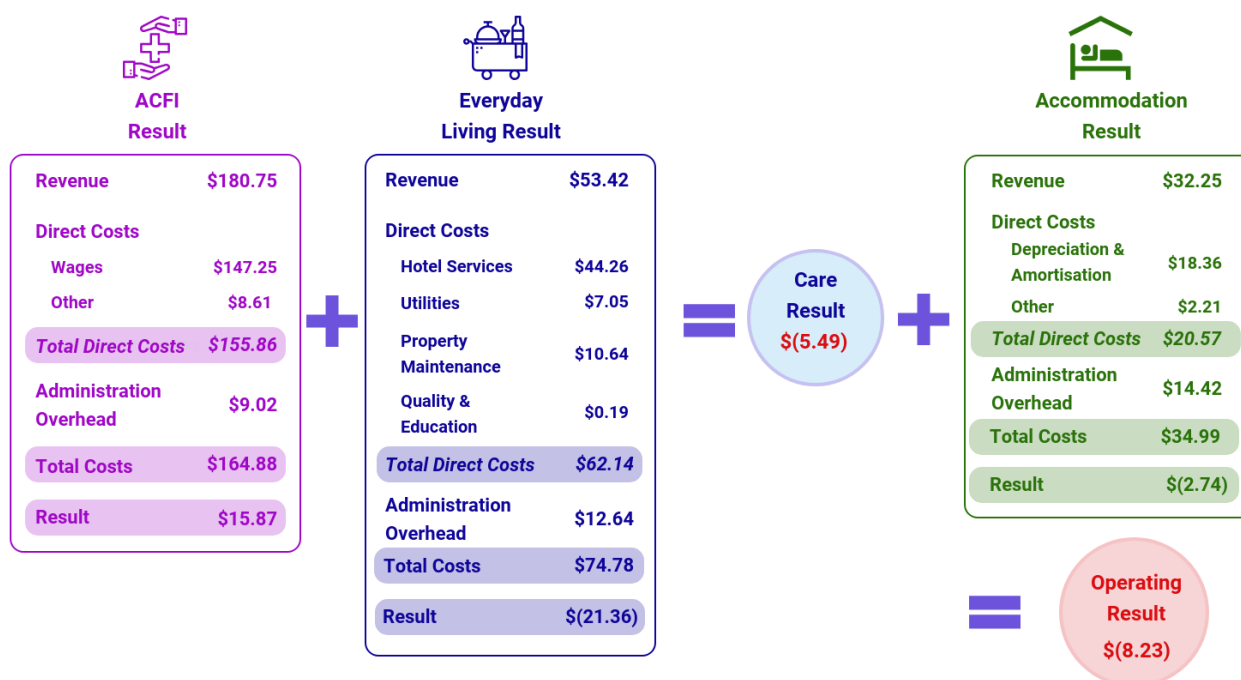
Administration Costs	Jun-19 1,045 Homes	Mar-20 1,040 Homes	Mar-19 952 Homes	YoY Movement
Administration (corporate) recharges	21.45	22.05	21.42	↑
Labour costs - administration	6.36	7.08	6.53	↑
Other administration costs	5.13	5.50	4.73	↑
Workers compensation	0.33	0.35	0.24	↑
Quality & education - labour costs	0.02	0.04	0.03	↑
Quality and education - other	0.04	0.02	0.02	-
Insurances	0.94	1.05	0.96	↑
Total Administration Costs	\$34.27	\$36.08	\$33.94	↑

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



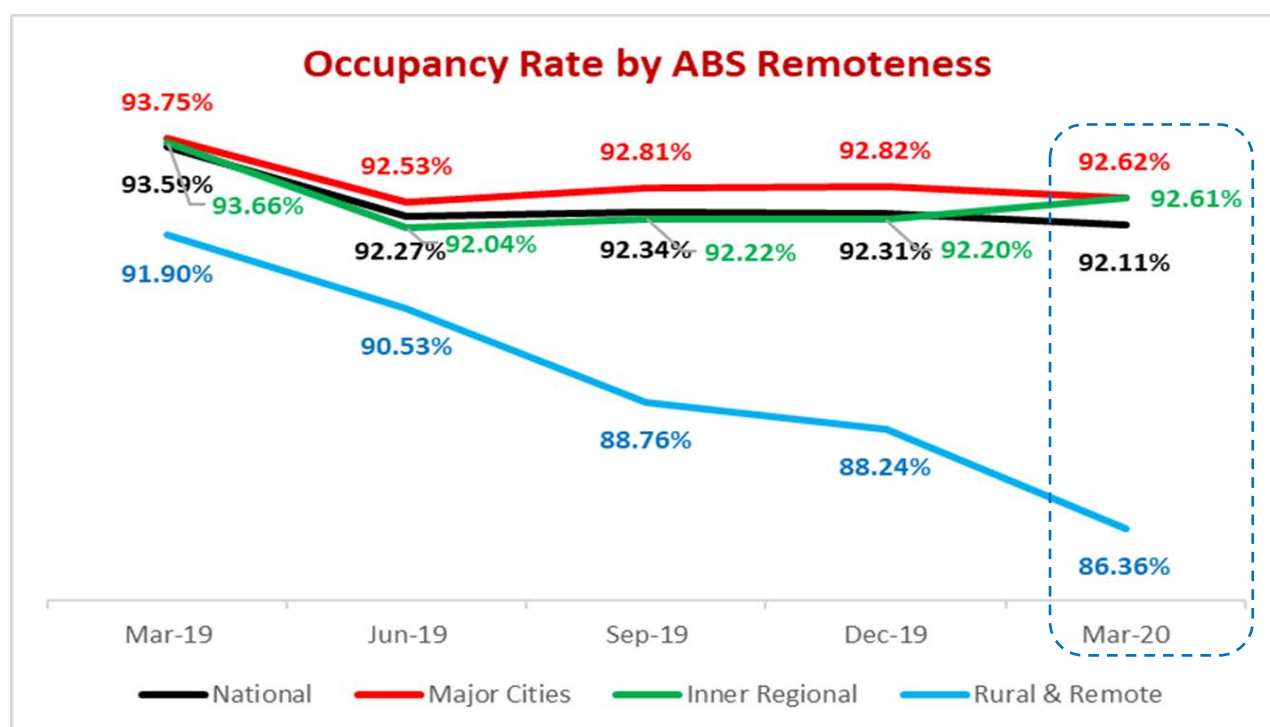
Occupancy

The overall occupancy percentage has suffered a significant decline to be 92.11% nationally (93.59% at Mar-19) with the occupancy for mature homes (within the Survey range) being of 94.1% (95.0% at Mar-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 1.48% over the year (the largest decrease for over 8 years) and it is likely that the June quarter will experience further occupancy declines approaching 1% due to the impact of covid-19.

