Aged Care Financial Performance Survey

Aged Care Sector Report

StewartBrown

Integrity + Quality + Clarity

The StewartBrown June 2020 *Aged Care Financial Performance Survey* incorporates detailed financial and supporting data from **1,190 aged care homes** and **44,647 home care packages** across Australia. The quarterly survey is the largest benchmark in the aged care sector and provides invaluable insight into the trends and drivers of financial performance at the sector level and at the aged care home or programme level.

For the year ended 30 June 2020

CONTENTS

1. HIGHLIGHTS

Key Results from June 2020 (FY20) Survey

Approved Provider Aggregated Balance Sheet

187
Providers included in the data set

$7.4 billion
Cash and Financial Assets
(FY19: $6.8 billion)

$11.9 billion
Total Revenue
(FY19: $11.7 billion)

$27.6 billion
Property Assets
(FY19: $26.0 billion)

$1.6 billion
Intangible Assets
(FY19: $1.6 billion)

$21.2 billion
Refundable Resident Loans
(FY19: $20.0 billion)

$40.6 billion
Total Assets
(FY19: $38.4 billion)

$1.4 billion
Borrowings
(FY19: $1.0 billion)

$13.9 billion
Net Assets
(FY19: $14.2 billion)

$26.6 billion
Total Liabilities
(FY19: $24.2 billion)

Approved Provider Results

($4,010k)
Average Operating Deficit
(FY19: -$1,219k)

0.1%
Operating EBITDA Return on Assets
(FY19: 0.6%)

$111
Average Operating EBITDA
(FY19: $1,154k)

32.0%
Liquid cash and financial assets as % of debt
(FY19: 32.1%)

(2.0%)
Operating Surplus Return on Assets
(FY19: -0.6%)

Residential Aged Care

Excluding COVID-19 net funding

$9.84 deficit

Operating Result
per bed day for *Survey Average*
(FY19: $2.62 deficit)

$21.18

Operating Result per bed day
for *First 25%*
(FY19: $25.98)

$3,333

Operating EBITDAR per bed per
annum for *Survey Average*
(FY19: 5,531)

$13,591

Operating EBITDAR per bed per
annum for *First 25%*
(FY19: $15,334)

36%

Proportion of Homes with
operating EBITDAR loss
(FY19: 28%)

64%

Proportion of Homes with
operating loss
(FY19: 56%)

Including COVID-19 net funding

$6.90 deficit

Operating Result
per bed day for *Survey Average*
(FY19: $2.62 deficit)

$23.62

Operating Result per bed day
for *First 25%*
(FY19: $25.98)

$4,341

Operating EBITDAR per bed per
annum for *Survey Average*
(FY19: 5,531)

$14,442

Operating EBITDAR per bed per
annum for *First 25%*
((FY19: $15,334)

32%

Proportion of Homes with
operating EBITDAR loss
(FY19: 28%)

58%

Proportion of Homes with
operating loss
(FY19: 56%)

Home Care Packages (HCP)

Survey Average

$3.59
NPBT per client day for Survey *Average*
(FY19: $3.65)

$1,502
EBITDA per client per annum for Survey *Average*
(FY19: $1,474)

$8,841
Survey Average for unspent funds
(FY19: $6,995)

First 25%

$14.30
NPBT per client per day for *First 25%*
(FY19: $18.28)

$5,411
EBITDA per client per annum for *First 25%*
(FY19: $6,855)

$9,058
First 25% average for unspent funds
(FY19: $6,990)

Key KPIs

10.8%
Case management costs as % of income
(FY19: 9.2%)

23.7%
Administration costs as % of income
(FY19: 23.5%)

84.8%
Revenue Utilisation
(FY19: 89.3%)

Survey Analytics

FY20 Survey

Residential Aged Care

Data from 1,190 Homes

More than 44% of the residential aged care sector represented

Organisational Data

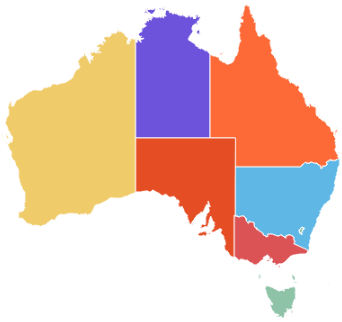
Data from 187 Approved Provider organisations

More than 22% of the residential sector represented

Home Care

Data from 44,647 Home Care packages

More than 33% of the home care sector represented



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 includes organisation (approved provider) level, residential care and home care packages. This Sector Report contains StewartBrown's analysis of the operating income and expenses of participants for the financial year ending 30 June 2020 (FY20).

The Survey included the detailed responses of:-

- 187 approved providers included in the organisation analysis
- 214 approved providers in total operating in either or both residential and home care sectors
- 1,190 aged care homes *(77 aged care homes were excluded due to their operational circumstances)*
- 44,647 home care packages *(1,826 packages excluded)*

In respect of residential care, participants to the Survey represent approximately 47% of non-government aged care homes within Australia. The profile of the residential care participants based on the geographical spread is included in the following table.

Table 1: Residential Care Survey Metrics

Numberof aged care homes/ABS Remoteness	Major City	Inner Regional	Rural & Remote	Total
StewartBrown Residential Care Survey				
Total Survey aged care homes	**779**	**289**	**122**	**1,190**
Aged care homes included	**740**	**274**	**98**	**1,112**
Aged care homes excluded	**39**	**8**	**8**	**55**
State/local government	**0**	**7**	**16**	**23**
Survey less state/local government (A)	**779**	**282**	**106**	**1,167**
GEN aged care Data Service Listing (30 June 2020)				
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)	**46.5%**	**52.3%**	**39.0%**	**46.9%**

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 Department of Health*)

Copies of these reports are located at http://www.stewartbrown.com.au/

2. EXECUTIVE SUMMARY

Abstract

StewartBrown acknowledges the tragic impact of the COVID-19 virus pandemic that continues to cause death, 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 devasting bush fire period and together these events have stretched the capacity of aged care providers to an extent never before experienced.

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. 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 year ended 30 June 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 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.

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 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 is continuing its important role in ultimately providing recommendations for the advancement of the sector following lengthy submissions, testimony, analysis and meetings with all stakeholders. StewartBrown individually or in conjunction with others has undertaken several projects culminating in reports that were presented as evidence at the Royal Commission. This included:

- Review of Prudential Framework for Refundable Accommodation Deposits (Download here)
- Impact analysis: alternative models for allocating residential aged care places (Download here)
- In addition, StewartBrown Senior Partner Grant Corderoy presented as a witness to the funding and financing hearings and his statement can be found here.

Additionally, the StewartBrown Sector reports were submitted as support for a number of other witness statements. Later in this report we will address some of the matters discussed in the Royal Commission as it pertains to the funding and financing of the sector including some of the submissions made. We will also address the submissions made by Counsel Assisting in its final hearing days on 22 and 23 October.

The final report of the Royal Commission is due to be released in February 2021 and the initial response by Government would be expected in the May 2021 Budget. In the Treasurer's recent budget speech he said the following:

"Next February, the Government will receive the final recommendations of the Royal Commission we established into Aged Care. In December of last year we committed an additional $537 million to immediately respond to their interim report."

"The Government will provide a comprehensive response to the final recommendations following receipt of that report. This will involve significant additional investment."

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.

FY20 Survey Results Summary

Following is a summary of the key financial performance results and indicators by segment from participants in the FY20 *Aged Care Financial Performance Survey*. Comparisons are year-on-year with analysis against the FY19 results.

Approved Provider - Aggregate Results

FY20 Operating Results exclude COVID-19 subsidies and expenses to allow trend analysis to be consistent

- Operating surplus return on assets ratio has further declined to be negative 1.9% for FY20 (FY19 negative 1.2%) which places significant issues around financial sustainability for the sector
- Operating EBITDA (cash) return on assets has declined from 1.2% (FY19) to 0.1% (FY20)
- Cash to debt ratio (cash + financial assets) as a percentage of debt (resident + unspent funds + borrowings)) has remained constant to be 32% at FY20 (32.1% FY19) *(representing conservative building renewal and replacement policies)*
- Operating results for FY20 further deteriorated to an average deficit of $4 million per provider (FY19 deficit $1.2 million)
- *ACFA average operating deficit for FY19 was $276k and FY18 $102k*
- Operating EBITDA (cash result) declined to an average of $110k per provider for FY20 (FY19 $1,153k)

**Operating surplus/deficit excludes non-recurrent revenues and expenses - grants/revaluations/donations/impairment*

Residential Care

FY20 Operating Results exclude COVID-19 subsidies and expenses to allow trend analysis to be consistent

- 64% of aged care homes recorded an operating loss for FY20 (*56% for FY19)*
- 36% of aged care homes recorded an EBITDAR loss (operating cash loss) for FY20 *(28% FY19)*
- Average ACFI per bed day (pbd) for Survey participants increased by $3.64 pbd to $181.42 pbd *(2.05% pa)*
- ACFI direct care services costs increased by $8.04 pbd to $156.99 pbd *(5.4% pa)*
- Occupancy levels for Survey participants decreased to 91.4% average occupancy *(FY19 92.3%)*
- Total care hours per resident per day increased by 0.08 hours to 3.21 hours *(FY19: 3.13 hours)*
- Costs for providing everyday living services exceeded revenue by $9.11 pbd *(excluding administration)*
- Average Operating Result for aged care homes reduced by $2,467 per bed per annum (pbpa) to a deficit of $3,371 pbpa *(FY19 deficit $904 pbpa)*
- Average EBITDAR for aged care homes reduced by $2,199 pbpa to $3,333 pbpa *(FY19 $5,531 pbpa)*
- Supported ratio remained reduced at 46.8% *(FY19 47.6%)*
- Average full RADs taken in FY20 increased to $433,252 (nationally) an increase of $30,868 in the year from FY19

Home Care Packages

FY20 Operating Results exclude COVID-19 subsidies and expenses to allow trend analysis to be consistent

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

- Revenue per client per day (pcpd) average for Survey participants decreased by 1.6% (being $1.15 pcpd)
- The average operating profit per client day marginally decreased by $0.05 pcpd to $3.59 pcpd *(FY19 $3.65)*
- *The average operating result has deteriorated by $2.76 pcpd for the nine months October 2019 to June 2020*
- Direct service costs decreased by $2.09 pcpd (59.8% of total revenue)
- Revenue utilisation has declined by 4.6% to 84.8%
- The average unspent funds per client has increased by $1,846 per client (to average $8,841 per client)
- Staff hours per client per week reduced by 0.47 hours (average 5.63 hours per week)

Survey *First 25% (Year-on-Year)*

- Revenue per client per day (pcpd) average for Survey participants decreased by 8.2% (being $7.36 pcpd)
- The average operating profit per client day decreased by $3.98 pcpd to $14.30 pcpd *(FY19 $18.28)*
- Direct service costs decreased by $2.14 pcpd (53.4% of total revenue)
- Revenue utilisation has declined by 4.5% to 85.4%
- The average unspent funds per client has increased by $2,068 per client (to average $9,058 per client)
- Staff hours per client per week reduced by 0.52 hours (average 6.03 hours per week)

Commentary

The Survey for the 12 month period ending June 2020 shows a significant decline in the underlying financial performance and sustainability of the residential aged care sector. The average operating results for homes in all geographic sectors was an operating loss before (and after) any COVID-19 funding support. Additional specific targeted funding and structural reform around accommodation revenue needs to be implemented to avoid further deterioration in the results of aged care homes and potential increase in provider failures.

Whilst home care operating results have largely been steady year on year, the results for the past nine months have been declining. Revenue per client day has reduced and, importantly, average staff hours per client have reduced to potentially unstainable levels. The mix between appropriate staffing and revenue will dictate the ongoing financial performance of the home care sector.

COVID-19 Funding: Financial Effect

The financial impact of COVID (funding received less direct COVID related expenditure) has had a limited overall effect on the June 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.

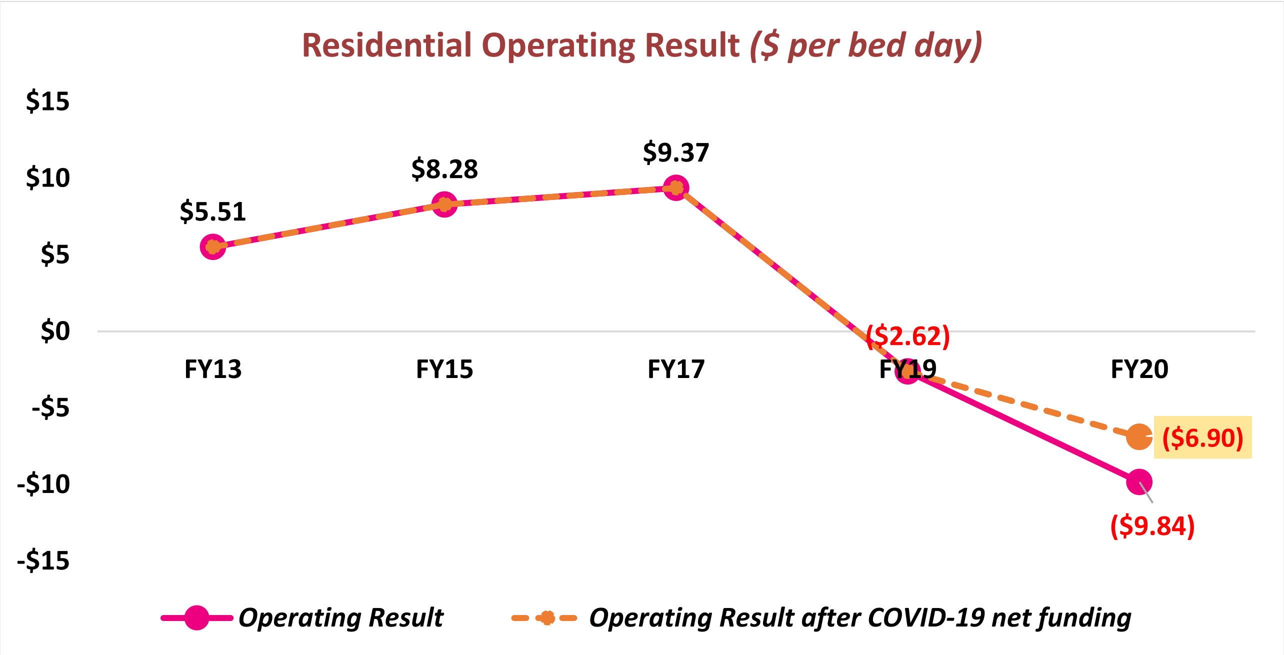
The other issue in relation to COVID support measures is the variance in funding across different sections of the aged care sector as well as the timing differences between the revenues being received and the expenses being incurred.

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.

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.

Figure 1: Residential care operating result trend analysis (including COVID-19 net funding)



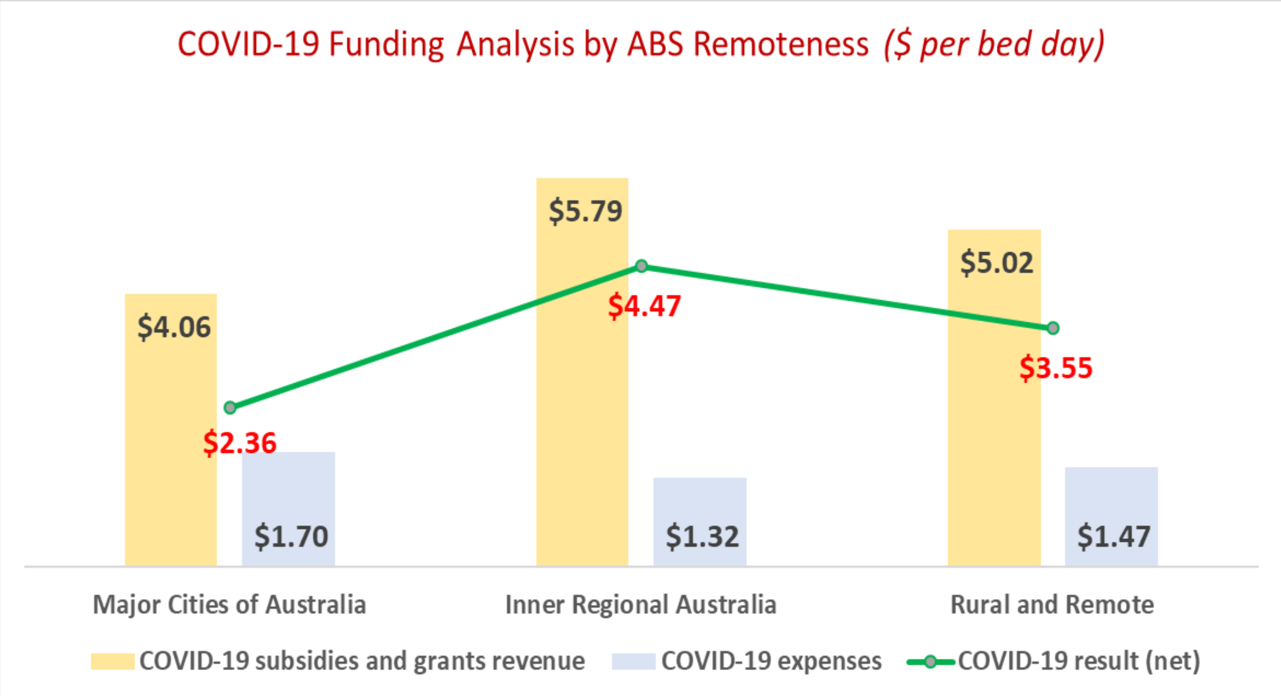
In relation to home care providers, the additional subsidy provided did not significantly benefit home care providers because the revenue they are able to report is based on services provided to clients - not receipts from funding sources.

Based on the analysis of the data that was available, COVID revenue measures exceeded the identified COVID costs for residential aged care homes by an average $2.94 per bed day. The net average deficit for aged care homes after COVID revenue and expenditure was included was **$6.90 per bed day**, still more than double the average deficit of $2.62 per bed day for FY19.

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. Similarly, those homes in Victoria will be most affected, but those affects will unlikely to be felt until the September 2020 Survey results are concluded.

Figure 2: COVID-19 funding analysis by ABS Remoteness



For the remaining analysis in this report, COVID-19 revenue measures and identified costs will be excluded.

FY20 Survey Results Analysis

Residential Care continues to be a significant and urgent concern in relation to financial viability and ongoing sustainability. Occupancy declined over the year, and as noted in previous reports, occupancy and the financial result are significantly inter-related, and accordingly any decline in occupancy directly affects the operating performance.

On the final day of the Royal Commission September hearing "Funding, Financing and Prudential Regulation", Senior Counsel Assisting Peter Gray QC criticised the Federal Government over its 2017-18 freeze on ACFI indexation (COPE), stating that aged care providers are being "stretched beyond their limits" by a funding system designed to focus on helping the Government toe the financial bottom line

The FY20 ACFI revenue increase of 2.05% pa is primarily as a result of the COPE inflation increase and further indicates that the average acuity of residents has plateaued to a large extent. However, the costs of providing direct care has increased by 5.4% pa and this differential of $4.40 per bed day ($1,606 per bed per annum) is not supportable under the current funding envelope.

Direct care staff costs represented 81.7% of the ACFI (direct care) subsidy, and the ongoing disparity between the subsidy COPE increase and staff cost increases continues to cause considerable viability concern.

We have retained Administration costs as a separate cost centre as providers prefer to monitor and benchmark their total administration costs. However we consider the more inclusive analysis is to allocate 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 $9.11 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 **$22.02 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 $5,861 per bed per annum ($17.66 loss per resident per day). This has resulted in 78% of these homes having an operating loss and 54% having a cash operating deficit.

We have 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 (835 homes) and the average result is an **operating loss of $20.31 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, has seen a further 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 marginal decline in operating performance for the year to Jun-20, with an overall decrease of $0.05 per client per day in comparison to FY19. A concerning point is that that while the results has largely been maintained it has been on the back of falling revenues as well as 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 $8,841 per client (care recipient). In aggregate across the sector, this represents in excess of $1 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 recently announce changes to the subsidy payment arrangements (being in arrears rather than in advance) and the 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. Based on legislation introduced to the parliament to enact these changes, providers will have a choice of drawing down on the unspent funds rather than receive the subsidy so as to use them up and effectively transfer the unspent funds balance to the government or continue to hold and account for the unspent funds balances and return them to government and the care recipient at the end of their time as a home care consumer (in line with current procedures) until all unspent funds balances are utilised. Providers can choose either method for each care recipient. The choice to opt-in to the drawdown method will occur during a six-month window from 1 September 2021.

In Conclusion: the overall funding arrangements for aged care must require considerable additional funding and a substantial realignment. Residential care is clearly and 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 for care recipients 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.

StewartBrown supports the proposed home care funding initiative to revert to funding in arrears (stage 1) and reimbursement of actual service fees in arrears (stage 2) which will allow significant more analysis of the funding required to meet the care needs of care recipients. It will also allow the redistribution of unspent funds to meet the allocation of the required additional funding packages to further reduce the prioritisation queue of those consumers assessed for receiving a care package but not having the subsidy available.

3. APPROVED PROVIDER ANALYSIS

187 Providers included in the data set	$7.4 billion Cash and Financial Assets (FY19: $6.8 billion)	$1.6 billion Intangible Assets (FY19: $1.6 billion)	$21.2 billion Refundable Resident Loans (FY19: $20.0 billion)	$26.6 billion Total Liabilities (FY19: $24.2 billion)
$11.9 billion Total Revenue (FY19: $11.7 billion)	$27.6 billion Property Assets (FY19: $26.0 billion)	$40.6 billion Total Assets (FY19: 38.4 billion)	$1.4 billion Borrowings (FY19: $1.0 billion)	$13.9 billion Net Assets (FY19: $14.2 billion)

	Survey Average $'000s	Revenue >$75M $'000s	Revenue $20M - $75M $'000s	Revenue $10M - $20M $'000s	Revenue <$10M $'000s	Total Assets >$150M $'000s	Total Assets $50M - $150M $'000s	Total Assets $25M - $50M $'000s	Total Assets <$25M $'000s
Operating Surplus / (Deficit)	($4,010)	($13,950)	($2,722)	($569)	($154)	($10,295)	($1,907)	($300)	($226)
Average NPBT	($1,974)	($6,863)	($1,747)	$47	$17	($5,353)	($729)	($119)	$24
Operating EBITDA	$111	$826	($436)	($54)	$177	$1,023	($845)	$60	$51
EBITDA	$2,147	$7,913	$539	$563	$348	$5,965	$333	$241	$301
NPBT Return on Assets	(0.97%)	(1.11%)	(1.05%)	0.08%	0.06%	(1.04%)	(0.86%)	(0.34%)	0.15%
Operating Surplus Return on Assets	(1.98%)	(2.25%)	(1.64%)	(0.99%)	(0.59%)	(2.00%)	(2.25%)	(0.85%)	(1.35%)
Cash & Financial Assets % of Debt	32.02%	28.72%	31.06%	50.52%	67.09%	27.25%	49.94%	72.06%	71.32%

Abstract

This section provides a summary of financial performance for the year to June 2020 of aged care providers at an Approved Provider (whole organisation) level rather than at individual segment or aged care home level. For the purposes of this analysis, we have included the detailed information relating to 187 approved providers who are representative of various ownership structures, location and demographics.

The same approved provider organisations were used in the analysis of their financial position and operating performance at Jun20 and Jun-19 to ensure comparability.

Several observations with respect to the profile of the organisations:

- Revenue increased by $200 million (1.7%) despite an increase in net property assets of $1.6 billion (6.2%)
- Refundable loans increased by $1.2 billion (6%)
- Net assets declined by $300 million reinforcing the overall level of deficit results incurred by the providers
- Cash and financial assets (liquid cash assets) increased by $600 million representing a more conservative approach to building refurbishment
- Borrowings, other than refundable loans, increased by $400 million (40%)

Operating Results for 12 months ended 30 June 2020

Table 2: Income & Expenditure Comparison (average by approved provider)

	Survey FY20 187 Providers *(Average)*	Survey FY19 187 Providers *(Average)*	ACFA FY19 760 Providers *(Average)*	ACFA FY18 787 Providers *(Average)*
Income & Expenditure	**$'000**	**$'000**	**$'000**	**$'000**
Revenue				
Service revenue	60,576	58,685	31,277	29,226
Investment revenue	1,219	2,218	906	818
Total operating revenue	**61,795**	**60,903**	**32,183**	**30,044**
Expenses				
Employee expenses	43,983	41,233	21,043	20,286
Depreciation and amortisation	4,839	4,245	1,937	1,733
Finance costs	501	346	613	345
Other expenses	16,483	16,299	8,866	7,782
Total operating expenses	**65,806**	**62,123**	**32,459**	**30,146**
Operating surplus (deficit)	**(4,011)**	**(1,220)**	**(276)**	**(102)**
Non-recurrent income and expenses	2,733	1,434	1,104	1,200
Total surplus (deficit) (NPBT)	**(1,278)**	**214**	**828**	**1,098**
Operating EBITDA	**110**	**1,153**	**1,368**	**1,158**
Ratios				
Operating surplus return on assets (ROA)	*(1.9%)*	*(1.2%)*	*(0.3%)*	*(0.1%)*
Operating EBITDA return on assets	*0.1%*	*1.2%*	*1.4%*	*1.2%*
Operating surplus % of operating revenue	*(6.5%)*	*(2.0%)*	*(0.9%)*	*(0.3%)*
Employee expenses % of operating revenue	*71.2%*	*67.7%*	*65.4%*	*67.5%*
Depreciation as % of property assets	*3.3%*	*3.1%*	*3.2%*	*3.1%*

Brief Commentary

- **The operating result <u>includes</u> investment income and <u>excludes</u> non-recurrent other income (eg fair value revaluations, donations, fundraising etc). Non-recurrent expenses (such as impairment) have been offset against other non-recurrent income**
- The operating result has significantly declined in FY20 and was an average deficit by approved provider of $4.01m for the year to Jun-20 (FY19: deficit of $1.2m)
- The operating result *excluding* investment income and finance costs was a deficit by approved provider of $4.7m for Jun-20 (deficit of $3.1m for Jun-19)
- Operating EBITDA was a surplus of $110k for the 12 months to Jun-20 ($1.2m for 12 months to Jun-19)
- Employee expenses as a percentage of operating revenue increased by 3.5%
- Investment revenue has decreased by an average of $999 million on average per approved provider (45% decline)
- The StewartBrown Survey as compared to ACFA for FY19 (the latest ACFA results) includes a higher portion of the large provider organisations than the overall ACFA results which has influenced the results due to the overall lower financial performance of large providers (refer graphic on page 12)

Financial Performance Trend Analysis

There was considerable discussion raised as a result of a report prepared under instruction for the Royal Commission which indicated that the aged care sector had a better financial performance than was reported by other analysts, including StewartBrown.

The report was based on the FY18 financial data as included in the Aged Care Financial Report (ACFR) that all residential approved providers must submit to the Department by 31 October each year.

This financial data is the source for the Aged Care Financing Authority (ACFA) Annual Report which is normally issued in May to July of the following year. The submitted ACFR includes financial information at the Approved Provider (organisation) level and the residential aged care segment level.

StewartBrown provides financial analysis in regard to the Business Advisory Service (BAS) and also completed an extensive review of the prudential regulation regime, and accordingly has access to the ACFR financial data as is required for these assignments. This allows a full reconciliation of the financial data as well as comparison to the data in our Survey.

As noted earlier, StewartBrown separately quantify all non-recurrent revenue and expenditure in our analysis to primarily focus on the actual Operating Result (*refer Table 2 above*). Non-recurrent revenues such as gains on property revaluation and disposals, gains on acquisitions, large donations and bequests and one-off capital grants can distort any analysis of the future financial sustainability based on expected revenues.

The ACFA eighth Annual Report (released in May 2020) identified <u>non-operating revenue</u> for the residential segment as being **$1.137 billion for FY19** and $954.9 million for FY18.

An extract from this latest ACFA Annual Report includes the financial information for FY19 and comparisons for the previous financial years to FY14 is included in the *Table 3* below:

Table 3: Residential operating results comparison FY14 to FY19

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Revenue ($m)	$14,826	$15,810	$17,172	$17,757	$18,066	$19,302
Expenses ($m)	$14,115	$14,903	$16,109	$16,751	$17,631	$19,037
NPBT ($m)	$712	$907	$1,063	$1,006	$435	$264
NPBT margin	4.8%	5.7%	6.2%	5.7%	2.4%	1.4%
EBITDA ($m)	$1,582	$1,776	$1,985	$2,072	$1,591	$1,590
Average EBITDA per resident per annum	$9,224	$10,222	$11,134	$11,481	$8,746	$8,523
EBITDA margin	10.7%	11.2%	11.6%	11.7%	8.8%	8.2%

Source: ACFA Eighth Annual Report on the Funding and Financing of the Aged Care Industry (May 2020) (page 78)

The financial information is for the *residential segment* only and shows a Net Profit Before Tax (NPBT) result for the residential sector as being a surplus of $264 million. Please note that the NPBT is before non-operating items and after adjustment for such items, the residential sector would have an **operating loss in excess of $600 million** for FY19 and a loss of in excess of $300 million for FY18.

Survey Approved Provider Profile

Table 4: Profile of Survey approved providers by total assets bands

Total Assets	<$25M	$25M - $50M	$50M- $150M	> $150M	Total
Number of Approved providers	37	35	54	61	187
%	*19.79%*	*18.72%*	*28.88%*	*32.62%*	*100.00%*
Number of residential care aged care homes	39	44	107	731	921
%	*4.23%*	*4.78%*	*11.62%*	*79.37%*	*100.00%*
Number of residential operating places	2,368	3,540	9,775	60,500	76,183
%	*3.11%*	*4.65%*	*12.83%*	*79.41%*	*100.00%*
Number of Home Care (HCP) clients	1,796	720	5,346	36,818	44,680
%	*4.02%*	*1.61%*	*11.97%*	*82.40%*	*100.00%*

Brief Commentary

- Large providers as designated by total assets have a much larger operating deficit than the smaller providers
- Conversely the large providers have a higher operating EBITDA due to a significant higher average depreciation charge
- All asset category groupings had a negative operating deficit return on assets
- The larger providers have a lower liquid cash assets ratio as a percentage of debt (resident refundable loans + external borrowings + government acquittal funds payable)

Table 5: Profile of Survey approved providers by revenue bands

Operating revenue range ($million per annum)	<$10M	$10M - $20M	$20M-$75M	> $75M	Total
Number of Approved providers	53	44	48	42	187
%	*28.34%*	*23.53%*	*25.67%*	*22.46%*	*100.00%*
Number of residential care aged care homes	54	66	150	651	921
%	*5.86%*	*7.17%*	*16.29%*	*70.68%*	*100.00%*
Number of residential operating places	3,457	5,592	13,957	53,177	76,183
%	*4.54%*	*7.34%*	*18.32%*	*69.80%*	*100.00%*
Number of Home Care (HCP) clients	666	1,490	5,951	36,573	44,680
%	*1.49%*	*3.33%*	*13.32%*	*81.86%*	*100.00%*

Brief Commentary

- The financial metrics based on revenue shows similar results trends as for categorisation by total assets
- Based on the comparison between large provider operating results with those of the smaller providers, there is little evidence to support further extensive provider consolidation as a firm basis to improve the financial sustainability of the aged care sector

Balance Sheet Summary as at 30 June 2020

A summary of the balance sheet (average by provider average) for the Jun-20 and Jun-19 financial periods is included in the table below.

Table 6: Summary Balance Sheet Comparison (average by approved provider)

	Survey FY20 187 Providers *(Average)*	**Survey FY19 187 Providers *(Average)***	**ACFA FY19 760 Providers *(Average)***	**ACFA FY18 787 Providers *(Average)***
Balance Sheet	**$'000**	**$'000**	**$'000**	**$'000**
Assets				
Cash and financial assets	39,401	36,420	17,410	17,843
Operating assets	12,815	13,283	12,821	12,698
Property assets	147,368	138,867	60,663	55,444
Intangibles - other	4,213	3,874	3,464	3,048
Intangibles - bed licences	4,448	4,448	4,062	4,171
Total assets	**208,245**	**196,892**	**98,420**	**93,204**
Liabilities				
Refundable loans - residential	65,121	62,209	37,408	35,551
Refundable loans - retirement living	48,132	44,494	13,592	12,795
HCP unspent funds liability	2,120	1,404	511	385
Borrowings	7,694	5,419	7,311	6,995
Other liabilities	19,355	15,888	9,415	8,446
Total liabilities	**142,422**	**129,414**	**68,237**	**64,172**
Net assets	**65,823**	**67,478**	**30,183**	**29,032**
Net tangible assets	**57,162**	**59,156**	**22,657**	**21,813**
Ratios				
Net assets proportion % total assets	*31.6%*	*34.3%*	*23.0%*	*23.4%*
Property assets proportion % total assets	*70.8%*	*70.5%*	*61.6%*	*59.5%*
Cash + financial assets % debt	*32.0%*	*32.1%*	*29.6%*	*32.0%*

Brief Commentary

- Net assets and net tangible assets have decreased as a result of operating losses
- Liquid cash assets to debt ratio remains steady at around 32.0%, with the increase in refundable loans from residents amounting to an average of $6.55 million per provider (6.1% increase)
- External borrowings have increased by an average of $2.275 million per provider (42% increase)
- Property assets have increased by an average $8.5 million per provider (5.8% increase) (funded from the growth in resident refundable loans and external borrowing)
- The results for the sector indicate that the operating surplus expressed as a return on assets employed by approved providers continues to not be financially sustainable

Profitability of Large Not-For-Profit Providers

A submission was provided to the Royal Commission from the Centre for International Corporate Tax Accountability & Research (CICTAR) titled *"Caring for Growth: Australia's Largest Non-Profit Aged Care Operators"* (July 2020).

The submission focussed on reviewing nine large NFP providers primarily based on their FY19 audited financial statements (General Purpose Financial Statements) and Annual Information Statements as lodged with the Australian Charities and Not-for-profits Commission. In summary, the submission noted the following aggregate statistics for these providers:-

- Government subsidy revenue received $3.357 billion *(note that this is from all funding sources including aged care)*
- Subsidy revenue represented 54% of total revenues
- Overall result was a deficit of $12.2 million for FY19
- Total assets employed was $10.975 billion
- Employee costs were $2.803 billion
- Employee costs represented 63% of total expenses
- Full-time equivalent (FTE) staff were 31,682 (48,887 persons in total)

The submission provided a number of recommendations for consideration. It is important and beneficial that the financial performance of the aged care sector in general, and provider organisations specifically, is properly scrutinised and challenged, where appropriate, which will ensure stronger accountability and transparency.

Due to the financial viability of the aged care sector being under considerable strain, we feel it relevant to provide some comment in relation to the CICTAR submission.

Financial Performance

The CICTAR submission correctly states that the financial result (Total Comprehensive Income) is an aggregate deficit of $12.2 million. This result is in broadly line with the overall aged care sector financial performance and confirms that the large NFP's are similarly experiencing declining financial performance.

The aggregate deficit includes significant non-recurrent revenues (refer previous commentary) which when considered would result in an increased deficit, likely to be in excess of $75 million in aggregate. In this respect the NFP's are relying on past retained surpluses and non-recurrent revenues to remain financially sustainable. Our analysis of their financial statements cannot find any evidence of government subsidy funding cross subsidising other segments of their operations.

Commentary

StewartBrown retain a strong commitment to ensuring that our analysis is always evidenced based and factually accurate wherever possible. It is therefore not our intention to critique other analyses, as all are important in the public sphere, however as the CICTAR submission was a public document (and received considerable media attention) the submission, as with each of ours, should receive scrutiny.

The CICTAR submission places a strong reliance on considering net cash from operations as being a better metric of assessing business performance. Whilst we would agree that operating cash flows are relevant in assessing performance, we do not consider it should take preference over assessing all financial metrics and can lead to incorrect assumptions if not fully understood.

To further illustrate this point, the CICTAR submission made the following commentary regarding one of the NFP's included:-

- "…reported a loss in 2019 of $4.3 million, driven by over $250 million in property investments" and later "The 2019 loss of $4.3 million.….the loss was driven by investment, primarily the purchase of property, plant and equipment of $251.4 million"
- "Net cash from operations was $55.1 million, up from $45.9 million in 2018 indicating a strong financial performance from operations"

Loss driven by property investments

We suggest that this is a mixing of financial metaphors. Capital investments do not relate to operating losses and have no effect on the result other than any impact on investment income (or finance costs) due to the cash outlay for capital expenditure.

It is also relevant to note that the purchase of property, plant and equipment was not for idle "property investments" but for new builds, major refurbishment of existing operating buildings (by majority residential aged care homes) and re-equipping and upgrading of equipment. All these investments are necessary to meet current and future needs and expectations of incoming residents and their families and to ensure that the home can provide care and services in an efficient manner which ensures that the benefit of revenue streams are maximised for the wellbeing of residents.

Net cash from operations

The submission noted that the NFP provider had net cash from operations of $55.1 million and further noted that this was an increase from FY18 (increase of $9.2 million). However, it was not stated in the submission that the cash increase from receipts from customers and government was $19.37 million which would explain the increase in net cash flows from operations. Cash flows do not necessarily equate to profit.

One important expense excluded from net cash flows from operating activities is depreciation and amortisation, and in this case the depreciation and amortisation expense was $90.4 million. Using this metric, the net cash flows from operations did not cover the depreciation expense by some $35.1 million, which would be a further indication that the financial result was less than desirable, rather than the reverse.

Whilst on cash flows, a more complete analysis needs to consider investing and financing activities. In the case of this NFP provider, the net cash flows from refundable resident loans was $63.9 million which together with the operating cash flows aggregated $119.3 million. We note that the capital expenditure for existing operations was $251.4 million, and this can be concluded that the provider is exhausting all operating cash flows (and more) in the normal course of business.

We further suggest that thus is the likely the case with each of the nine NFP's named in the report.

4. RESIDENTIAL CARE ANALYSIS

Residential Result Snapshot

ACFI Result

Revenue	$181.42
Direct Costs	
Wages	$148.20
Other	$8.78
Total Direct Costs	*$156.99*
Administration Overhead	$9.22
Total Costs	$166.21
Result	$15.22

+

Everyday Living Result

Revenue	$53.89
Direct Costs	
Hotel Services	$45.15
Utilities	$7.05
Property Maintenance	$10.64
Quality & Education	$0.19
Total Direct Costs	*$63.00*
Administration Overhead	$12.91
Total Costs	$75.91
Result	$(22.02)

=

Care Result $(6.80)

+

Accommodation Result

Revenue	$32.57
Direct Costs	
Depreciation & Amortisation	$18.49
Other	$2.36
Total Direct Costs	*$20.85*
Administration Overhead	$14.75
Total Costs	$35.61
Result	$(3.04)

=

Operating Result $(9.84)

Operating Result

The residential care sector has experienced a further significant decline in the Operating Result (at an aged care home level) predominantly due to care expenses increasing at a much higher rate (5.3%) than care revenue (2.3%).