Figure 19: Occupancy Percentage for All Homes Trend Analysis by ABS remoteness



Scenario Analysis - Effect of Potential Funding Reforms

We have prepared a financial scenario analysis to demonstrate the likely effect should certain funding reforms be implemented.

Scenario 1 - Increase Basic Daily Fee Subsidy

On Page 18 of this report we have suggested a funding reform of increasing the Basic Daily Fee by \$10 per resident per day by way of an additional government subsidy. The effect of such a subsidy is to increase the revenue by this amount with no corresponding increase in expenditure (ie it increases the operating result).

The below graphs highlight the effect that this additional funding would have on the percentage of homes making an operating loss and an EBITDAR loss.

The percentage of home making an operating loss would only reduce to 46% and the percentage of home with an EBITDAR loss would reduce to 24%.

Figure 20: Percentage of Homes making an operating loss after additional \$10 per day subsidy

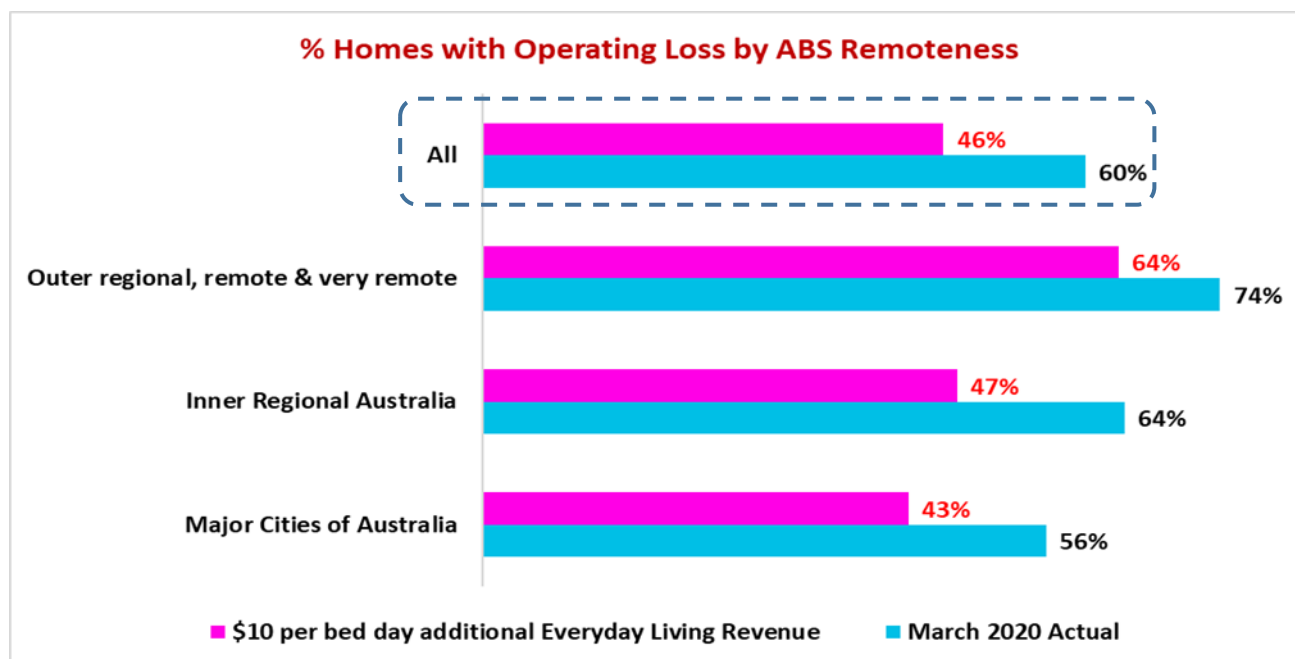
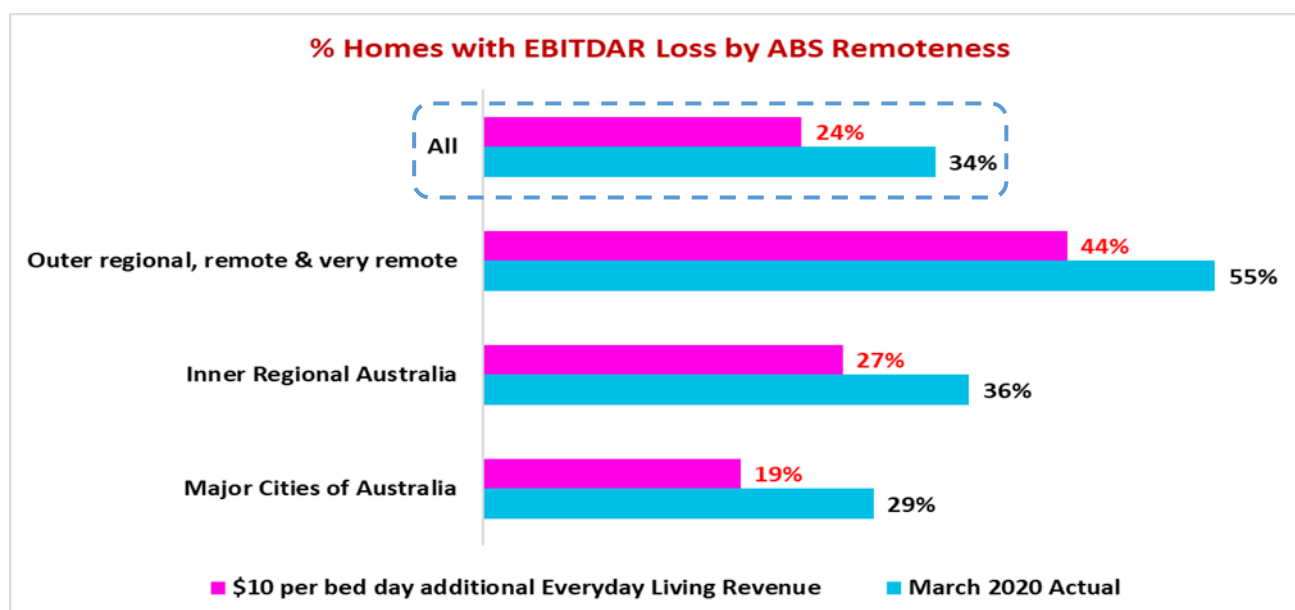


Figure 21: Percentage of Homes making an EBITDAR loss after additional \$10 per day subsidy



Scenario 2 - Increase Basic Daily Fee Subsidy and DMF of 3.5% on RADs

Under this scenario, the additional Basic Daily Fee subsidy of \$10 per resident per day is received by providers together with a Deferred Management Fee (rent) allowance of 3.5% pa on full RADs received (refer page 22 in relation to a proposed accommodation pricing reform for discussion).

The following graphs highlight the effect of having both additional revenue streams on the operating and EBITDAR performance for aged care homes.

The percentage of home making an operating loss would reduce to 35% and the percentage of home with an EBITDAR loss would reduce to 17%. This demonstrates that even with the additional revenue streams a significant percentage of residential aged care homes would still face financial viability concerns.

Figure 22: Percentage of Homes making an operating loss after additional \$10 per day subsidy and 3.5% RAD DMF

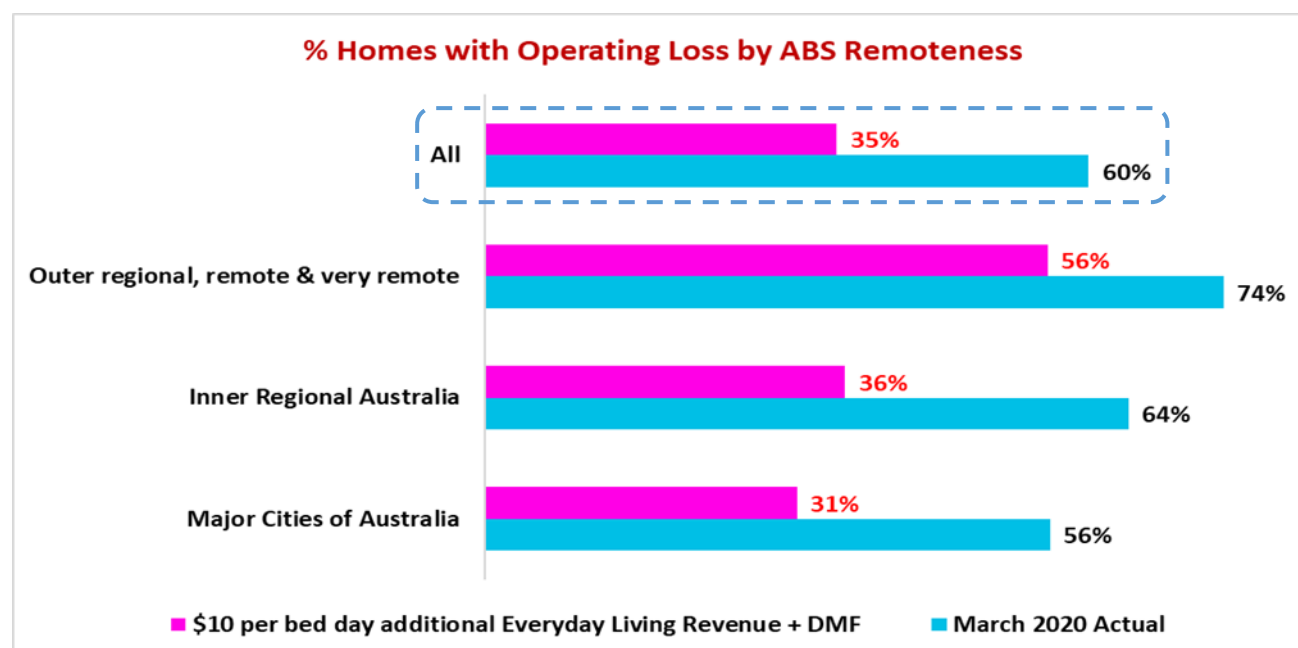
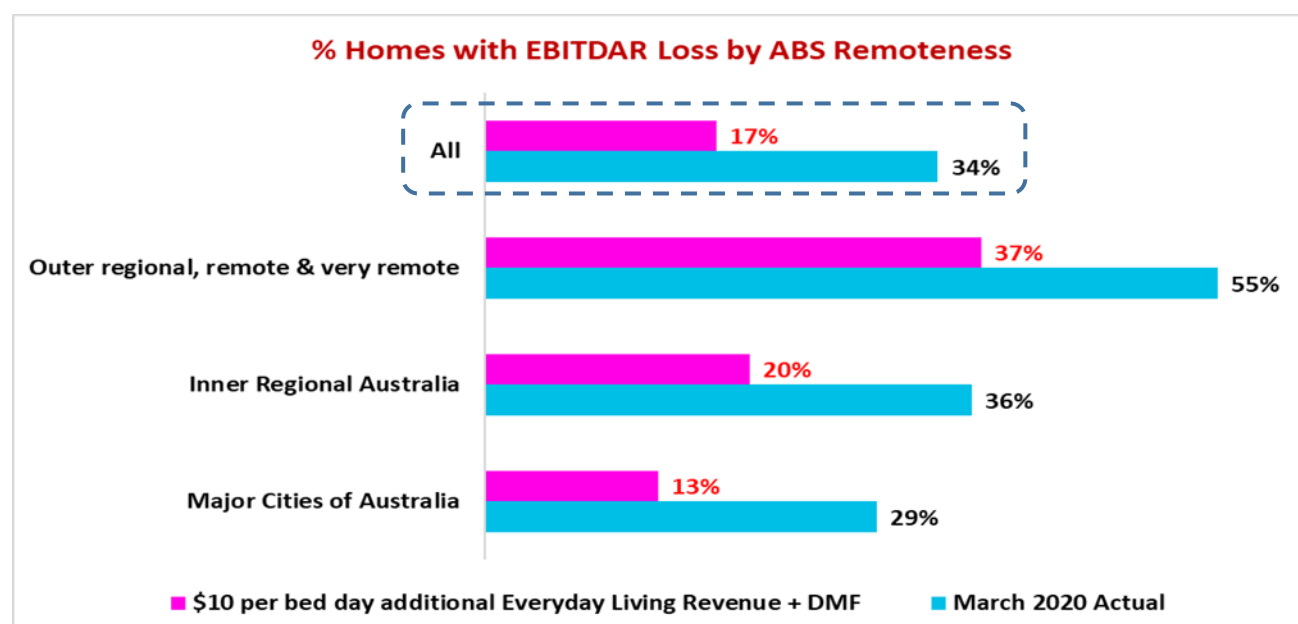


Figure 23: Percentage of Homes making an EBITDAR loss after additional \$10 per day subsidy and 3.5% RAD DMF



4. HOME CARE ANALYSIS

Overview

For the nine months to Mar-20, there has been an improvement in the financial performance of Home Care Package providers for the Survey *Average* (All) when compared to the Mar-19 period. The first three months to Sept-19 saw an improvement in results, however since then results have been declining and are likely to fall further with impact of covid-19 and many clients cancelling services.