The Operating Result as shown below has decreased from a deficit of $2.62 per bed day (pbd) for the 12 months to Jun-19 to a **deficit of $9.84 pbd** for the 12 months to Jun-20, a further decline of $7.22 pbd.

The majority of the comparisons and trend analysis in this report are year-on-year (YoY) as it reflects a better perspective on the movements in financial performance for a similar period. FY20 results *exclude COVID-19 subsidies and expenses* to allow trend analysis to be consistent. Any comparisons made against the FY19 results also exclude the 9.5% one-off government grant remitted through an increase in the ACFI subsidy.

Table 7: Summary Profit & Loss Results for FY20 and FY19

	Survey *Average*		Survey *First 25%*	
	Jun-20	Jun-19	Jun-20	Jun-19
	1,113 Homes	*1,045 Homes*	*278 Homes*	*261 Homes*
ACFI				
Revenue	$181.42	$177.79	$184.51	$182.28
Expenditure				
Labour costs	$148.20	$140.72	$131.17	$125.75
Other direct costs	$8.78	$8.23	$7.26	$6.86
	$156.99	$148.95	$138.43	$132.61
ACFI RESULT (A)	**$24.44**	**$28.84**	**$46.08**	**$49.67**
EVERYDAY LIVING				
Revenue	$53.89	$52.32	$54.78	$53.35
Expenditure				
Catering	$31.73	$30.09	$30.48	$28.72
Cleaning	$8.65	$8.37	$7.60	$7.83
Laundry	$4.12	$3.93	$3.53	$3.51
Overhead allocation (workcover & education)	$0.81	$0.63	$0.86	$0.57
Utilities	$7.05	$7.06	$6.50	$6.48
Routine maintenance & motor vehicle	$10.64	$10.67	$9.30	$9.66
	$63.00	$60.77	$58.26	$56.77
EVERYDAY LIVING RESULT (B)	**($9.11)**	**($8.45)**	**($3.48)**	**($3.42)**
ADMINISTRATION COST (C)	**($36.88)**	**($34.26)**	**($33.36)**	**($30.83)**
CARE RESULT (D) *(A + B + C)*	**($21.56)**	**($13.87)**	**$9.25**	**$15.42**
ACCOMMODATION				
Revenue				
Residents	$13.51	$13.41	$13.15	$13.17
Government	$19.06	$17.91	$17.84	$16.39
	$32.57	$31.32	$30.99	$29.56
Expenditure				
Depreciation	$18.49	$17.61	$16.90	$16.60
Property rental	$1.08	$1.06	$0.82	$1.00
Other	$1.28	$1.41	$1.33	$1.40
	$20.85	$20.07	$19.05	$19.00
ACCOMMODATION RESULT (E)	**$11.71**	**$11.25**	**$11.93**	**$10.56**
OPERATING RESULT ($ per bed day) *(D + E)*	**($9.84)**	**($2.62)**	**$21.18**	**$25.98**
OPERATING RESULT ($ per bed per annum)	**($3,371)**	**($904)**	**$7,399**	**$9,142**
EBITDAR ($ per bed per annum)	**$3,333**	**$5,531**	**$13,591**	**$15,334**

Summary of Results *(year-on-year)*

Revenue

- Increase of 2.0% in ACFI revenue ($3.64 pbd) for Survey *Average* which aligns with the COPE increase of 1.4%
- Increase of 1.2% in ACFI revenue ($2.24 pbd) for *First 25%* which is less than the COPE increase. This indicates that the average ACFI score of incoming residents has decreased for the *First 25%*
- Increase in Everyday Living revenue by $1.57 pbd for Survey *Average* and $1.43 for *First 25%* mostly due to CPI increase in the Basic Daily Fee. The similarity of these increases also indicates little difference in the additional services income between the two groups.
- 4.0% increase in accommodation revenue for the Survey *Average* ($1.25 pbd) and 4.8% for the *First 25%* ($1.42pbd) mainly due to the subsidy increases
  - Subsidy - $1.15 pbd for Survey *Average* and $1.45 pbd for the *First 25%* (due to increase in Significant Refurbishment subsidy)
  - Revenue from residents has stabilised with only a small increase of $0.09 pbd for the Survey *Average* and a decrease of 0.03 pbd for the *First 25%* as the proportion of DAPS to RADs remained fairly constant

Expenses

- For the Survey *Average* increase in total care labour costs of $7.48 pbd and increase of roughly 5 minutes per resident per day in total care hours (total direct care hours - 3.21 per resident per day)
- For the *First 25%* increase in total care labour costs of $5.42 pbd and increase of roughly 5 minutes per resident per day in total care hours (total direct care hours - 2.94 per resident per day)
- Increase in catering of $1.64 pbd for the Survey *Average* and $1.76pbd for the *First 25%*
- Increase in administration of $2.63 pbd for the Survey *Average* and $2.53 pbd for the *First 25%*
- Increase in accommodation expenditure by $0.78 pbd due to higher depreciation charge ($0.88 pbd) offset by lower Bond/RAD interest expenses costs

Operating Results

- ACFI result declined by $4.40 pbd (15.3%)
- Everyday Living result declined by $0.66 pbd (7.8%)
- Accommodation result improved by $0.47 pbd to an average of $11.71 pbd
- Operating result was a deficit of $9.84 pbd (Jun-19 deficit $2.62 pbd)
- Operating EBITDAR decreased by $2,199 per bed per annum to $3,333 pbpa

Additional Trends

- Occupancy for mature homes declined to 93.6% (Jun-19 94.4%) whilst occupancy for all homes decreased to 91.4% from 91.4% at Jun-19
- Supported resident ratio decreased by 0.8% from 47.6% at Jun-19 to 46.8% at Jun-20
- Increase in average full Refundable Accommodation Deposit (RAD) held and received during the year by around $30k from $402k to $433k
- Proportion of Full RADs received from incoming residents has stabilised at 29%, with Full DAPs at 47% and Combination payments at 24%

Table 8: Summary KPI Results for Jun-20 Survey

Residential Homes - Summary Results	FY20 *1,113 homes*	FY19 *1,045 homes*		Difference *(YoY)*	Mar-20 *1,040 homes*
OPERATING RESULT ($pbd)	**($9.84)**	($2.62)	↓	($7.22)	($8.23)
OPERATING RESULT ($pbpa)	**($3,371)**	($904)	↓	($2,467)	($2,835)
EBITDAR ($pbpa)	**$3,333**	$5,531	↓	($2,199)	$3,819
Average Occupancy *(all homes)*	**91.4%**	92.3%	↓	(0.9%)	92.1%
Average Occupancy *(mature homes)*	**93.6%**	94.4%	↓	(0.8%)	94.1%
Average ACFI ($pbd)	**$181.42**	$177.79	↑	$3.64	$180.75
Direct care hours per resident per day	**3.21**	3.13	↑	0.08	3.23
ACFI services costs as a % of ACFI	**86.5%**	83.8%	↑	2.8%	86.2%
Supported ratio	**46.8%**	47.6%	↓	(0.8%)	46.4%
Average Full RAD/Bond held	**$386,631**	$362,312	↑	$24,319	$384,073
Average Full RAD taken during period	**$433,252**	$402,384	↑	$30,868	$427,037

Trend Analysis

The following graphs highlight the trends for the year to Jun-16 to Jun-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 3: Operating Result for each geographic area and Average result trend line (expressed as $ per resident bed day)

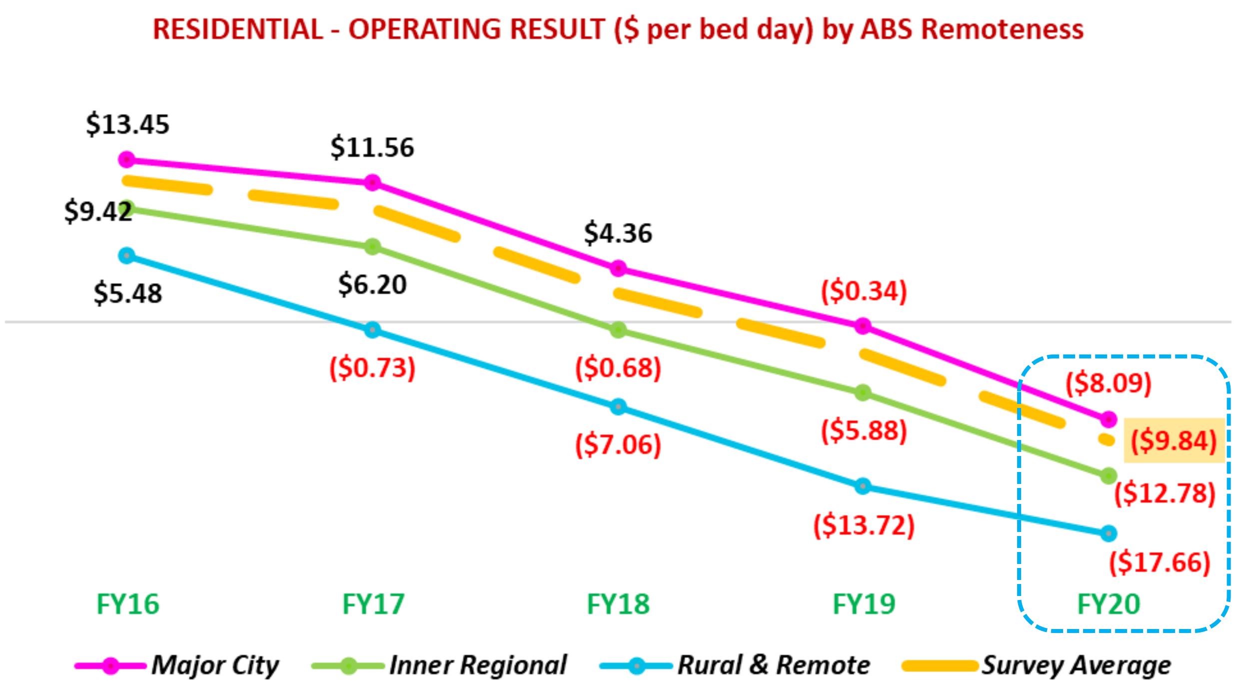
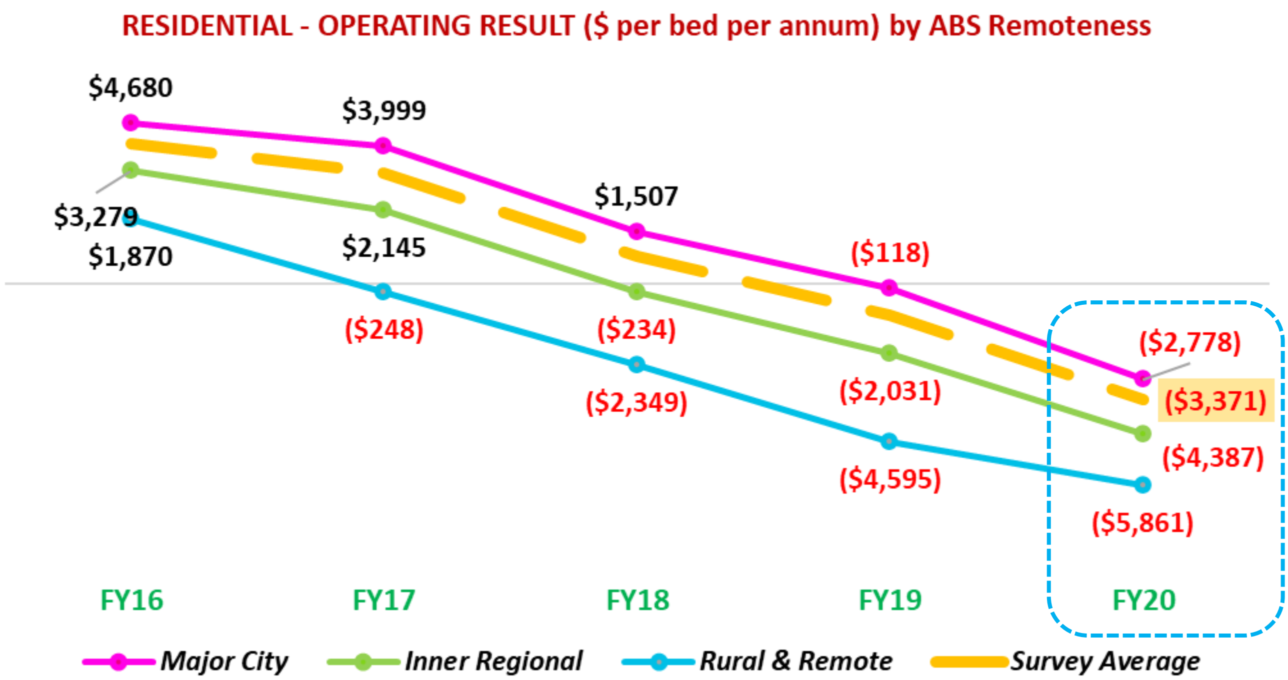


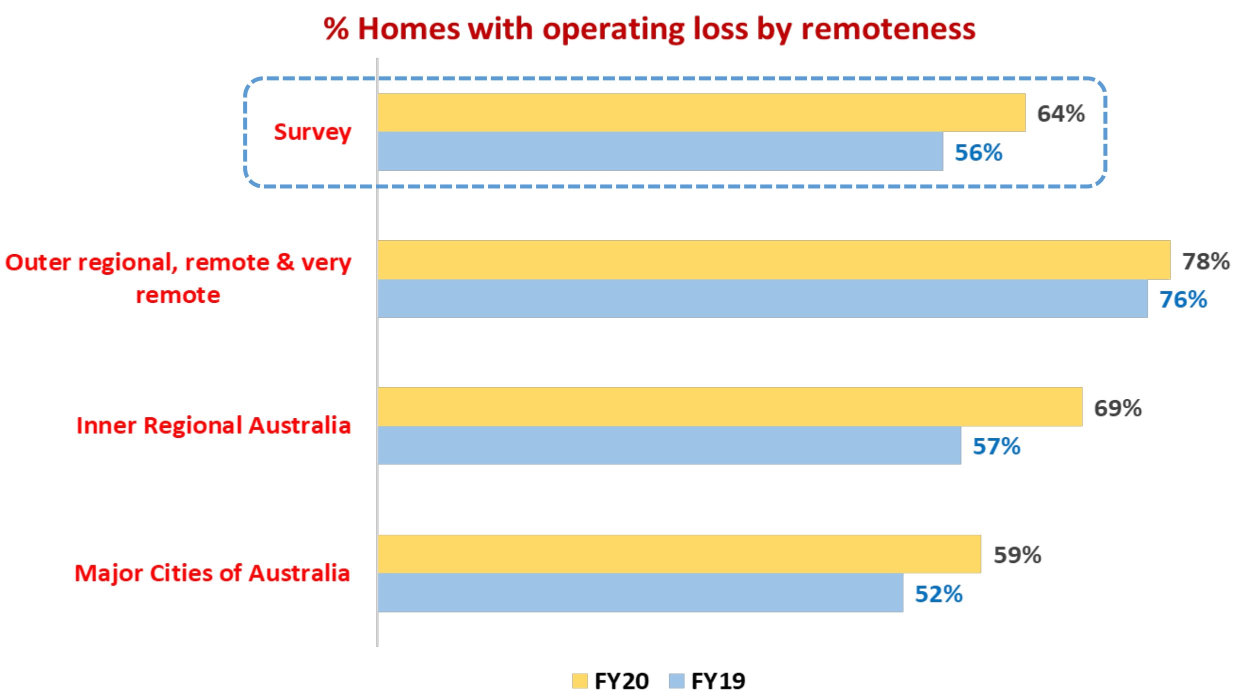
Figure 4: Operating Result for each geographic area and Average result trend line (expressed as $ per bed per annum)



Number of Aged Care Homes making an Operating Loss

The following graph highlights the percentage of aged care homes that submitted data to the survey nationally that are operating at a loss. If current settings were to remain the same, we forecast that 68% of all homes would be operating at a loss be the end of FY21 and 72% by the end of FY22.

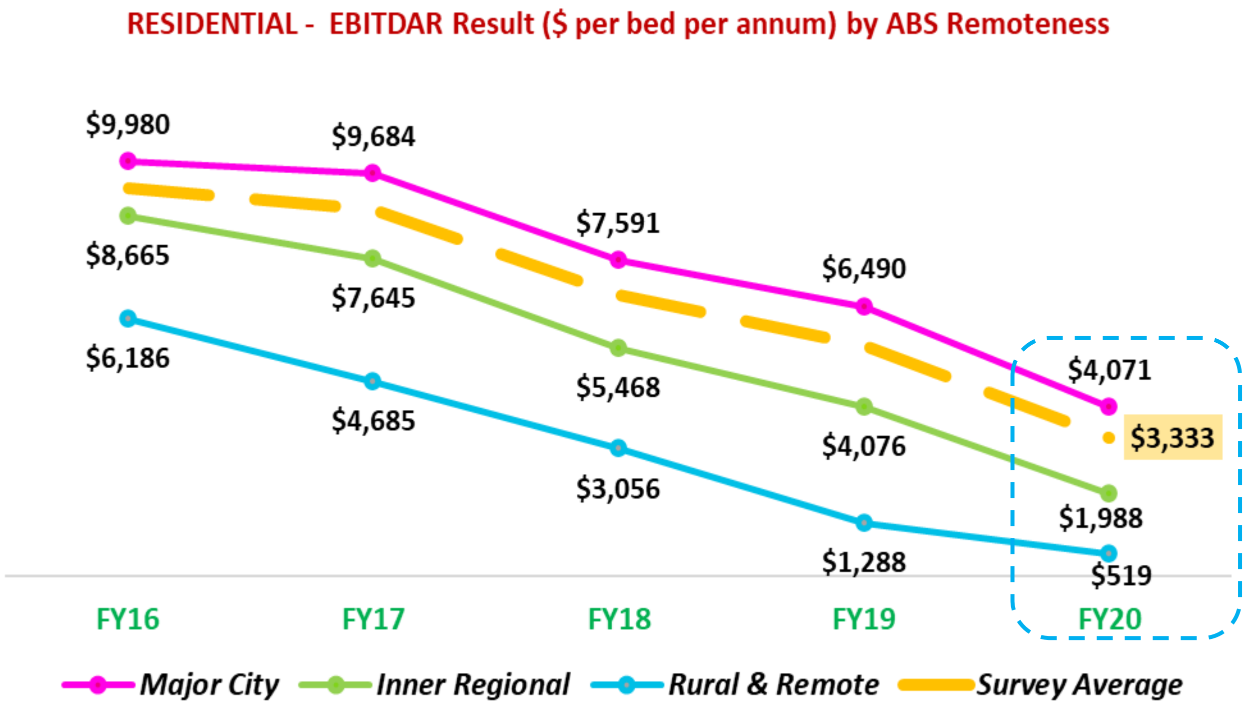
Figure 5: Analysis of aged care homes making an operating loss by ABS remoteness in total Survey



EBITDAR Result

The below graph shows the Operating EBITDAR (Earnings Before Interest, Taxation, Depreciation, Amortisation and Rent) trend for the FY16 to FY20.