The overall Survey *Average* NPBT result was a surplus of \$4.51 per client day (pcd) – a slight increase compared to Mar-19 results of \$3.48 pcd. The revenue bands 2 and 3 (based on care recipient acuity mix) showing an improved performance in comparison to the Mar-19 period. *However, the operating results have been a deficit of \$1.84 pcd for the last 6 month period.*

The Survey *First 25%* had a decrease in surplus to \$14.72 pcd (Mar-19: \$18.02 pcd). *The operating results for the First 25% have been a deficit of \$6.66 pcd for the last 6 month period.*

Revenue

- Decreased by 5.69% (\$4.22 per client day)
- Pricing pressure continues due to increased competition
- Revenue utilisation declined from 88.5% (Mar-19) to 85.1%
- Higher average unspent funds (Mar-20 \$8,250 per client compared to Mar-19 \$6,788 per client) which would represent an aggregate of over \$850 million nationally

Expenses

- Decreased by 7.4% overall
- Direct service costs (including sub-contracted and brokered services) decreased by \$3.59 pcd
- Cost of direct service and brokered/sub-contracted as a percentage of total income has reduced to 59.6% from 61.0% (Mar-19)
- Increase in case management and advisory as a percentage of total income by 0.7% (even after the pricing transparency reform)
- Decrease in administration costs as a percentage of total income by 1.0%

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 Mar-20 Survey (All programs)

	Jun-19 34,999 packages	Mar-20 38,730 packages	Mar-19 26,180 packages		Difference (YoY)
Total revenue \$ per client per day	\$72.22	\$69.98	\$74.20	↓	(\$4.22)
Operating result per client per day	\$3.65	\$4.51	\$3.48	↑	\$1.03
EBITDA per client per annum	\$1,474	\$1,796	\$1,419	↑	\$377
Average total staff hours per client per week	6.10	5.88	6.59	↓	(0.71)
Median growth rate	6.84%	15.36%	0.00%	↑	15.4%
Revenue utilisation rate for the period	89.3%	85.1%	88.5%	↓	(3.5%)
Average unspent funds per client	\$6,995	\$8,250	\$6,788	↑	\$1,463
Cost of direct care & brokered services as % of total revenue	61.7%	59.6%	61.0%	↓	(1.5%)
Case management & coordination costs as % of total revenue	9.2%	10.4%	9.7%	↑	0.7%
Administration & support costs as % of total revenue	23.5%	23.0%	24.1%	↓	(1.0%)
Profit Margin	5.1%	6.4%	4.7%	↑	1.8%

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 24: Comparison of Survey Average Operating Result \$ per client day for periods ending Mar-20 and Mar-19

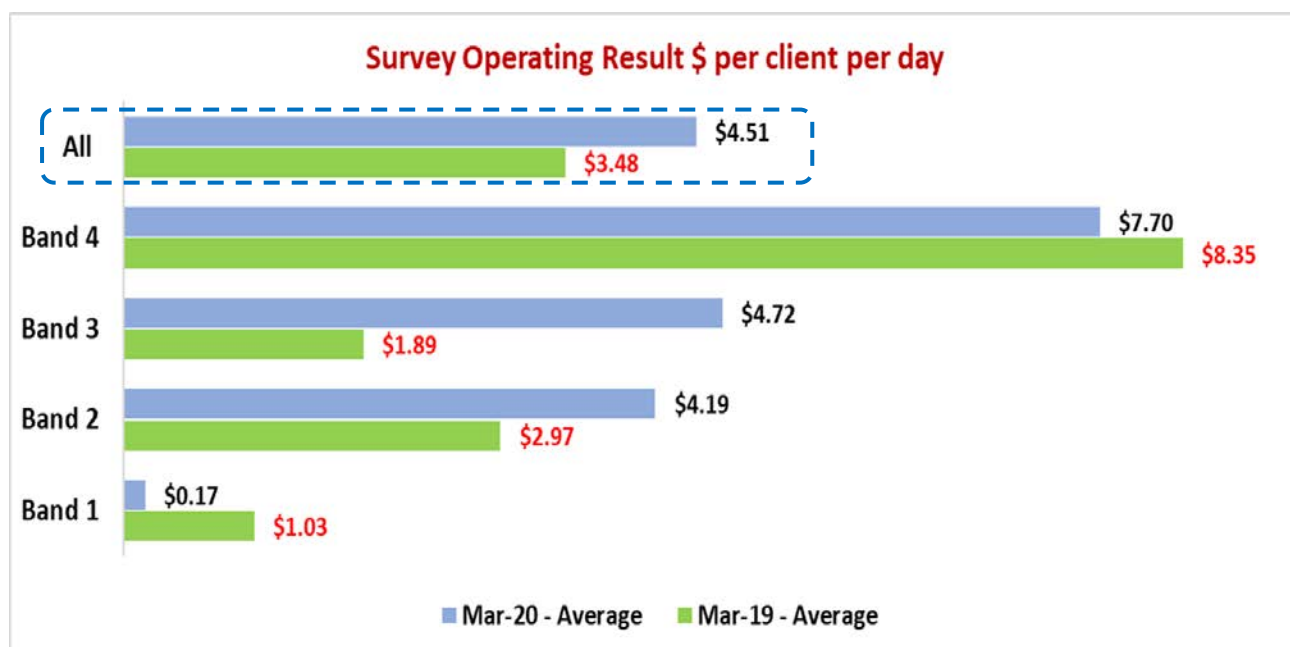


Figure 25: Comparison of Survey Average EBITDA \$ per client per annum for periods Mar-20 and Mar-19

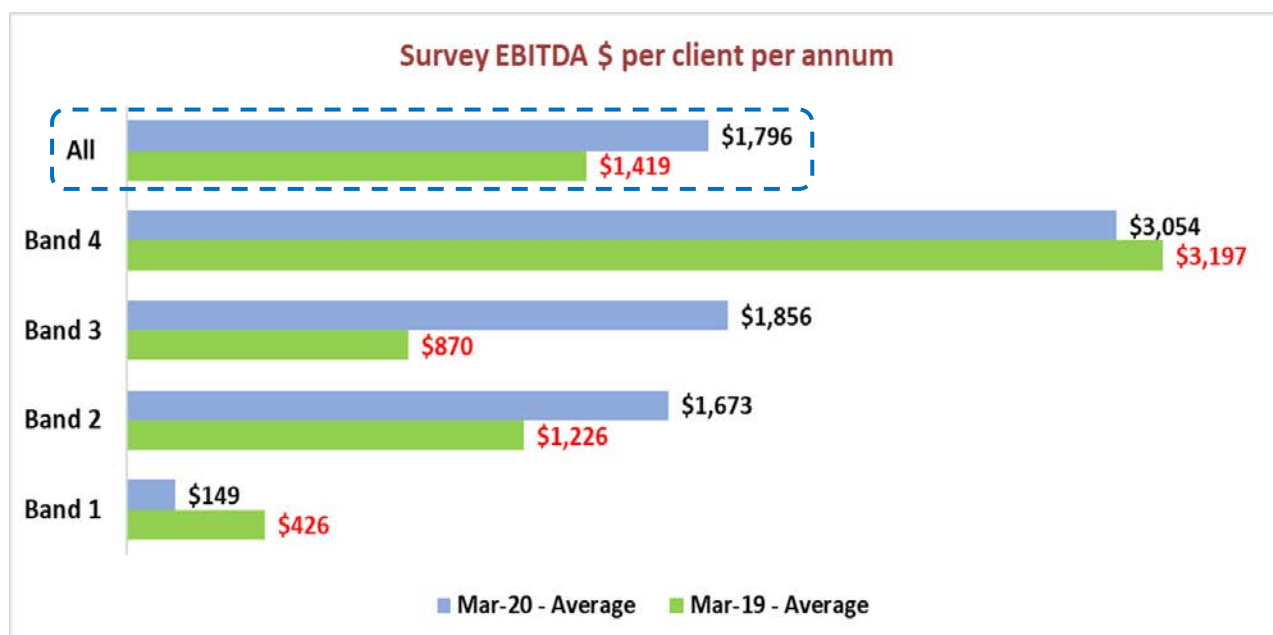
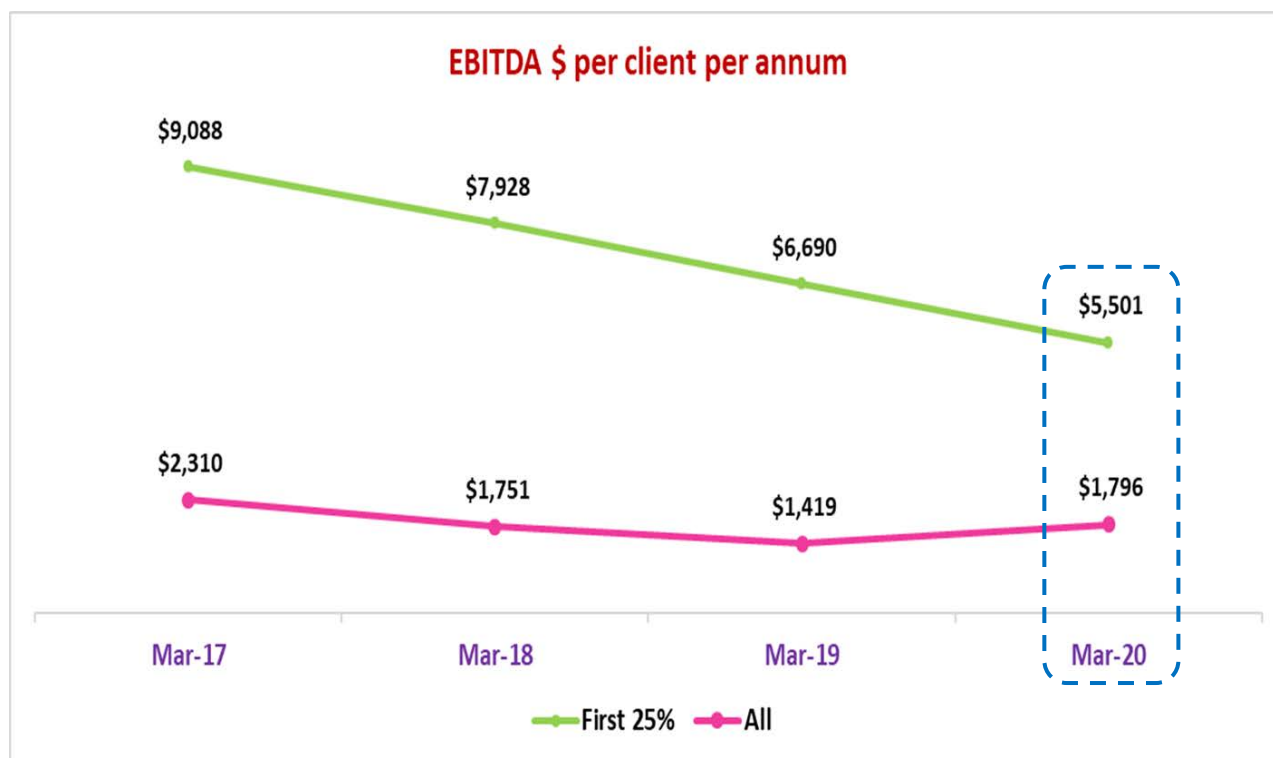


Figure 26: Comparison of Survey Average and Survey First 25% EBITDA (\$ per client per annum) trends



The trend graph above clearly shows a very clear and sturdy decline in the *First 25%* since Mar-17, whereas the trend for the survey *Average* is softer decline.

NPBT for Survey First 25%

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

	Jun-19 5,963 packages	Mar-20 7,643 packages	Mar-19 5,299 packages		Difference (YoY)
Total revenue \$ per client per day	\$90.05	\$79.71	\$90.75	↓	(\$11.04)
Operating result per client per day	\$18.28	\$14.72	\$18.02	↓	(\$3.30)
EBITDA per client per annum	\$6,855	\$5,501	\$6,690	↓	(\$1,190)
Average total staff hours per client per week	6.55	6.35	7.04	↓	(0.69)
Median growth rate	7.55%	17.83%	4.76%	↑	13.1%
Revenue utilisation rate for the period	89.9%	86.6%	88.8%	↓	(2.2%)
Average unspent funds per client	\$6,990	\$7,894	\$6,412	↑	\$1,482
Cost of direct care & brokered services as % of total revenue	51.4%	52.6%	51.6%	↑	1.0%
Case management & coordination costs as % of total revenue	7.3%	9.9%	7.6%	↑	2.3%
Administration & support costs as % of total revenue	20.5%	18.7%	20.7%	↓	(2.0%)
Profit Margin	20.3%	18.5%	19.9%	↓	(1.4%)

The NPBT performance of the Survey First 25% for Mar-20 initially increased in the first three months to Sep-19, however the decline over the next six months eroded any of this profitability. The predominant reasons relate to decreased revenue per client day by 12% - 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 27: Comparison of Survey First 25% NPBT (operating surplus) Mar-20 and Mar-19