Figure 6: EBITDAR Result for each geographic area and Average result trend line (expressed as $ per bed per annum)



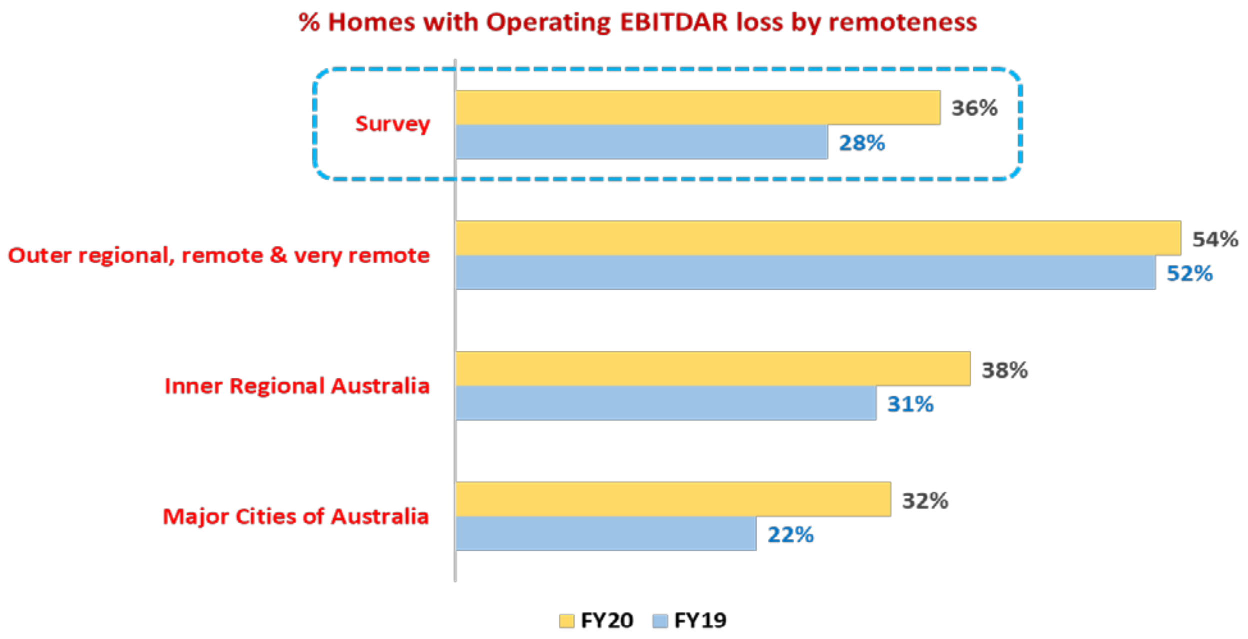
Number of Aged Care Homes making an EBITDAR Loss

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.

Based on current settings, it is expected that the number of homes with a EBITDA deficit would increase to 39% in FY21 and 43% in FY22.

Figure 7: 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 **$17.66 per bed day** ($5,861 per bed per annum). These results are unsustainable. The following graphs highlight 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.

Figure 8: Operating result comparison by ABS remoteness geographic regions

	Survey Average	Major Cities	Inner Regional	Rural & Remote
ACFI Result	$24.44	$25.59	$22.16	$20.61
+	+	+	+	+
Every Day Living Result	($9.11)	($7.79)	($10.89)	($16.65)
−	−	−	−	−
Administration Costs	$36.88	$37.03	$36.32	$37.43
+	+	+	+	+
Accommodation Result	$11.71	$11.14	$12.27	$15.81
=	=	=	=	=
Aged Care Home Result	($9.84)	($8.09)	($12.78)	($17.66)

Snapshot: FY20 Results by Geographic Location

Major Cities

740 Aged Care Homes (ACHs)

($2,778) deficit
ACH Result $ per bed per annum

$4,071
ACH EBITDAR $ per bed per annum

$4,880
ACH EBITDAR per bed per annum (including COVID)

$183.58
Average ACFI per bed day

86.1%
ACFI services costs as % of ACFI

3.24
Direct care hours per resident per day

45.4%
Supported resident ratio

93.8%
Average Occupancy

$417,077
Average full accommodation deposit held

$464,619
Average full RAD taken during period

Inner Regional

274 Aged Care Homes

($4,387) deficit
ACH Result $ per bed per annum

$1,988
ACH EBITDAR $ per bed per annum

$3,522
ACH EBITDAR per bed per annum (including COVID)

$176.09
Average ACFI Per bed day

87.4%
ACFI services costs as a % of ACFI

3.13
Direct care hours per resident per day

47.5%
Supported resident ratio

93.8%
Average Occupancy

$308,849
Average accommodation deposit held

$354,298
Average full RAD taken during period

Rural & Remote

99 Aged Care Homes

($5,861) deficit
ACH Result $ per bed per annum

$519
ACH EBITDAR $ per bed per annum

$1,697
ACH EBITDAR $ per bed per annum (including COVID)

$178.13
Average ACFI Per bed day

88.4 %
ACFI services costs as a % of ACFI

3.23
Direct care hours per resident per day

50.8%
Supported resident ratio

90.7%
Average Occupancy

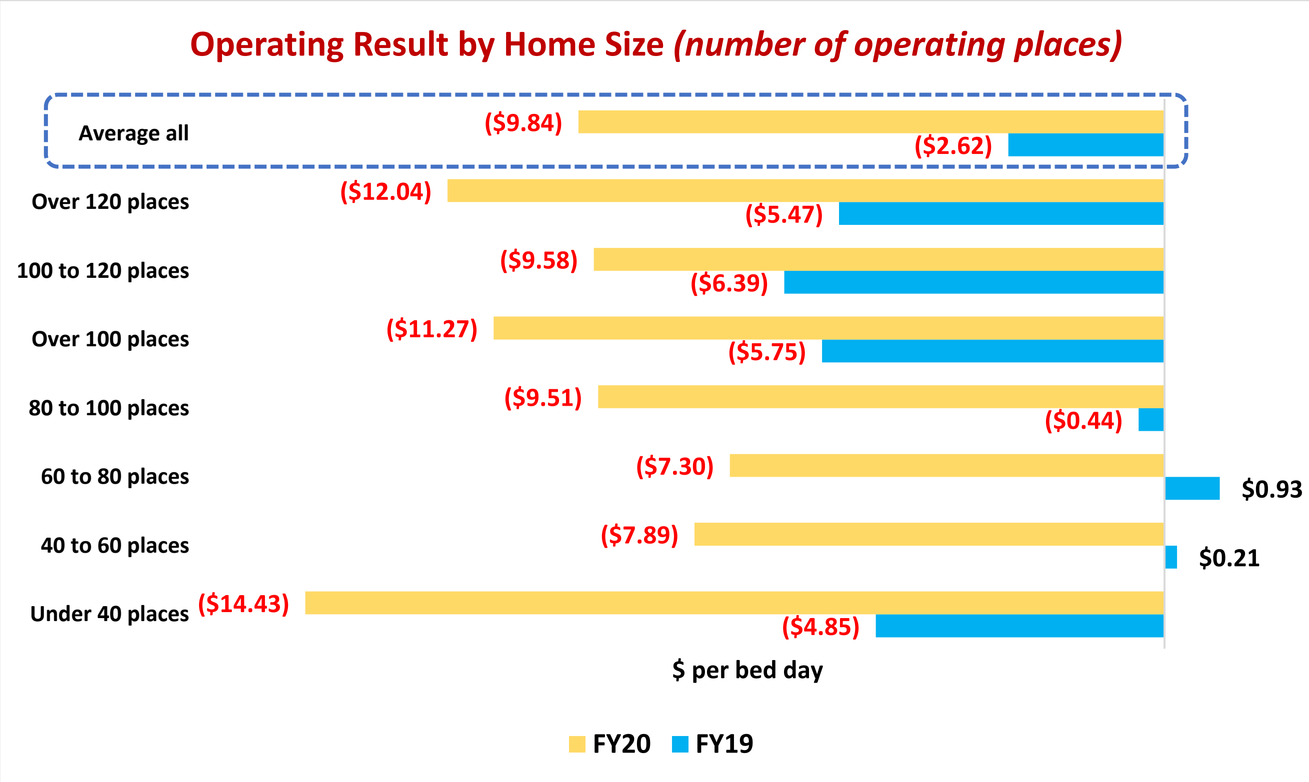
$274,918
Average accommodation deposit held

$318,513
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 whereas mid-range sizes perform better.

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



We are also starting to see providers downsizing new builds from what was the preferred size of upwards of 100 places to a homes that are somewhere between 70 and 90 places.

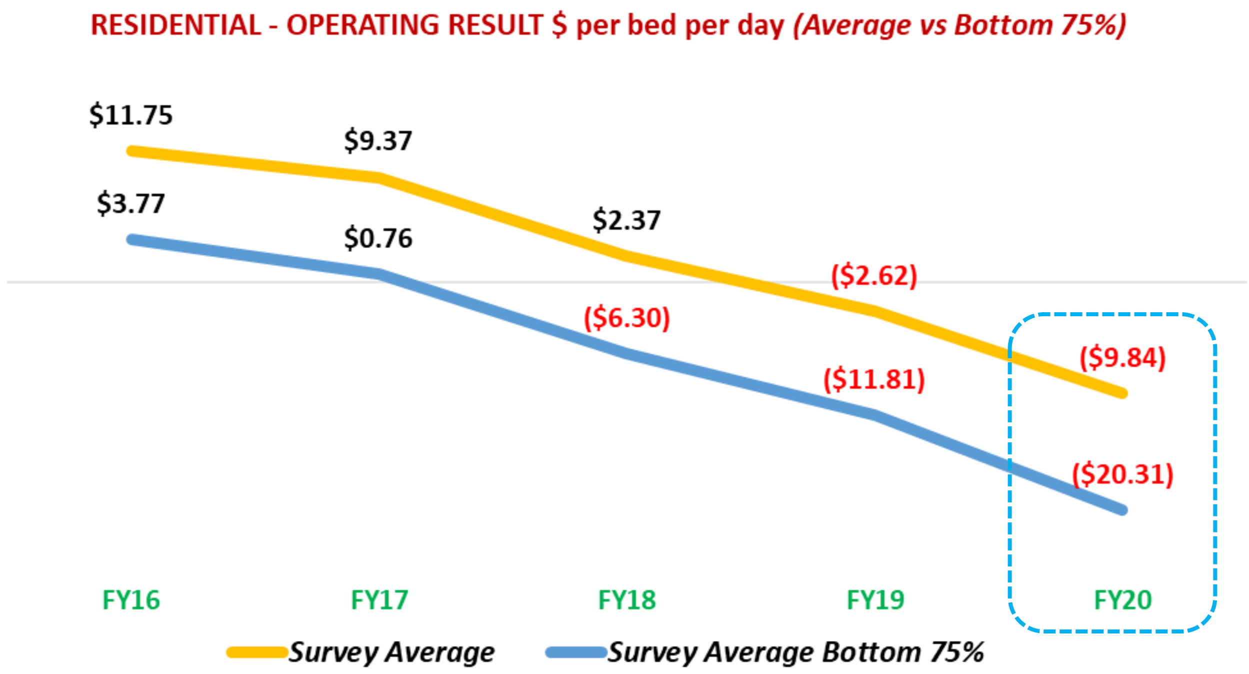
There are several reasons for this apart from the financial results we observe in the graph above. Other factors to consider include:

- Shorter lengths of stay meaning it takes longer to initially reach the mature occupancy state than in the past, and once it is reached, a smaller home caters for more residents in a given year than a larger home would have in times past when the average length of stay was longer.
- More vertical builds where there is integration between independent and assisted living and residential aged care. In these cases, care is provided into the persons apartment through as user pay services or a home care package and the entry into residential aged care may not occur or only occur when absolutely necessary

Major Cause of Financial Concern - *Bottom 75%*

The operating results of the *Bottom 75%* of aged care homes continue to decline to now record an average loss of $20.31 per bed day (a further decline of $8.50 per bed day compared to Jun-19). The *Bottom 75%* comprises 835 aged care homes and represent a very large cohort within the sector.

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



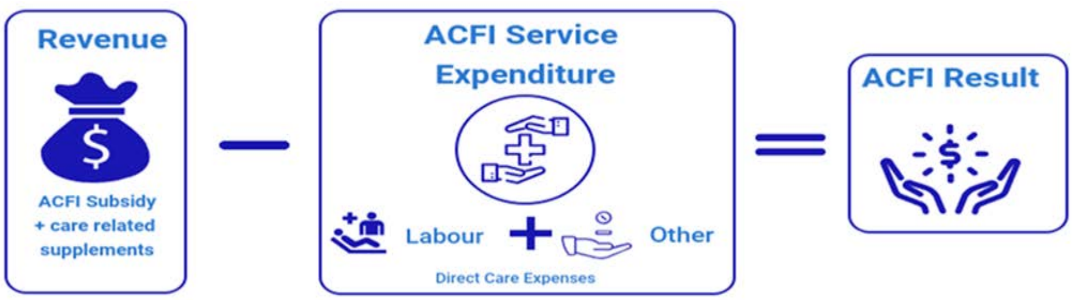
ACFI (Direct Care) Result

ACFI subsidy funding is determined by each resident's assessed care needs. The higher the acuity results in 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.

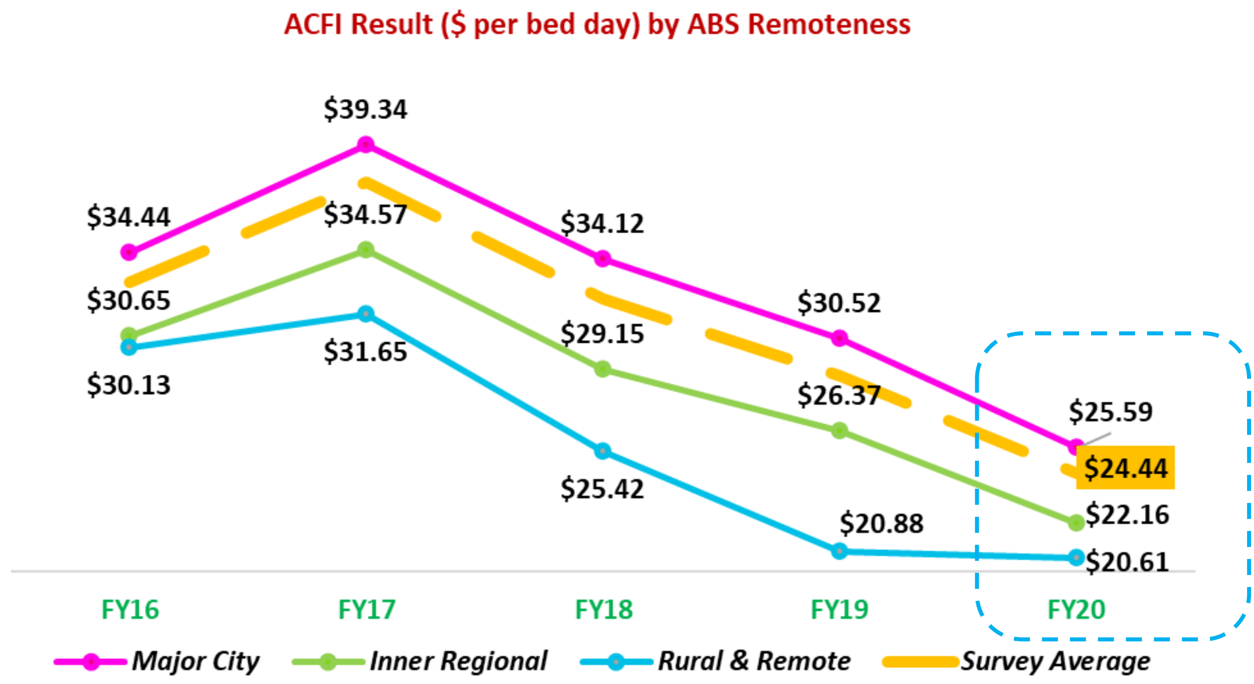
Figure 11: Components of the ACFI (direct care) result



The ACFI result (surplus) continues to decline in all geographic sectors, with a significant reduction occurring in the 12 months to Jun-20. Direct care costs increased by $8.03 per bed day as compared to Jun-19.

Direct care staffing costs average $148.20 per day and represents 81.7% of ACFI revenue (79.1% Jun-19).

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

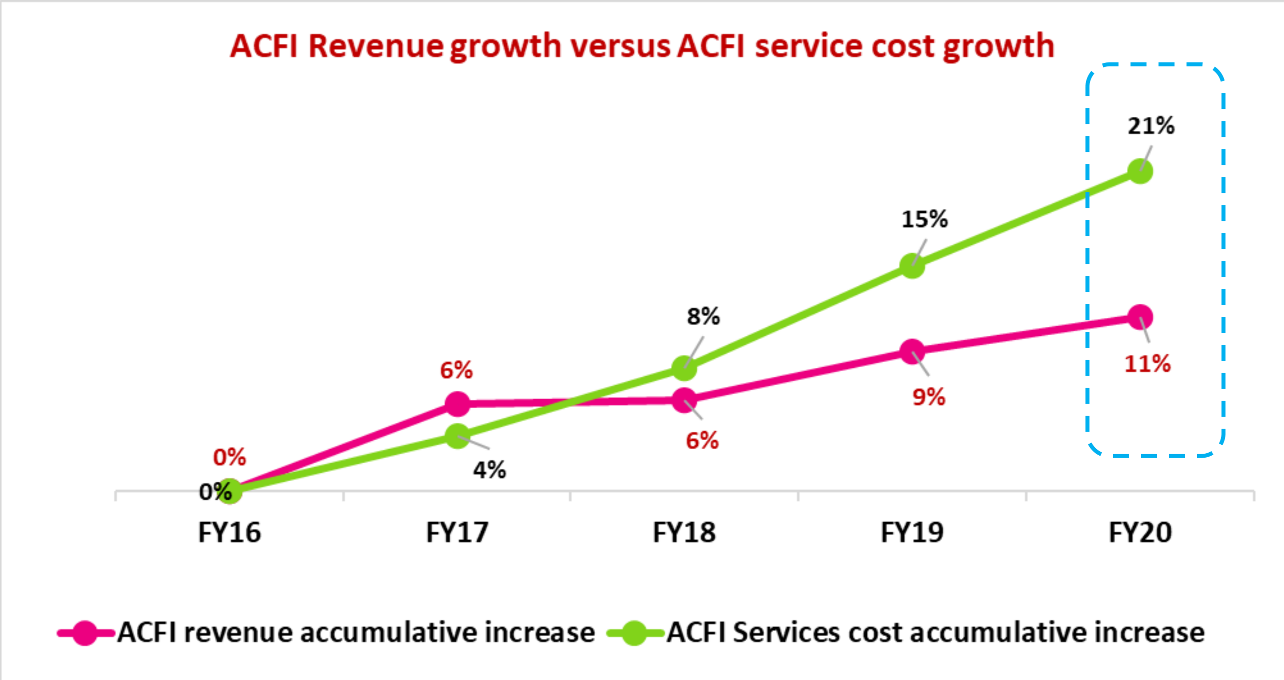


ACFI Revenue and Direct Care Costs Trend

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 staff cost increases (average of 3.0% annually) are greater than ACFI COPE (inflation) increases (1.4% for FY19).

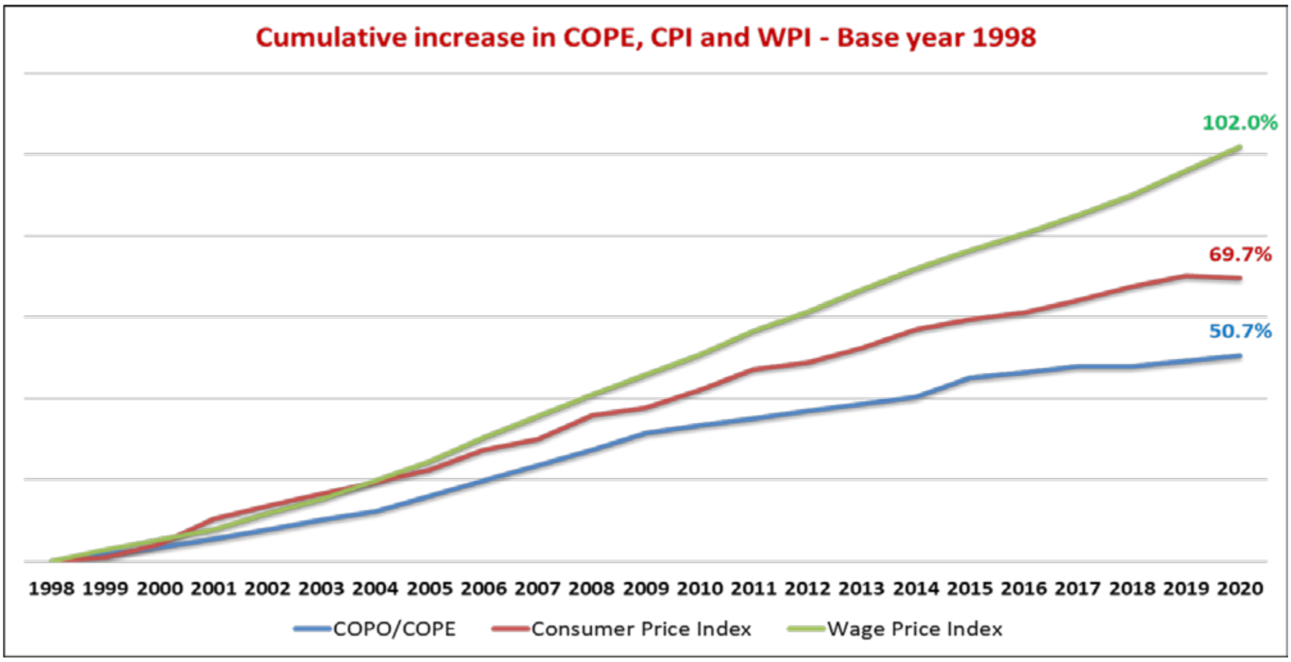
The cumulative effect is that the direct care costs are increasing at a much greater percentage (and actual amount is real terms) which is the reason for the declining ACFI result. Since the 2017 financial year this differential continues to increase exponentially and will have a significant impact on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



As can be seen in the graph below, the misalignment between the indexation of the two main revenue streams (care subsidy – COPE and Basic Daily Fee – CPI) have been lower than the indexation of the major cost of residential aged care providers and that is the cost of labour.

Figure 14: Indexation rates for Care subsidies (COPE) and Basic Daily fee (CPI) compared to Wage Price Index (Health)



This difference in indexation rates is the main cause of the underlying structural deficit affecting residential aged care providers.

In the past, providers were able to overcome this structural deficit by increasing their revenue streams at a rate greater than indexation while maintaining cost controls on the rate of wage increases. They achieved this by admitting residents with higher acuity and through the ageing in place of existing residents so that average ACFI levels rose at a rate greater than the indexation rate. In more recent times, the average ACFI across the sector has plateaued and it is now difficult for many homes to increase revenue streams at a rate greater than the indexation.

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 9: 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%*		
	FY20	***FY19***		***FY20***	***FY19***	
Care management	0.12	0.11	↑	0.12	0.10	↑
Registered nurses	0.41	0.39	↑	0.39	0.35	↑
Enrolled & licensed nurses	0.29	0.32	↓	0.18	0.26	↓
Other unlicensed nurses & personal care staff	2.19	2.12	↑	2.05	1.94	↑
Allied health & lifestyle	0.19	0.17	↑	0.19	0.19	-
Imputed agency care hours implied	0.02	0.02	-	0.02	0.02	-
Total Care Hours	**3.21**	**3.13**	↑	**2.94**	**2.86**	↑

Brief commentary

- The category allocations are consistent with that used by the Nurses and Midwifery Board of Australia, and accordingly AIN and TAFE qualified staff have been included under the "Other unlicensed nurses & personal care staff" classification
- Total care labour costs have increased for both the Survey *Average* and *First 25%* since Jun-19 by 5.3% and 4.3% respectively
- Total care hours have increased for both the Survey *Average* and for the *First 25%* by 2.4% and 2.8% respectively, and are now at 3.21 hours and 2.94 hours worked per resident per day respectively
- These increases are spread across the wage categories and not consigned to the staff category with the lowest cost. This helps to explain the increase in cost being greater than the increase in hours in percentage terms
- These increases in staffing hours have occurred during a time of significant financial pressures for many providers and at a time when the acuity levels of residents have not been increasing at the same rate as in recent years

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)*

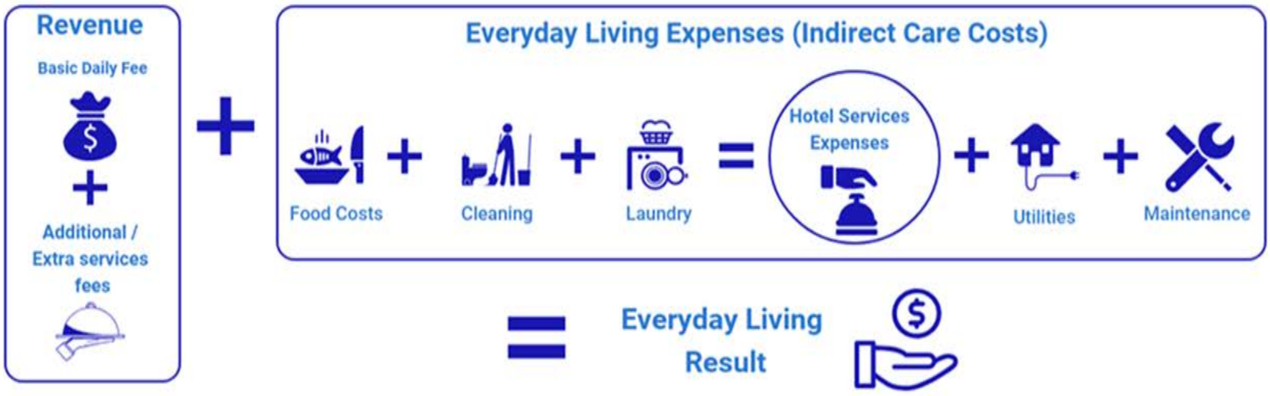
Counsel assisting the Royal Commission has recommended that the Government establish a two-year scheme to improve the quality of the current aged care workforce. The scheme would reimburse providers for the cost of education and training of the direct care workforce. This reimbursement would be for eligible 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 is often not appreciated when considering the overall funding model. The respective components of the Everyday Living result is 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 46.8% across all aged care homes, this will continue to be an issue for providers in addressing the introduction of additional services.

For the year to Jun-20 the direct costs of providing everyday living services exceeded the revenue by $9.11 pbd (Jun-19 $8.45 pbd). However, with an allocation of administration costs (including procurement, payroll, rosters, accounts, quality control, insurances, human resources and corporate costs) the deficit (loss) further increases.

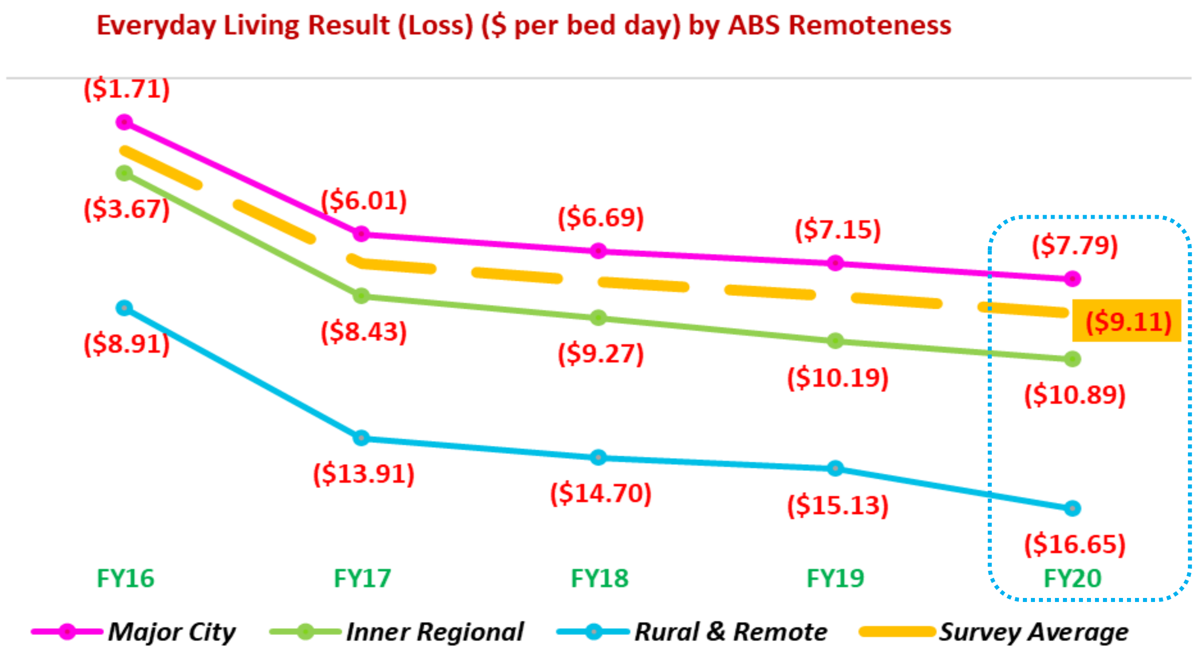
Table 10: Everyday living revenue and expense summary (expressed as $ per resident bed day)

	FY20 *1,113 Homes*	FY19 *1,045 Homes*	*YoY Movement*
Basic daily fee	51.67	50.67	↑
Other resident income	2.22	1.65	↑
Everyday Living revenue	**$53.89**	**$52.32**	↑
Hotel services	44.63	42.40	↑
Allocation of W/Comp to hotel services	0.50	0.45	↑
Utilities	7.05	7.06	↓
Maintenance costs (regular) and motor vehicles	10.64	10.67	↑
Quality and education allocation to everyday living	0.19	0.19	↑
Everyday living expenses	**$63.00**	**$60.77**	↑
Everyday Living Result	**($9.11)**	**($8.45)**	↓

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 Dec-15 to Dec-19 by Survey Average and geographic region



The Everyday Living Result has declined since June-16 by an average of $6.31 per bed day. In the past 12 months, the Everyday Living Result has declined by an average of $0.66 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.

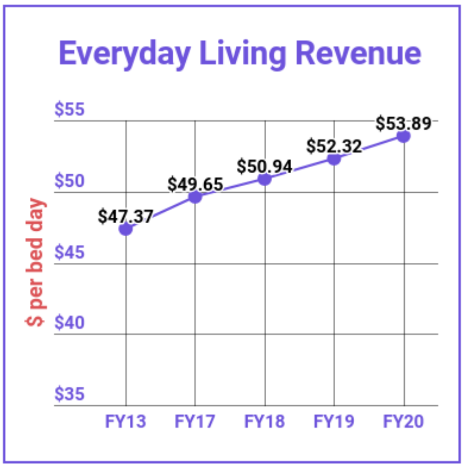
FUNDING REFORM CONSIDERATION

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)*

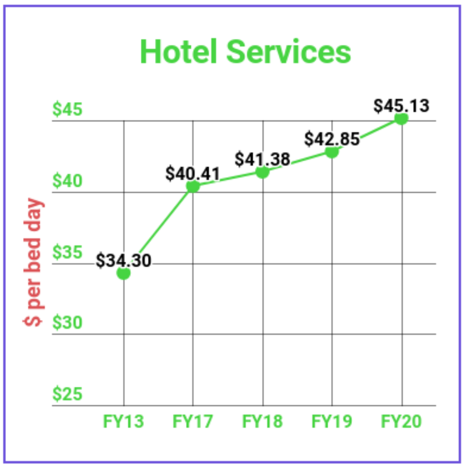
The Counsel Assisting the Royal Commission has taken up this recommendation and in their submission to the Commission they have recommended that commencing no later than 1 July 2021, offer to provide funding to each residential aged care provider an addition of $10 per resident per day to the Basic Daily 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.

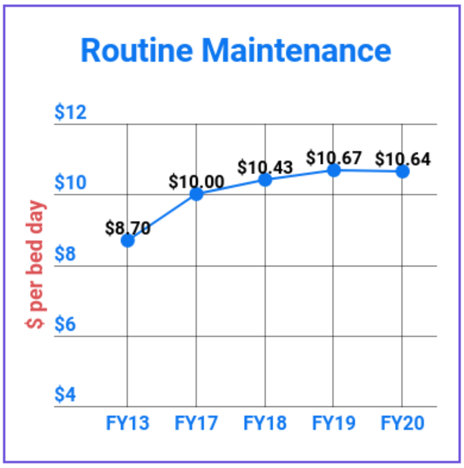
Figure 17: Trend analysis of everyday living costs by component



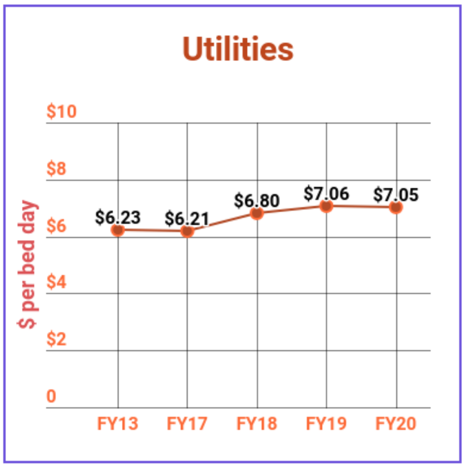
Since FY13 Everyday Living Revenue increased by an average of **$6.52** per bed day or **13.76%**



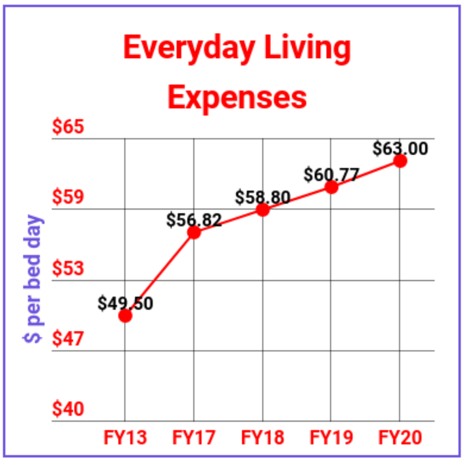
Hotel services costs increased by an average of **$10.83** per bed day or **31.57%**



Routine Maintenance costs increased by an average of **$1.94** per bed day or **22.30%**



Utility costs increased by an average of **$0.82** per bed day or **13.16%**



Total Everyday Living Expenses have increased by an average of **$13.5** per bed day or **27.27%** during the same period that revenue increased by only **$6.52** per bed day

Accommodation Result

StewartBrown continue 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. The returns on providing accommodation should also provide sufficient incentives for providers to invest in new building stock.

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 FY20 was $11.71 per bed day (FY19 $11.25 pbd) which represents $4,110 per room per annum. The increase in the percentage of new residents paying a Daily Accommodation Payment (DAP) rather than a RAD has been a contributing factor. This result is achieved after an average depreciation expense of $4,839 pa.

The above amounts exclude the administration component and when this has been allocated, the accommodation result is a deficit of $3.04 per bed day. This is a significant strategic concern and will not allow the required building accommodation to be maintained adequately.

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.

Figure 18: Residential Care Accommodation Result Trend

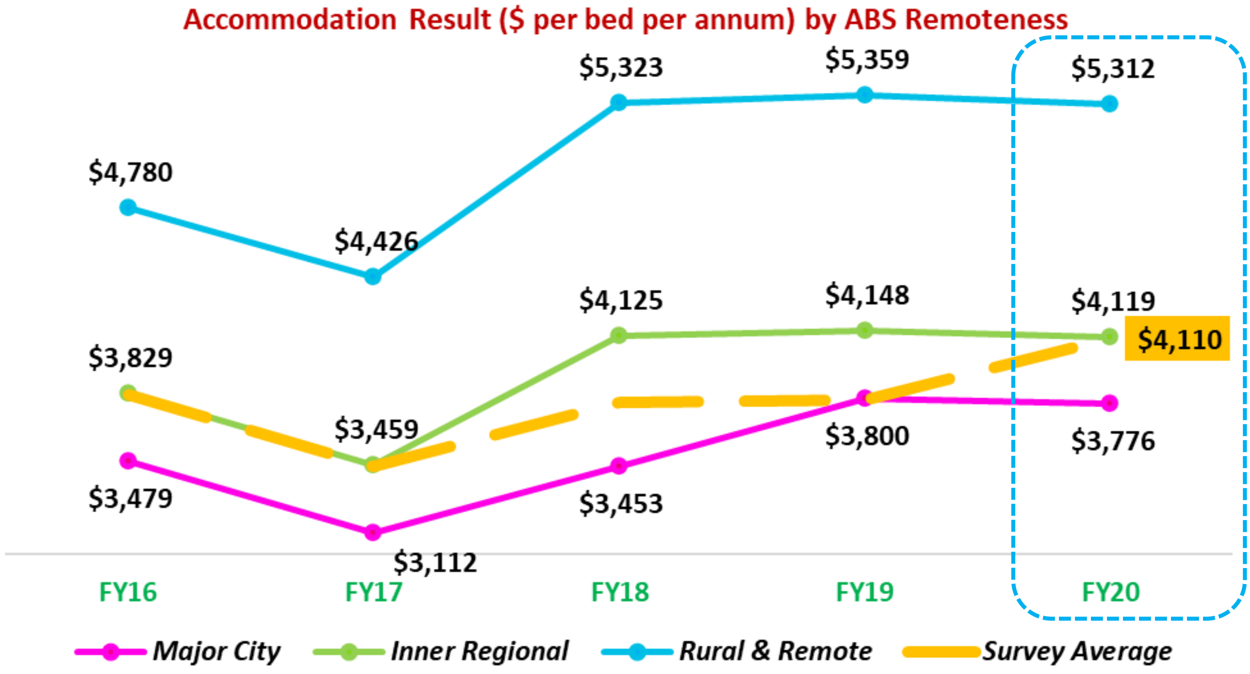
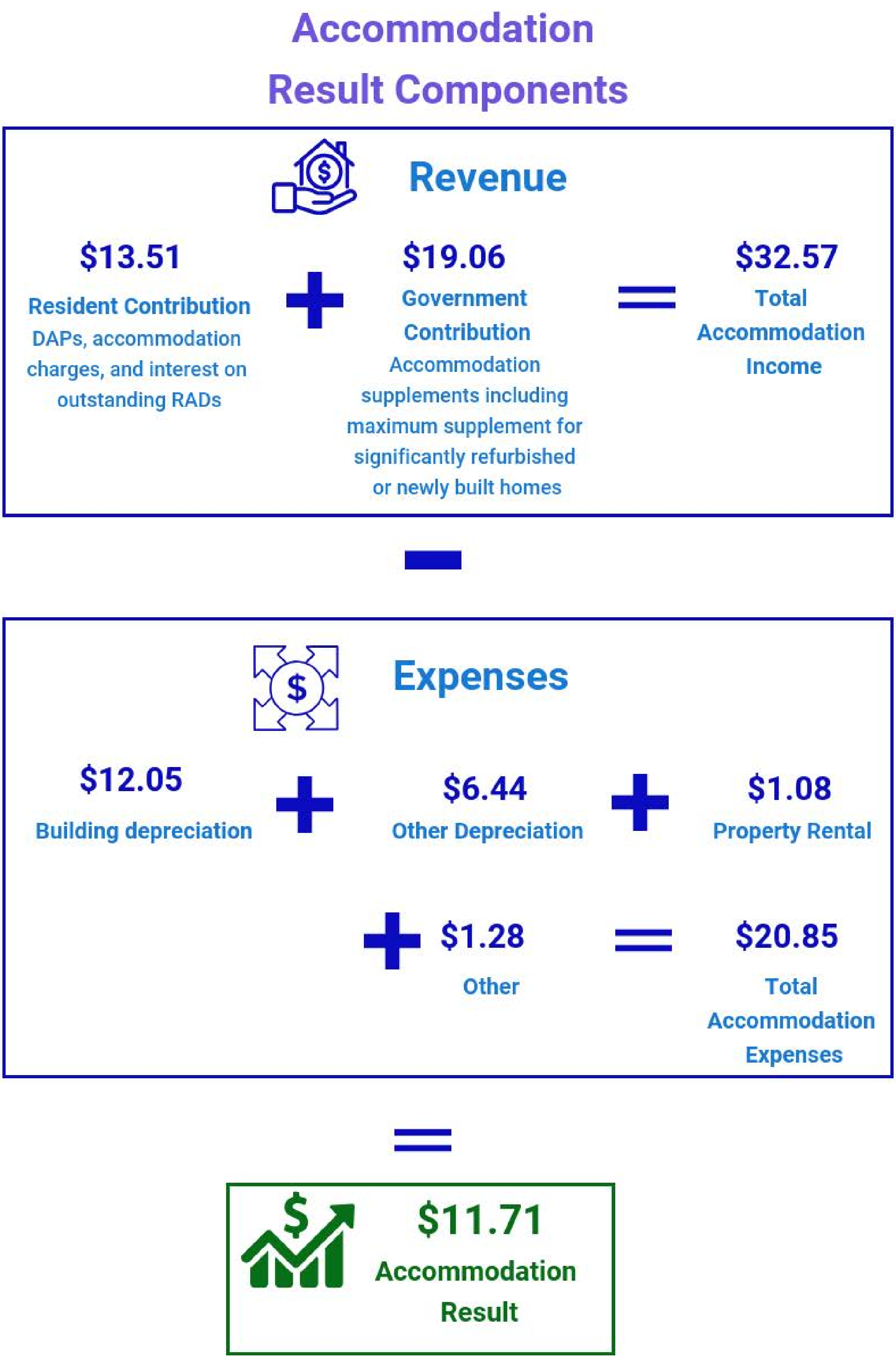