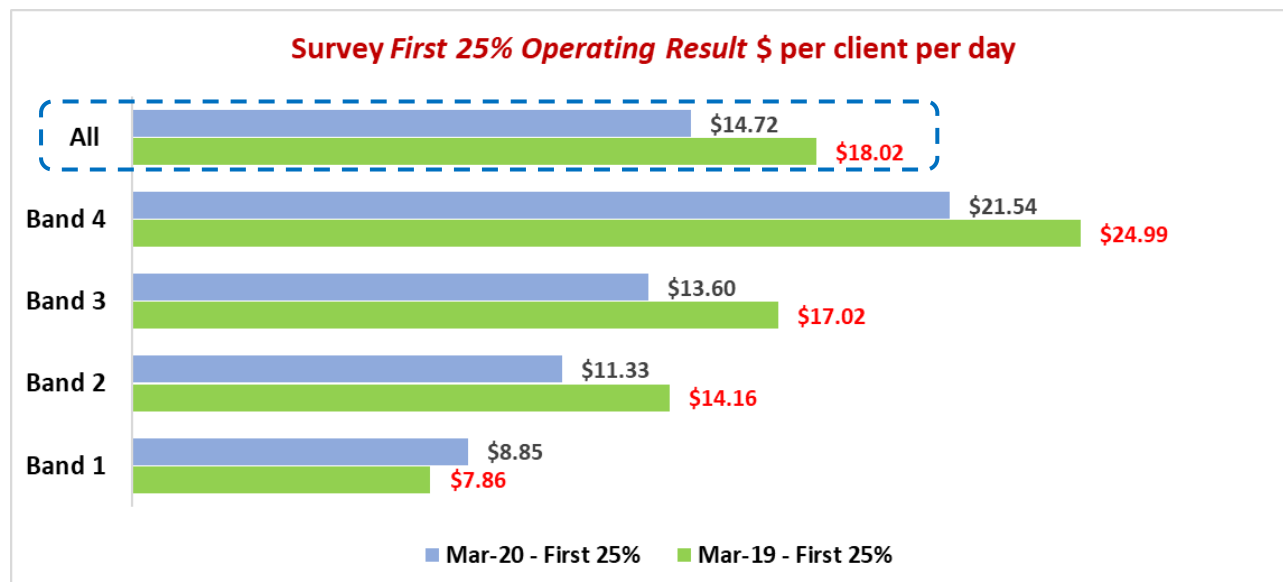
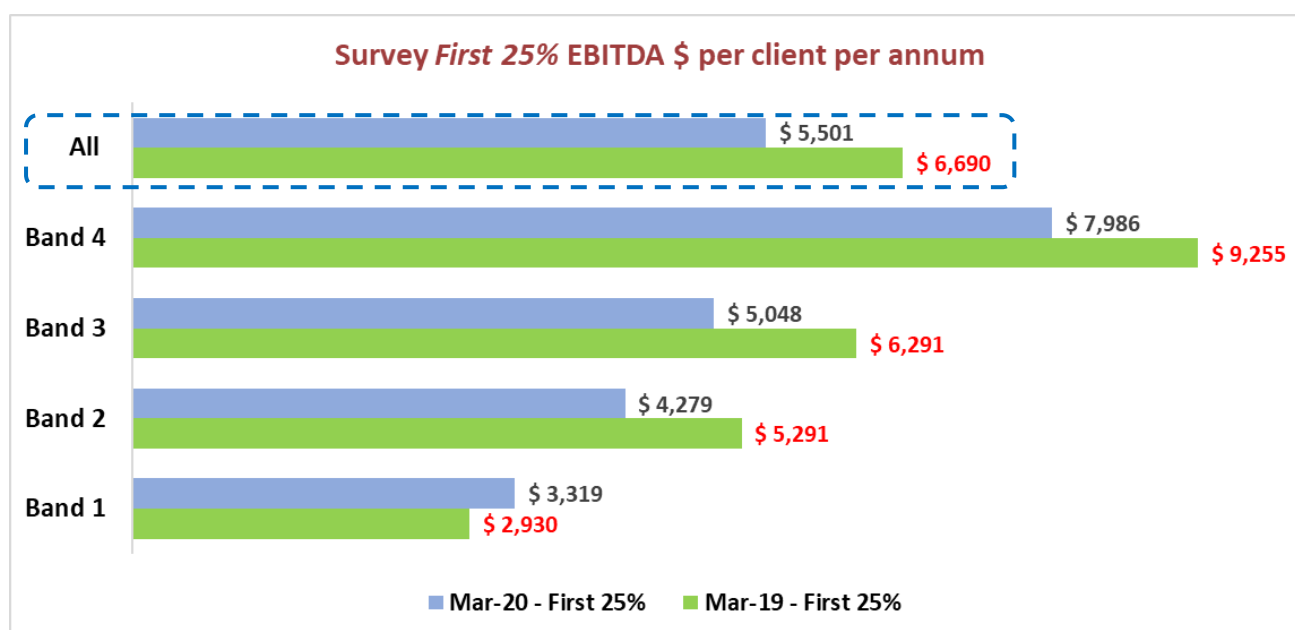


Figure 28: Comparison of Survey First 25% EBITDA per client per annum Mar-20 and Mar-19