Figure 19: Accommodation Result components (excluding administration cost allocation)

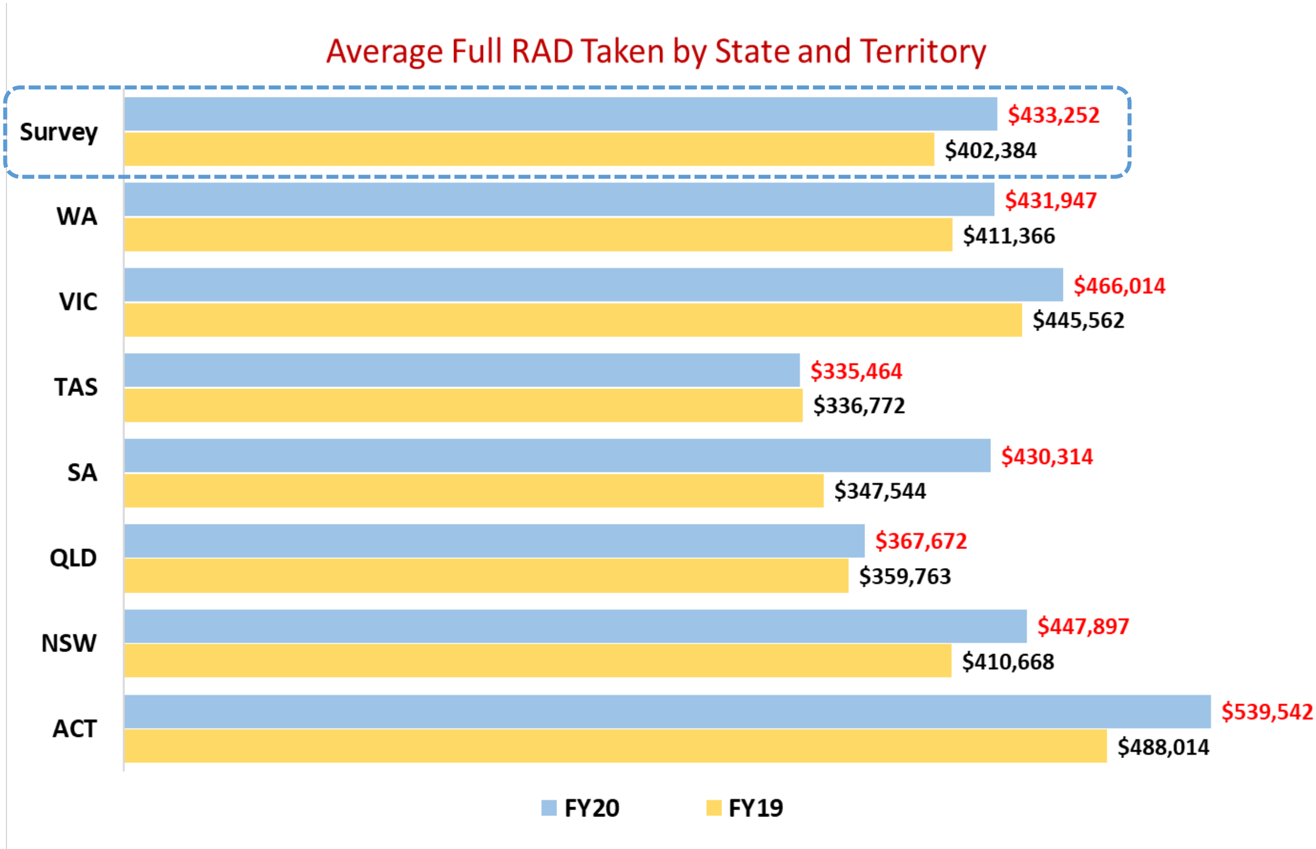


Accommodation Pricing

Accommodation pricing is an important component of the sustainability equation of a residential aged care home. It is a revenue benefit (DAP) or a capital benefit (RAD), depending upon the equity position of the organisation.

There has been a reasonable increase in accommodation pricing year on year to Jun-20. The amount of full Refundable Accommodation Deposits (RADs) received during the period rose by a national average of $30,868 (7.7%) to $433,252. This increase in RADs has been achieved despite a downturn in the housing market in many areas, the COVID-19 pandemic and general pessimism within the sector and community generally.

Figure 20: Average Refundable Accommodation Deposits Received for FY20 and FY19



There remains continuing feedback from both providers and consumers which indicates that there is still a community lack of understanding about the pricing (and cost) of residential care accommodation. This has had an effect with some providers not having an effective strategy for accommodation pricing.

The acuity (care needs) of a resident is directly related to the ACFI funding and expenditure. Everyday living expenses are offset against the Basic Daily Fee and additional services (if charged).

Accommodation pricing 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. The consumer expectation that the standard of accommodation, and accordingly the pricing, is relative to direct care provided is somewhat misconstrued.

A higher accommodation price should not directly correlate to a higher standard of direct care.

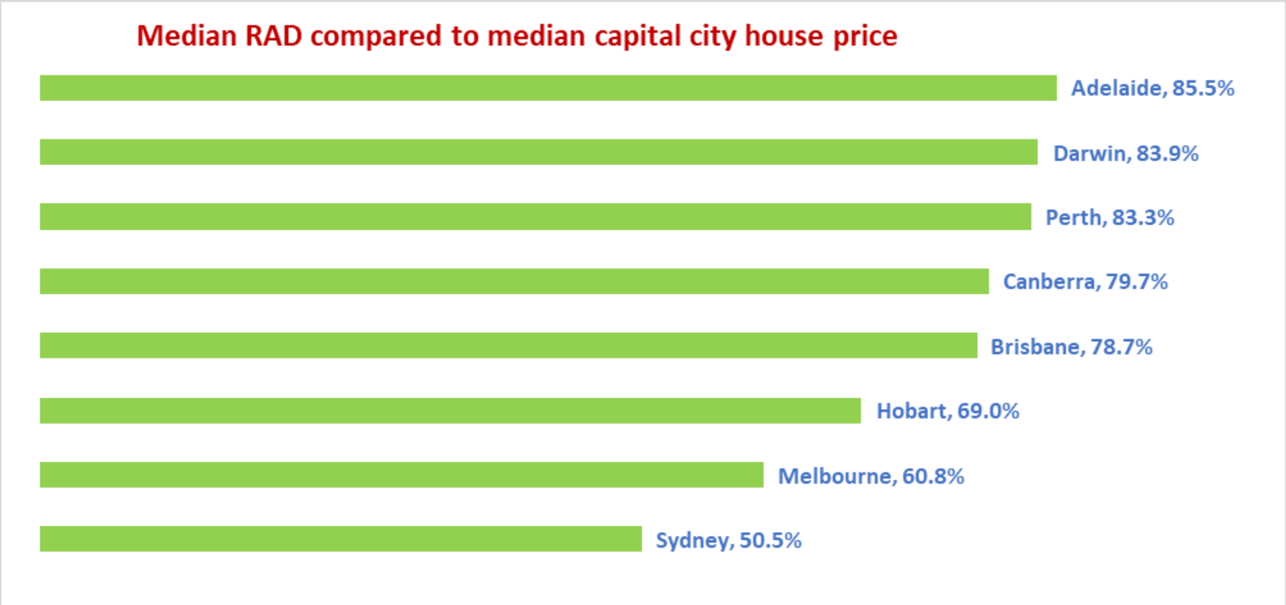
Accommodation pricing strategies need be more targeted to the appropriate return on the asset (building plus land value) and cognisant with local house or unit prices in the respective geographic area. The accommodation pricing strategy should also consider other factors such as:

- Amenity and general standard of accommodation offered
- Target market including linking standard of accommodation to prospective residents who are likely to pay for additional services
- Common areas and other facilities available to residents and their families
- Cost to build in the construction of the aged care home, and the quality of accommodation
- Level of competition in target catchment area

There still exists a gap in the accommodation pricing and the levels of housing prices. This should be a guide to increasing accommodation prices in a number of cities, notably Sydney and Melbourne, which will also have a flow-on effect to the neighbouring regional locations.

This is an opportunity to raise additional capital and increase revenues so accommodation pricing should be considered and reviewed regularly.

Figure 21: Median advertised accommodation pricing (RADs) compared to median housing price by State



Administration Costs

Administration costs have continued to increase at a rate higher than CPI. One of the main drivers for this is the increasing compliance requirements and this has now been exacerbated by costs associated with fulfilling information requests, making submissions and attending hearings in relation to the Royal Commission.

It is likely that administration costs will continue increase for the remainder of this financial year due to 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. *The increased cost associated with the effects of the bushfires and COVID-19 virus is unable to be estimated at this time.*

Figure 22: Administration costs trend over time since Dec-14 (expressed as $ per bed day)

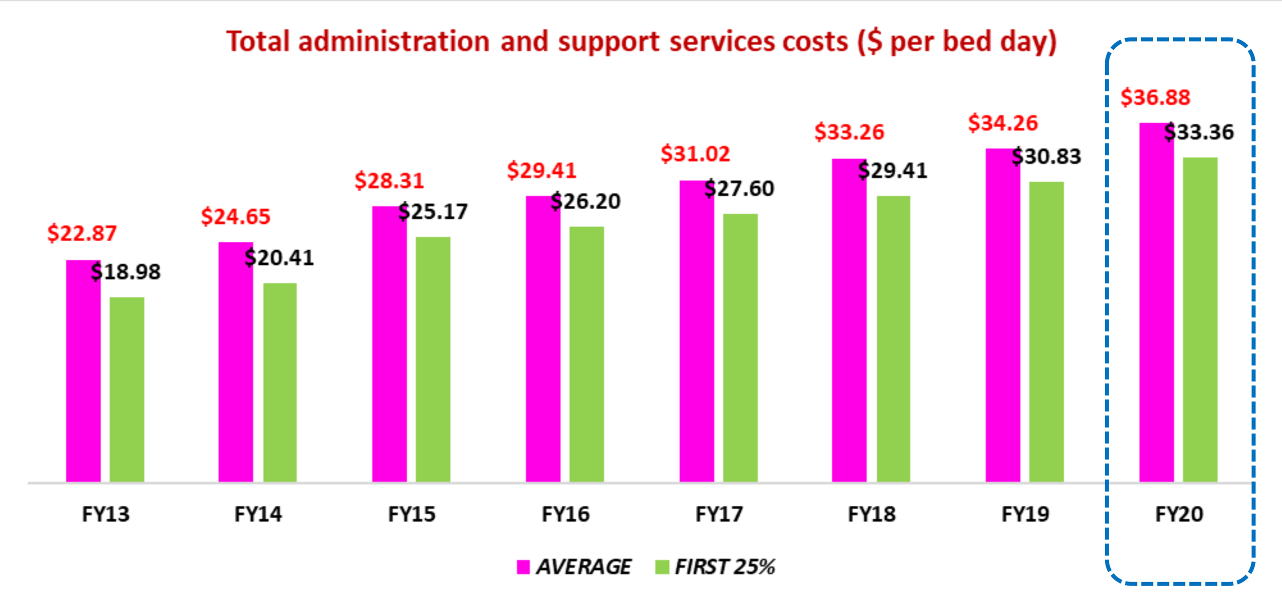


Table 11: Administration cost summary for Survey Average and Survey First 25% for Jun-20 and Jun-19 periods

	FY20 *1,113 Homes*	Jun-19 *1,045 Homes*	*YoY* *Movement*
Administration (corporate) recharges	21.98	21.45	↑
Labour costs - administration	7.33	6.36	↑
Other administration costs	6.12	5.13	↑
Workers compensation	0.32	0.33	↓
Payroll tax - administration staff	0.05	0.05	-
Quality & education - labour costs	0.04	0.02	↑
Quality and education - other	0.02	0.04	↓
Insurances	1.03	0.94	↑
Total Administration Costs	**$36.89**	**$34.32**	↑

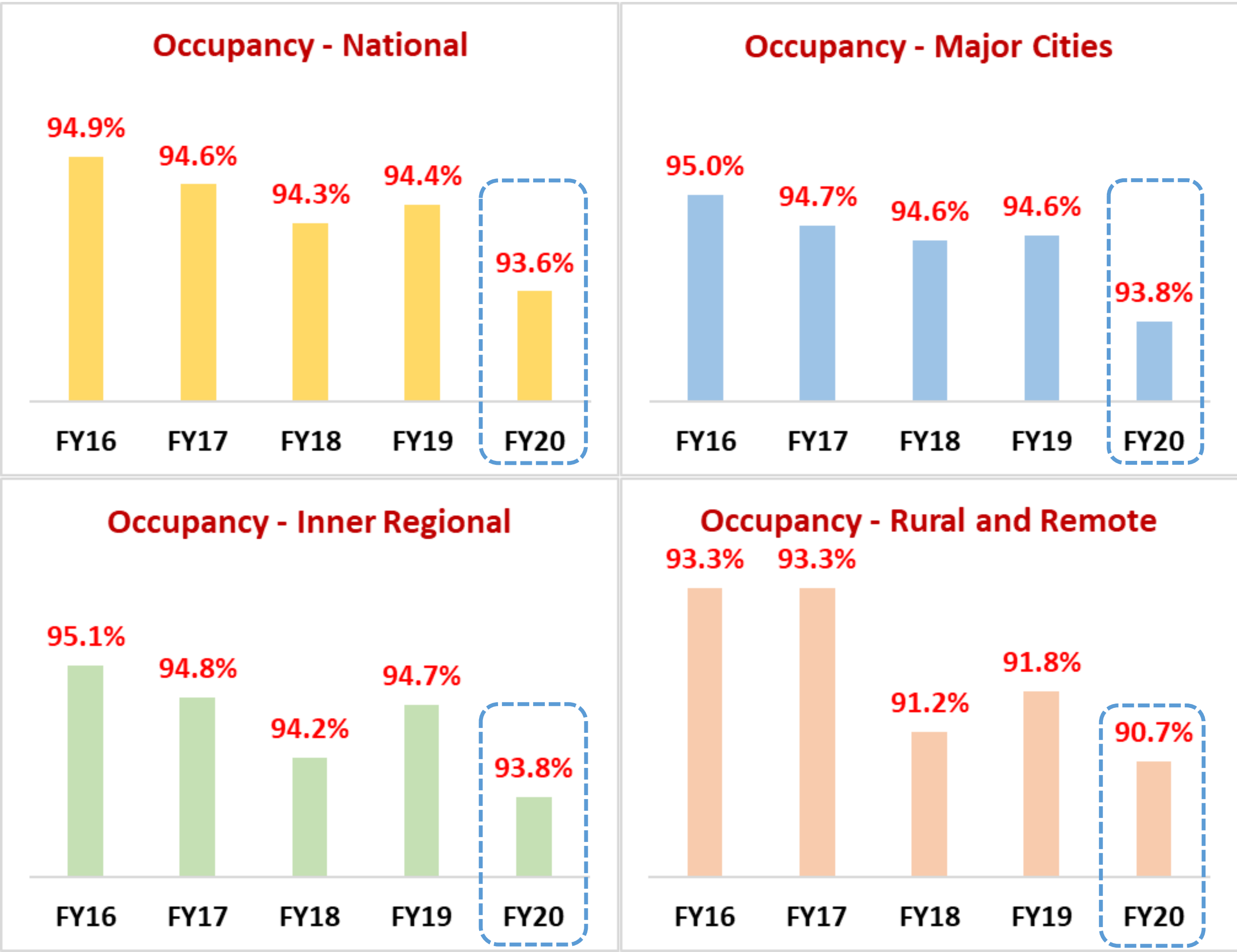
Occupancy

The occupancy percentage has suffered a significant decline to be 93.6% nationally (94.4% at Jun-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 at the national average and by geographic regions is included in the graphs below.

Figure 23: Residential occupancy percentages for all aged care homes (national) and by geographic regions



The effects of the COVID-19 pandemic on occupancy will have been felt to some degree in these figures, but occupancy had been declining prior to the outbreaks. The effects of the second major outbreak in Victoria, and to a lesser extent NSW will affect the occupancy levels in the September 2020 quarter.

Residential Care - Catering Costs Snapshot

Fact 1: $32.00

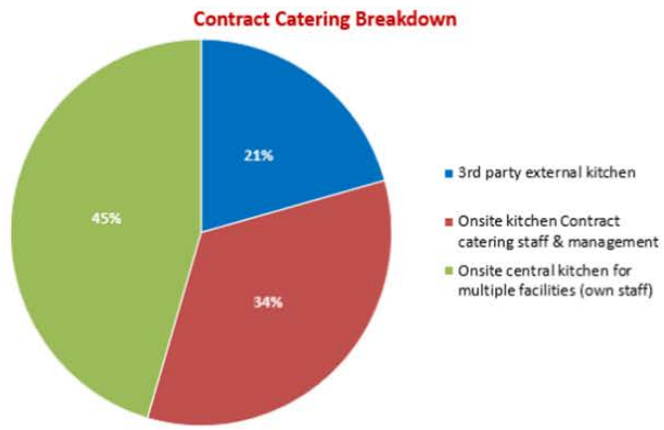
Average spent on food and food preparation per resident per day in FY20 **($31.24 in FY19)**

Fact 2: 59.4%

The proportion of everyday living revenue that is spent on food and food preparation costs

FY20 Data

	All Facilities Average (1,113 Homes)	In-House Catering Average (804 Homes)	Contract Catering Average (309 Homes)
Staff costs	16.38	19.87	7.67
Consumables	9.67	12.32	3.05
Contract catering costs	5.95	0.01	20.79
Total Catering Costs	**$32.00**	**$32.20**	**$31.50**



Fact 3: $12.50

Average spent on food, supplements and cooking ingredients in FY20 **($10.34 in FY19).** Based on 366 homes that supplied additional data. Includes $0.57 in supplements down from $0.59 in FY19

Fact 4: 63%

63% of the aged care homes surveyed operate their own kitchen. A further **9%** have a contract service model but use their own on-site kitchen to prepare meals.

5. HOME CARE ANALYSIS

Overview

For FY20, there has been a marginal decline in the operating performance of Home Care Packages for the Survey *Average* (All) however the decline in the results of the First 25% was significant.

The overall Survey *Average* operating result was a surplus of $3.59 per client day (Jun-19 $3.65 pcpd) whilst noting that the Sep-19 quarter had a surplus of $6.35 pcpd, so there was an effective decline in performance since the September quarter.

The Survey *First 25%* had a decline in the surplus to $14.30 pcpd (Jun-19: $18.28 pcpd), and the last nine months of the year also had a decline from the Sep-19 quarter result ($21.38 pcpd).

Revenue

- Revenue per client per day (pcpd) average for Survey participants decreased by 1.6% (being $1.15 pcpd)
- Pricing pressure continues due to increased competition and pricing transparency reform
- Revenue utilisation decreased by 4.6% for Survey *Average* and 4.5% for Survey *First 25%*
- Higher average unspent funds (Jun-20 $8,841 per client compared to Jun-19 $6,995 per client) which would represent an aggregate in excess $1 billion nationally

Expenses

- Total expenses decreased by 1.6% for Survey *Average* and by 4.7% for Survey *First 25%*
- Direct service staff costs decreased by $2.35 pcpd (9.3%) for Survey *Average* and by $3.10 pcpd (11.3%) for Survey *First 25%*
- Agency costs decreased by $0.98 pcpd (33.6%) for Survey *Average* and by $2.22 pcpd (61.5%) for *First 25%*
- Cost of direct service and brokered/sub-contracted as a percentage of total revenue has decreased by 1.9% to 59.8% for Survey *Average* and increased by 2.0% to 53.4% for Survey *First 25%*
- Increase in case management and advisory $0.12 pcpd for Survey *Average* and an increase of $1.86 pcpd (28.4%) for Survey *First 25%*
- Decrease in administration costs of $0.12 pcpd for Survey *Average* and $3.10 pcpd for Survey *First 25%*

Table 12: Summary KPI Results for Jun-20 Survey (all programs)

HCP Summary Results	FY20 *42,821 packages*	FY19 *34,556 packages*		Difference *(YoY)*	Sep-19 *33,269 packages*
Total revenue $ per client per day	$71.08	$72.22	↓	($1.15)	$72.58
Operating result per client per day	$3.59	$3.65	↓	($0.05)	$6.35
EBITDA per client per annum	$1,502	$1,474	↑	$27	$2,457
Average total staff hours per client per week	5.63	6.10	↓	(0.47)	5.84
Median growth rate	21.28%	6.84%	↑	14.4%	5.00%
Revenue utilisation rate for the period	84.8%	89.3%	↓	(4.6%)	85.9%
Average unspent funds per client	$8,841	$6,995	↑	$1,846	$7,295
Cost of direct care & brokered services as % of total revenue	59.8%	61.7%	↓	(1.9%)	58.4%
Case management & coordination costs as % of total revenue	10.8%	9.2%	↑	1.5%	9.2%
Administration & support costs as % of total revenue	23.7%	23.5%	↑	0.2%	23.2%
Profit Margin	5.1%	5.1%	↑	0.0%	8.7%

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 Operating Result for Survey Average for FY20 and FY19

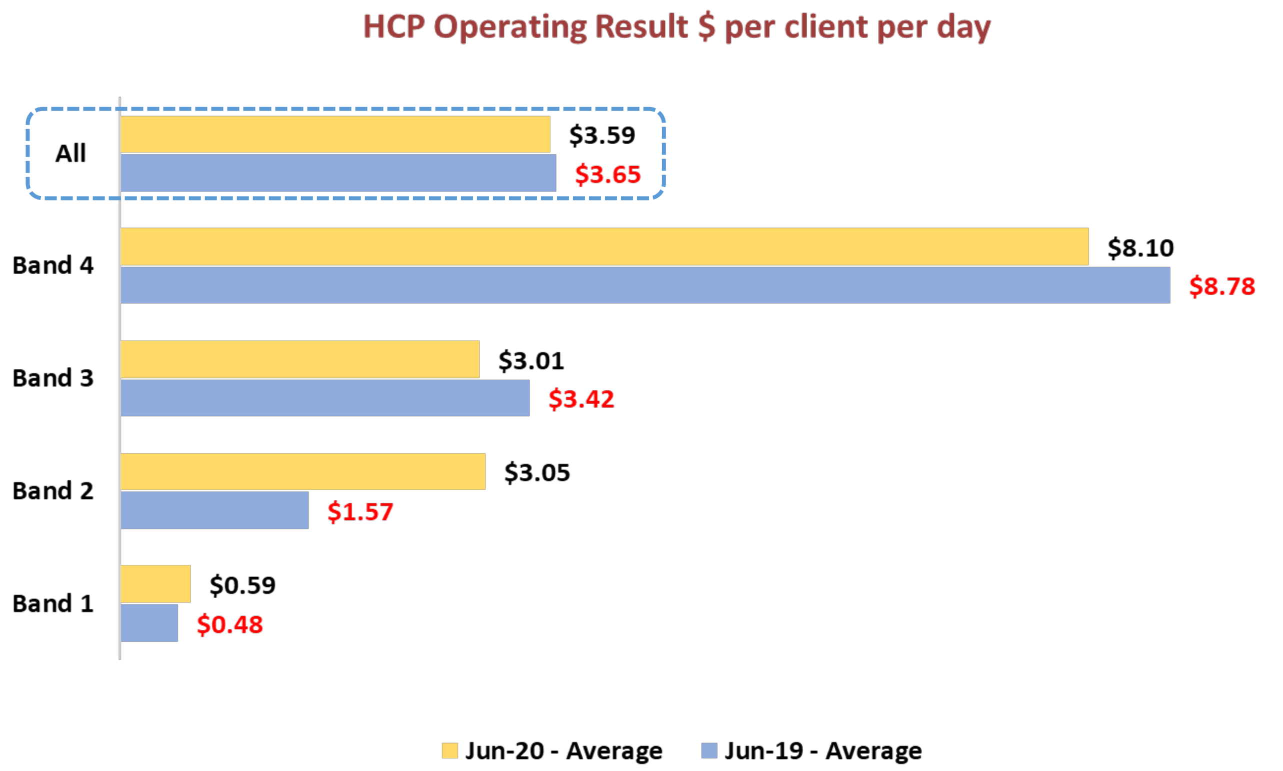


Figure 25: Comparison of EBITDA for Survey Average for periods FY20 and FY19

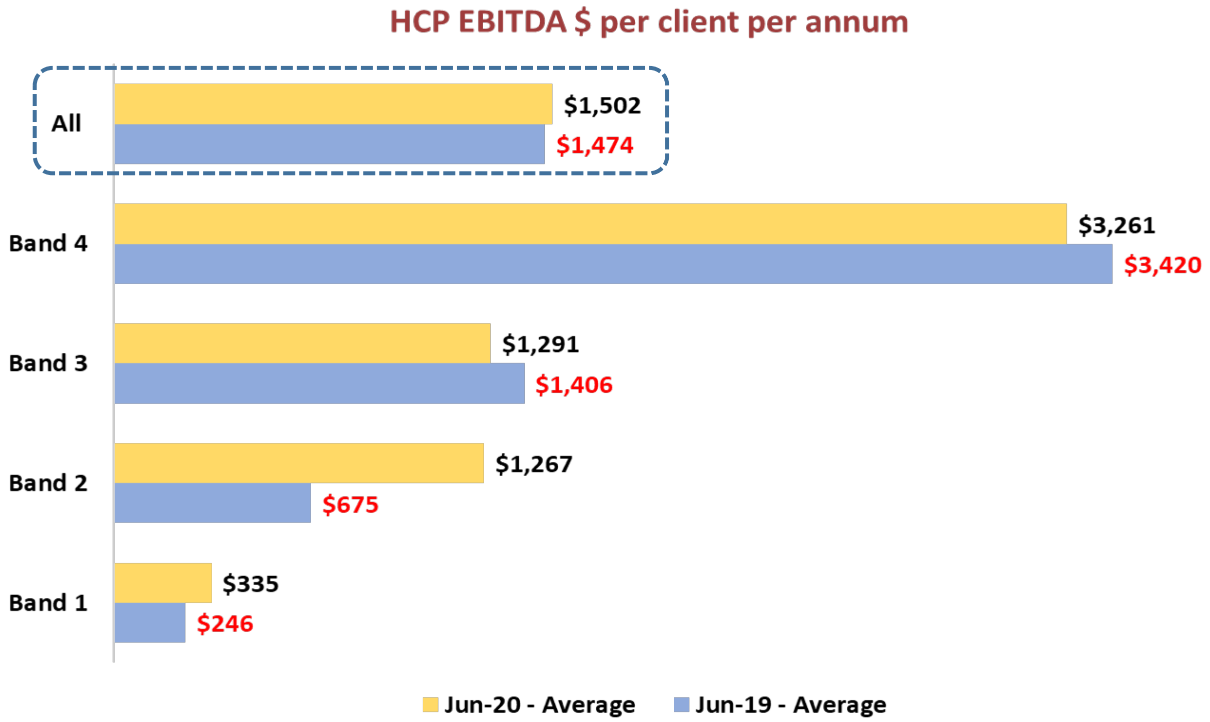
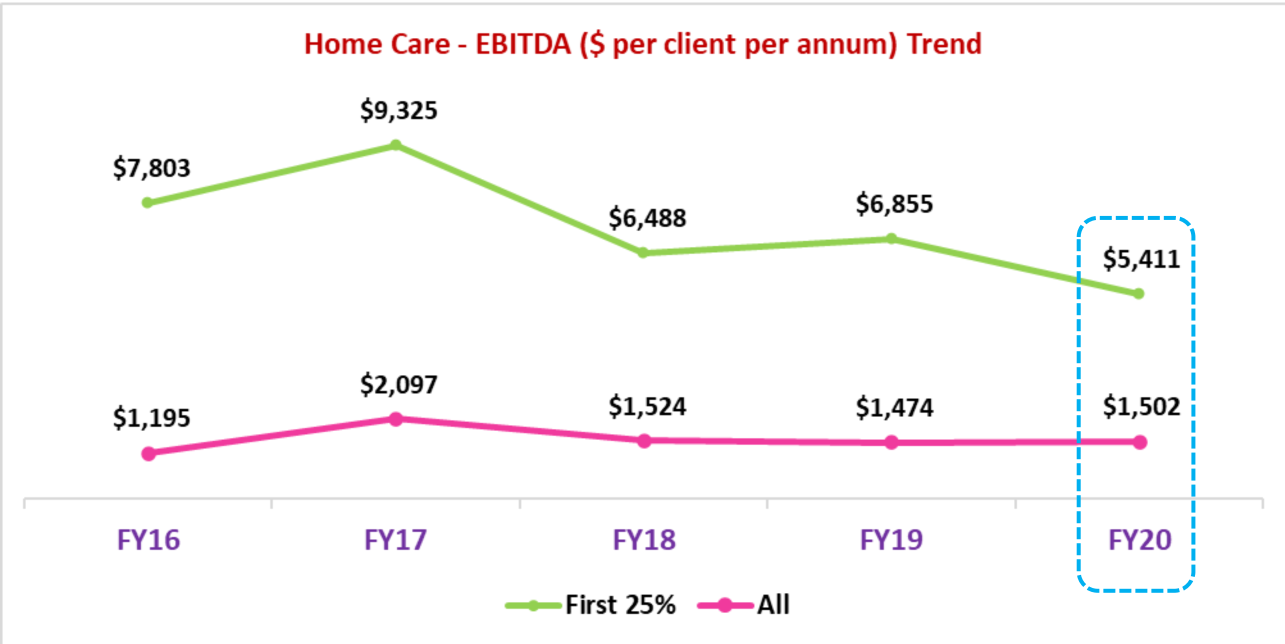


Figure 26: Comparison of Survey Average and Survey First 25% EBITDA ($ per client per annum) trends



The trend graph above clearly shows the initial decline, then rise, in operating results since the introduction of Consumer Directed Care, both movements being more pronounced with the Survey *First 25%* than the Survey *Average*. Margins for the *First 25%* have been squeezed firstly due to increased competition and more recently since the introduction of pricing transparency. This has seen the results of the *First 25%* come back towards the survey average, which has remained relatively constant in recent years.

Operating Results for Survey *First 25%*

Table 13: Summary KPI Results for Jun-20 Survey for First 25%

HCP Summary Results *(First 25%)*	FY20 *7,466 packages*	FY19 *5,963 packages*		Difference *(YoY)*	Sep-19 *5,963 packages*
Total revenue $ per client per day	$82.68	$90.05		($7.36)	$93.05
Operating result per client per day	$14.30	$18.28		($3.98)	$21.38
EBITDA per client per annum	$5,411	$6,855		($1,445)	$7,951
Average total staff hours per client per week	6.03	6.55		(0.52)	7.21
Median growth rate	21.61%	7.55%		14.1%	4.30%
Revenue utilisation rate for the period	85.4%	89.9%		(4.5%)	85.7%
Average unspent funds per client	$9,058	$6,990		$2,068	$7,113
Cost of direct care & brokered services as % of total revenue	53.4%	51.4%		2.0%	50.9%
Case management & coordination costs as % of total revenue	10.2%	7.3%		2.9%	8.5%
Administration & support costs as % of total revenue	18.5%	20.4%		(1.9%)	17.2%
Profit Margin	17.3%	20.3%		(3.0%)	23.0%

The operating performance of the Survey *First 25%* for FY20 has declined when compared to FY19, and this has occurred in the past nine months after an initial increase in profitability in the September 2019 quarter. The predominant reasons relate to reduced revenue per client day (8.2%) and revenue utilisation (4.5% reduction to 85.4%) which has resulted in increased unspent funds per client ($2,068 increase).

Figure 27: Comparison of Operating Result for Survey First 25% for periods ending Jun-20 and Jun-19

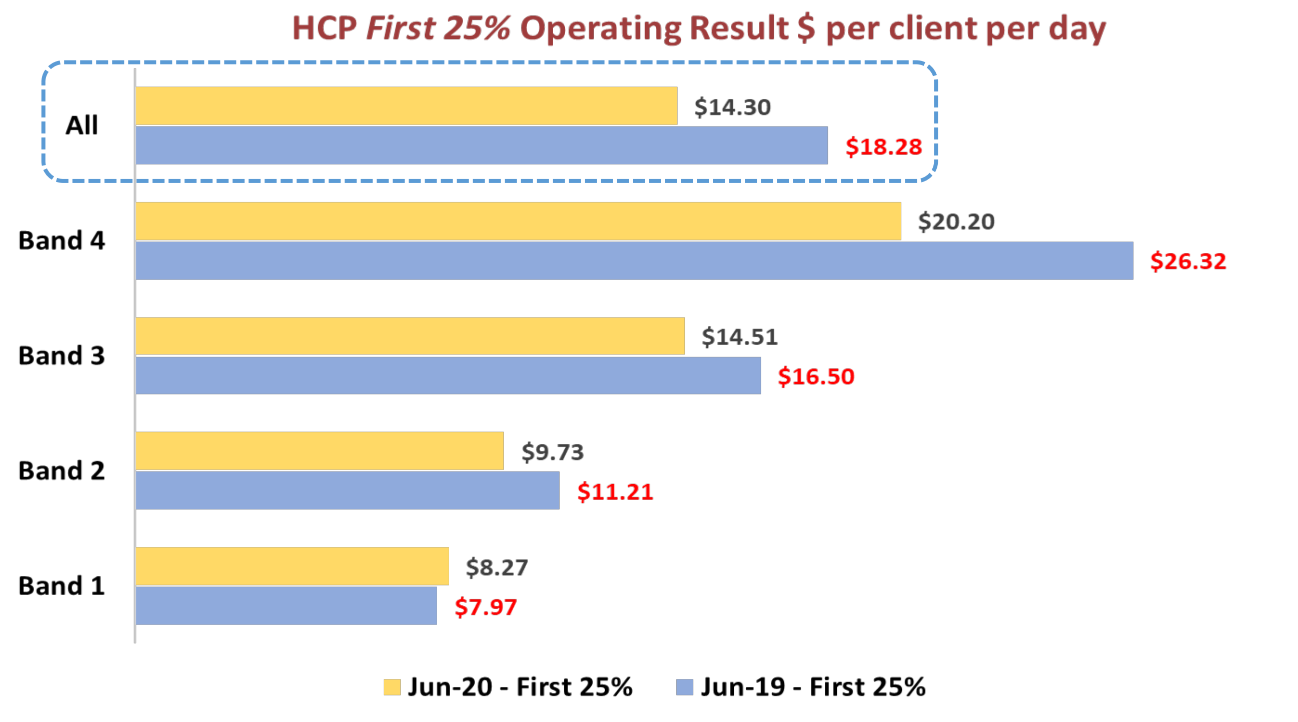
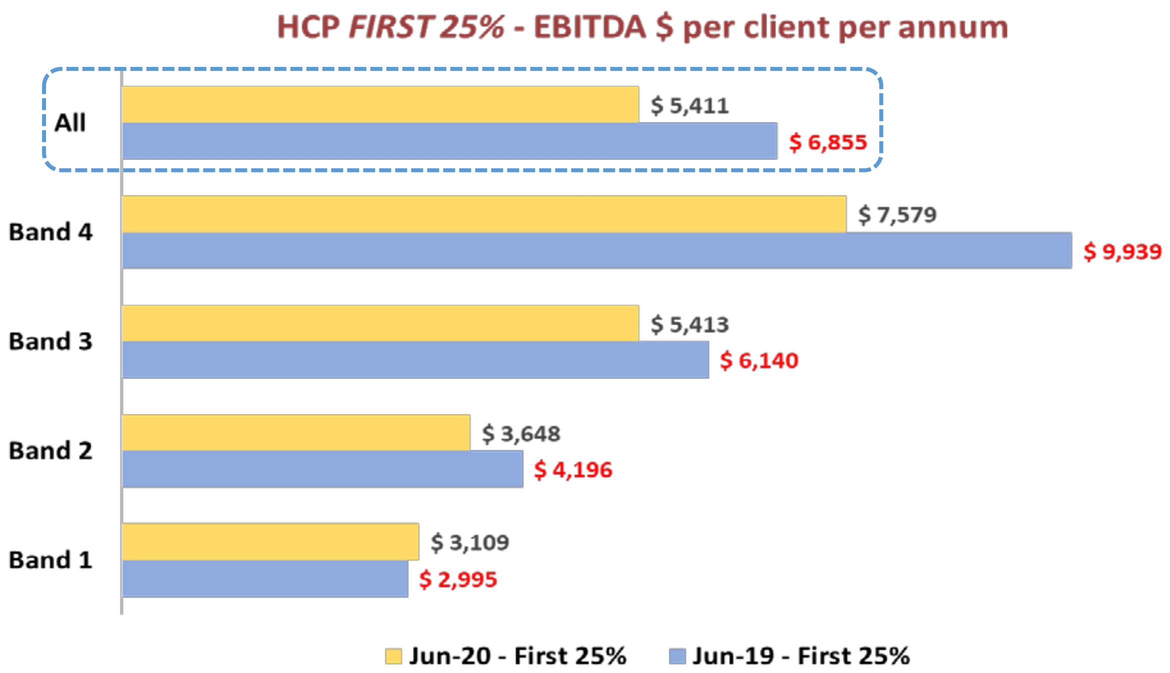