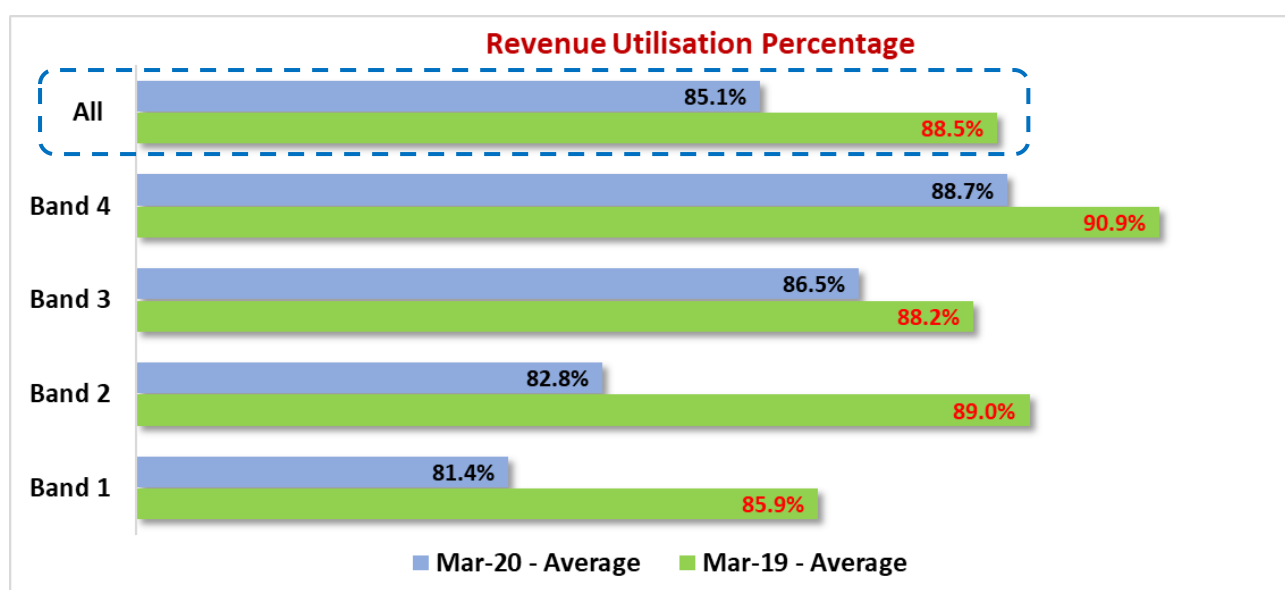


Revenue Utilisation

There had been a continued decline in revenue utilisation since FY16 year-on-year trend including for the Mar-19 quarter. Revenue utilisation decreased to 85.1% at Mar-20 (Survey First 25% was 85.7%). This would affect profitability due to the fixed overhead costs being spread over slightly improved revenues and variable costs remaining proportional to revenue levels.

There requires an ongoing improvement in revenue utilisation to be a strategic priority for the remainder of FY20, 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 29: Revenue Utilisation comparison for Mar-20 and Mar-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 nine months to Mar-20 to \$8,250.

StewartBrown estimates the unspent funds liability at the end of the Mar-20 quarter to be in aggregate around **\$1,062 million** based on 128,781 people in care as at 31 December 2019. The unspent funds liability is likely to be over \$1,100 million as at FY20 year-end in the current funding model. 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 30: Average Unspent Funds per client as at Mar-20 and Mar-19

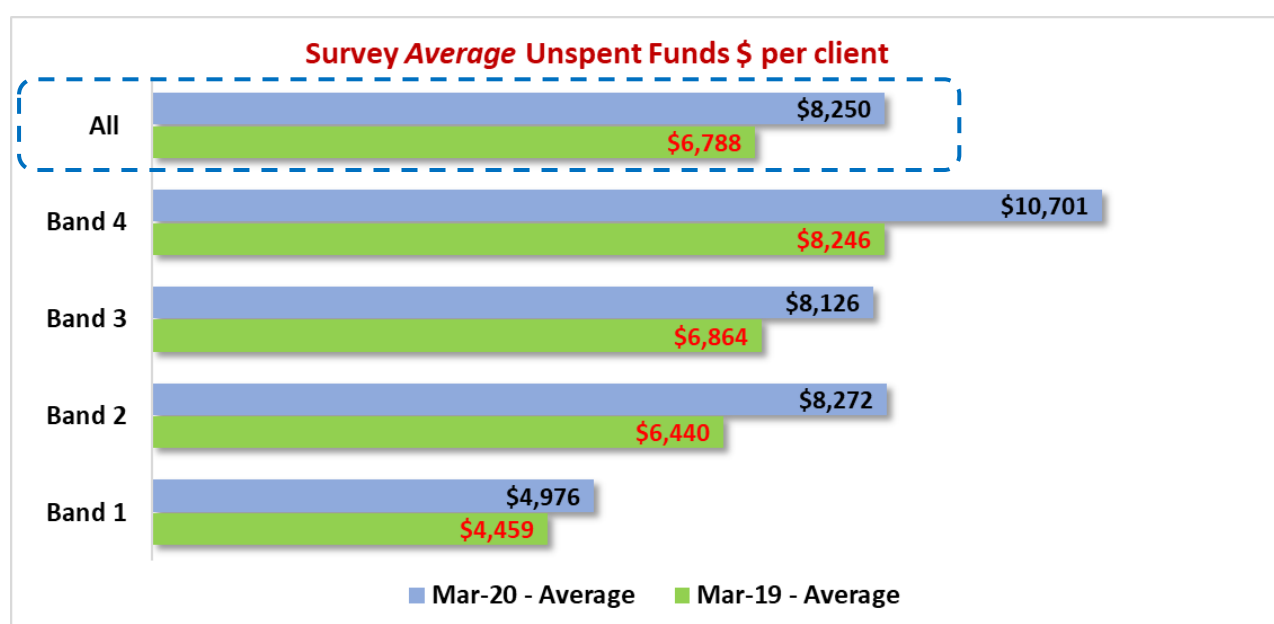
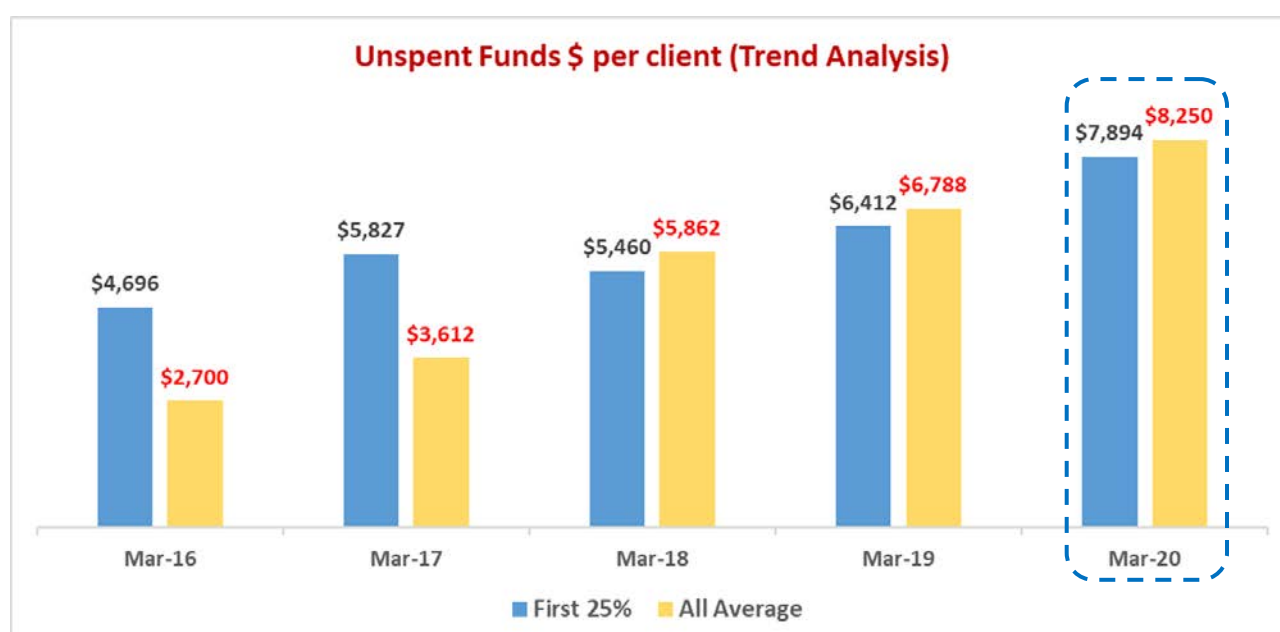


Figure 31: Unspent Funds trend analysis Mar-16 to Mar-20



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. This spend is often used for capital purchases and the balance returned to the government because the consumer moves out of in-home care.

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.

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 4.31 hours (on average) for the nine months to Mar-20 compared to 4.98 hours for the corresponding period to Mar-19.

Agency, case management & coordination and administration & support services staff hours have remained fairly stable across the Survey from Jun-19 to Mar-20.

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

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

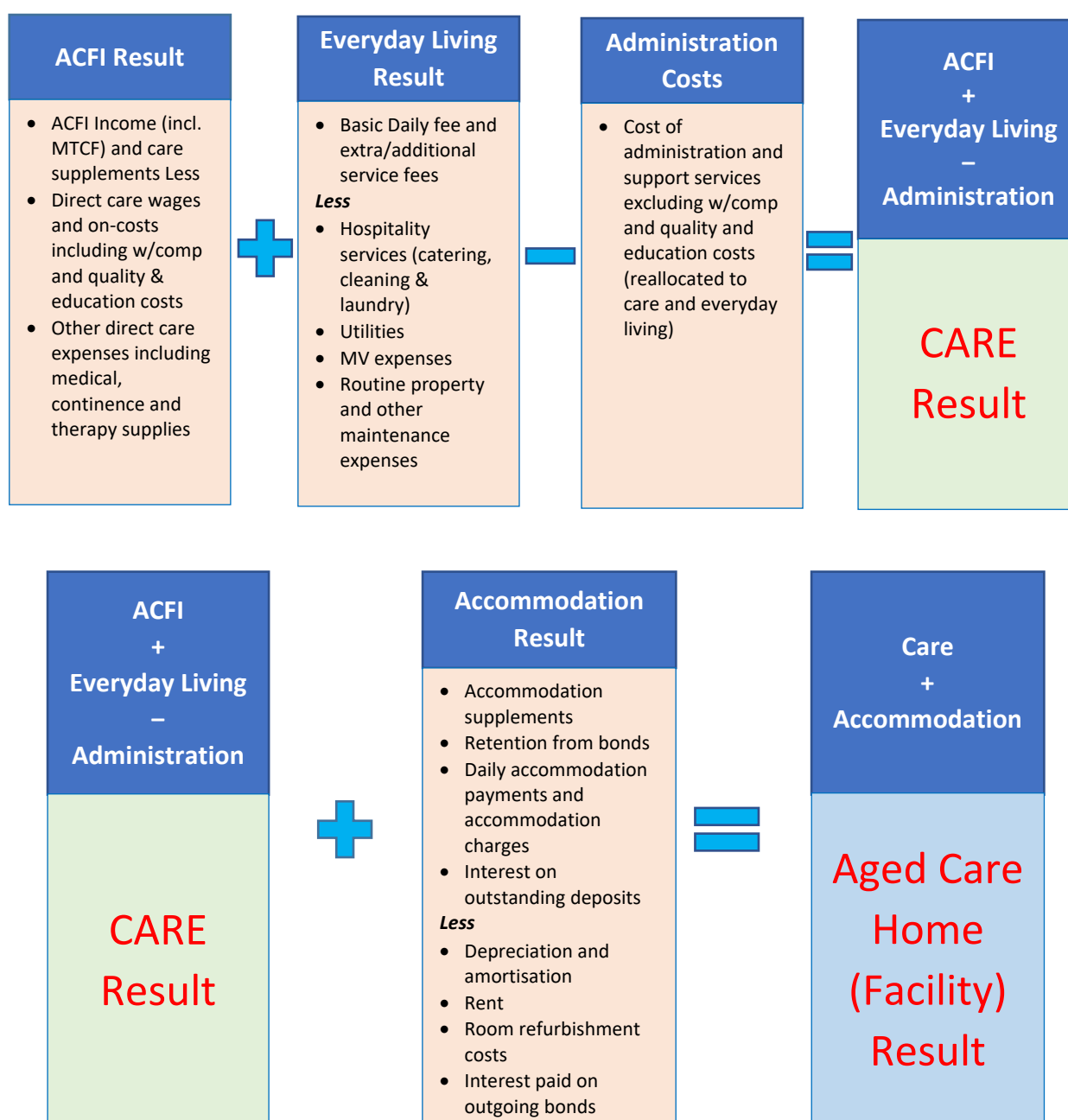
Survey (Average)					
	Jun-19	Mar-20	Mar-19		Difference
Direct service provision	4.59	4.32	4.98	↓	(0.66)
Agency	0.25	0.25	0.21	↑	0.04
Case management & coordination	0.80	0.80	0.90	↓	(0.11)
Administration & support services	0.47	0.51	0.50	↑	0.01
Total Staff Hours	6.10	5.88	6.59	↓	(0.71)

Survey (First 25%)					
	Jun-19	Mar-20	Mar-19		Difference
Direct service provision	5.07	4.71	5.18	↓	(0.47)
Agency	0.18	0.23	0.33	↓	(0.10)
Case management & coordination	0.92	0.93	1.05	↓	(0.12)
Administration & support services	0.38	0.49	0.48	↑	0.01
Total Staff Hours	6.55	6.36	7.04	↓	(0.68)

5. APPENDIX A - GLOSSARY

Aged Care Home (ACH Result, or Facility Result)

The **Aged Care Home (ACH Result, 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

Net profit before tax. This may also be referred to as the net result or, its equivalent in Home Care analysis, is 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 facilities in the group. For example, the average for contract catering across all facilities would be the total amount submitted for that line item divided by the total occupied bed days for all aged care homes (facilities) 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 facilities that provide data for that line item. All other measures are *averaged* across all the facilities in the particular group. The *average* by line item is particularly useful for line items such as contract catering, cleaning and laundry, property rental, extra service revenue and administration fees as these items are not included by everyone.

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 \$190

Band 2 - Between \$175 and \$190

Band 3 - Between \$160 and \$175

Band 4 - Under \$160

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. This may also be referred to as the net result or, in the residential 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 Packages

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

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

Location - Regional

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

Survey

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

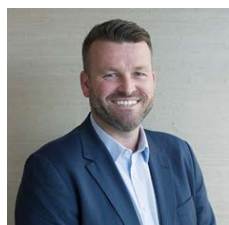
6. CONTACT DETAILS

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