Figure 28: Comparison of EBITDA for Survey First 25% for periods ending Jun-20 and Jun-19

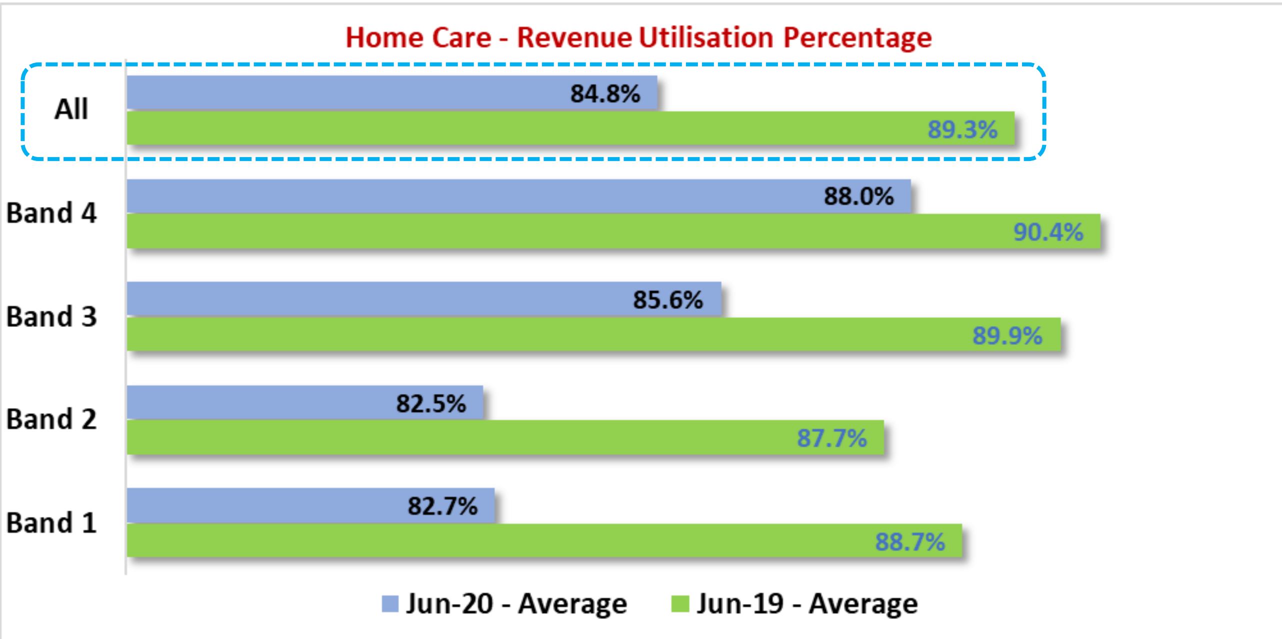


Revenue Utilisation

Revenue utilisation has further decreased to 84.8% for FY20 (Survey *First 25%* was 85.4%). This continues to affect profitability due to the fixed overhead costs not being spread over increased revenues and variable costs remaining proportional to revenue levels.

As noted in previous reports, there requires an ongoing improvement in revenue utilisation to be a strategic priority particularly given the changes to the payment arrangements that will be introduced in the second half of 2021 financial year.

Figure 29: Revenue Utilisation comparison for Jun-20 and Jun-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 FY20 to $8,841.

StewartBrown estimates the unspent funds liability at the end of the FY20 period to be in aggregate in excess of $1 billion. Most of this balance of unspent funds relates to home care 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: Survey Average Unspent Funds per client as at Jun-20 and Jun-19

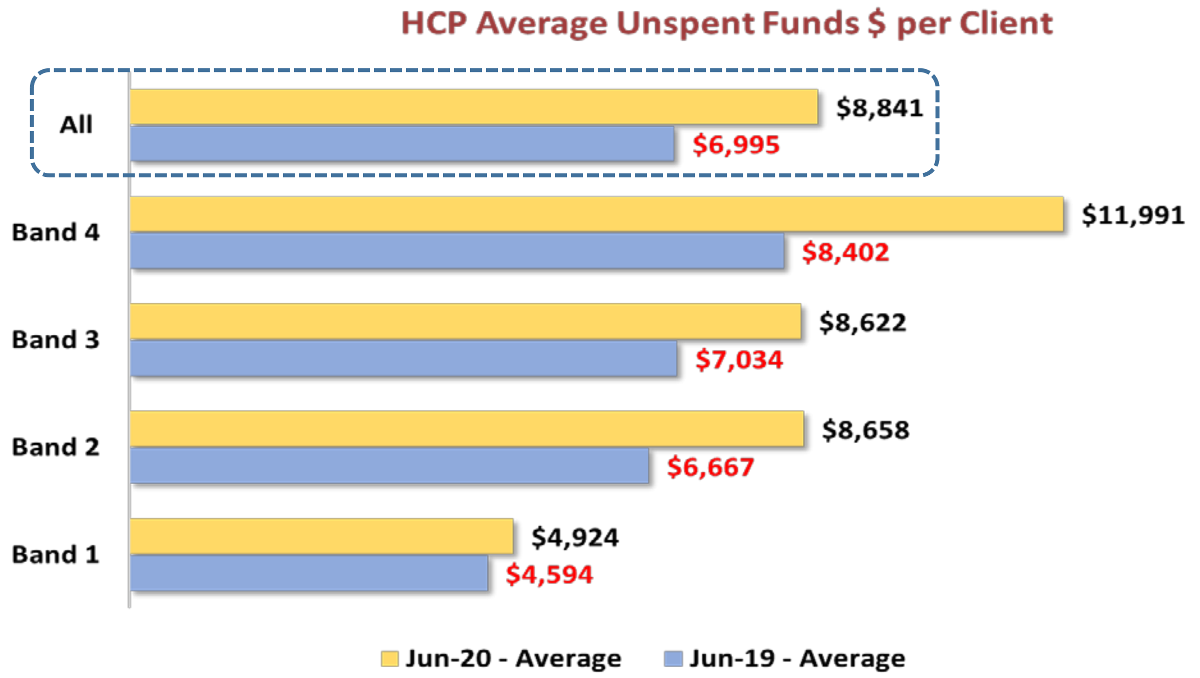
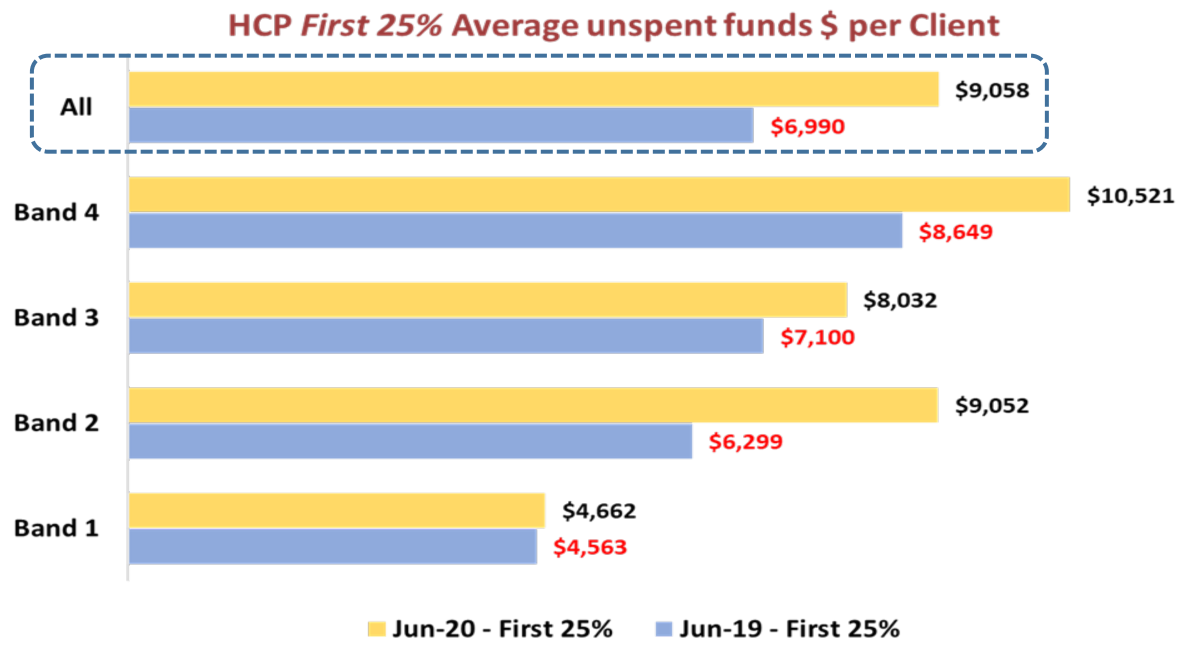


Figure 31: Survey First 25% Unspent Funds per client as at Jun-20 and Jun-19



Comment

The aggregate and increasing level of unspent funds continue to remain the 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 still note that the estimate of only between 8% - 12% of unspent funds are later utilised by a care recipient. The remainder is often used for home modifications, capital purchases or by majority 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 their home care operation. As the fixed costs for each client (care recipient) have already been absorbed then 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 margin (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 the home care survey conducted on behalf of the Department of Health earlier this year, and based on information on the My Aged Care website, it was found that only 34% of providers had indicated that they were charging the Basic Daily Fee to home care recipients. 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 Government has now announced that the changes to the payment arrangements for home care will commence from 1 February 2021 when the full amount of subsidies will change from being paid in advance to being paid in arrears.

From 1 September 2021, payments will continue to be paid in arrears, but will based on actual care and services delivered in the previous month. In their September 2021 claim (lodged in October 2021) providers will need to submit a total dollar amount per care recipient to Services Australia. A detailed invoice by service type is not required.

From that point onwards, the Government will manage unspent funds on behalf of the client whereby any unspent funds accrued after 1 September 2021 will be held by the Government until the client needs it. There will also be an opt-in system for providers to draw down on the unspent funds balances held by them before receiving any further subsidy which would be held by the Government in the unspent funds account managed by them. This can be done on a client by client basis or for all clients. Providers that do not opt-in to that program will continue to manage and hold the unspent funds and either utilise them as needed by the client or return them to the government and client should the client leave the home care program or transfer them to another provider should the client change providers.

Once all clients in place at 1 September 2021 have left the system, all unspent funds will be managed by the Government.

Staff Hours Worked per Care Recipient

Direct service hours per care recipient per week has declined to 4.12 hours (on average) for FY20 compared to 4.59 hours for FY19.

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

Survey *(Average)*

	FY20	FY19	Difference	FY18
Direct service provision	4.12	4.59	(0.47)	5.60
Agency	0.23	0.25	(0.02)	0.24
Case management & coordination	0.81	0.80	0.01	1.06
Administration & support services	0.48	0.47	0.02	0.49
Total Staff Hours	**5.63**	**6.10**	**(0.47)**	**7.39**

Survey *(First 25%)*

	FY20	FY19	Difference	FY18
Direct service provision	4.50	5.07	(0.56)	6.44
Agency	0.16	0.18	(0.02)	0.23
Case management & coordination	0.92	0.92	(0.00)	1.23
Administration & support services	0.44	0.38	0.07	0.53
Total Staff Hours	**6.03**	**6.55**	**(0.52)**	**8.43**

Figure 32: Survey First 25% hours per client as at Jun-20 and Jun-19

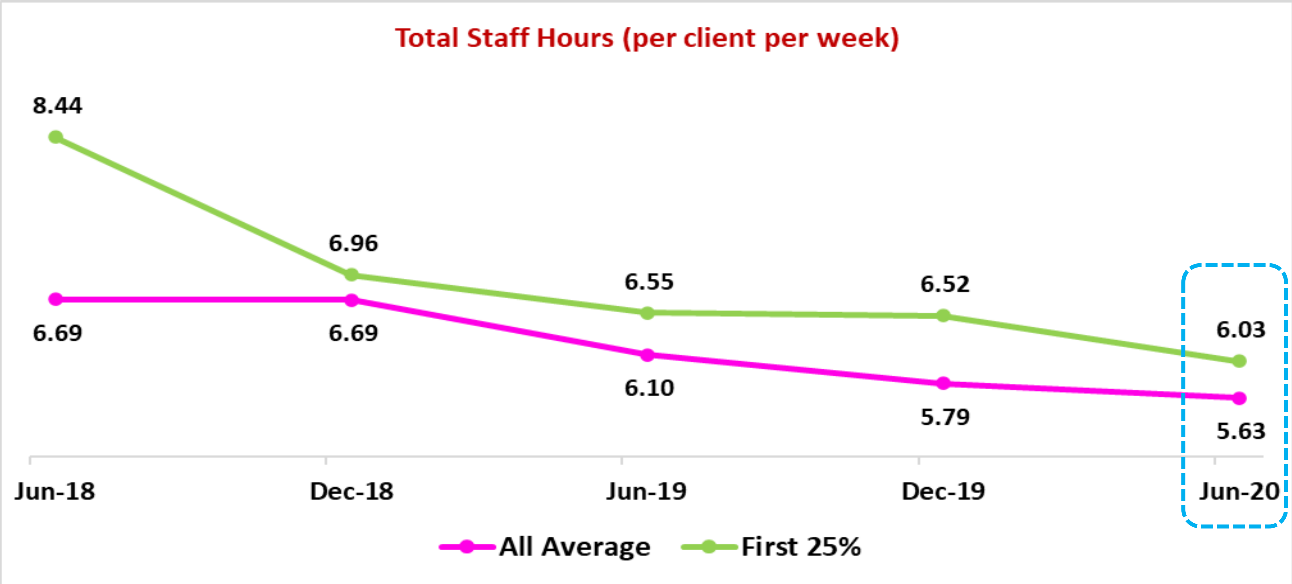
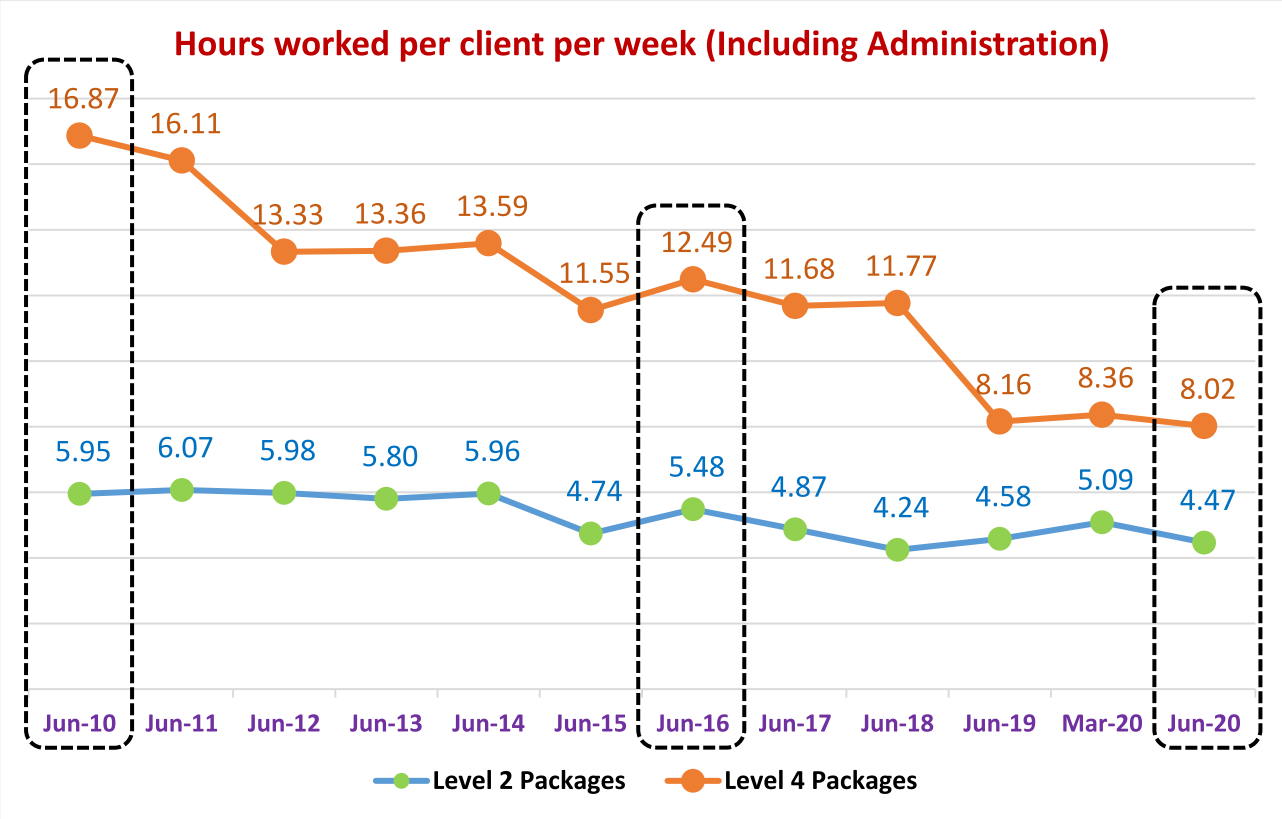


Figure 33: Hours worked per client per week for all staff for Band 2 and band 4 package levels



The graph above also shows the reduction in overall staff hours, particularly for those high care packages, but even in the low care packages there has been a decline in hours and this has come mainly since the introduction of package allocations to the consumer rather than the provider.

Relativity in Hours Worked - Home Care and Residential Care

One of the Tune Review was to implement a new package level that was based on a subsidy that would be set at the average ACFI rate paid in residential aged care. This has now been reinforced by a recommendation by Counsel Assisting the Royal Commission where they indicated that from 1 July 2024 the Government should ensure that the maximum Commonwealth funding amount available for a person receiving care at home is the same as the maximum Commonwealth funding amount that would be made available to provide care for them if they were assessed for care a residential aged care service.

However, it is not clear that the same subsidy in home care will provide the same level of direct service provision.

The following table is based on data collected in the StewartBrown survey as well as data collected by providers for a Survey of Home Care Costs and Services conducted on behalf of the Department of Health. The full report from that survey can be found on the department website or by clicking on this link.

For the purpose of this survey we have used the subsidy and client fees received for a level 4 package (annualised) and compared that to the closest benchmark band based on a similar ACFI.

Level 4 Home Care Package – Subsidy of $139.70 per day (effective from 1 July 2019) and basic daily fee of $10.75 per day totalling $150.45 per day being available for the home care package. This equates to $54,914.25 per annum.

In the StewartBrown Survey, a Band 4 Home care package has average revenue (taking into account unspent funds) of $104.48 per client per day equating to $38,135.20 per annum.

For residential aged care a Band 4 home has average ACFI revenue (that funds direct care costs) of $149.53 per day which equates to $54,578.45 per annum and is very similar to the package value attributable to a Level 4 home care package.

For this comparison therefore we have used the Level 4 package data from the home care survey and the Band 4 data for residential aged care from the StewartBrown Survey. To obtain the best comparison, we will also gross up the home care hours of service to take into account the fact that the package is not fully utilised by the client and there remains unspent funds.

	Level 4 Home Care Package (actual per client per week)	Level 4 Home Care Package (Grossed up for utilisation rate per client per week)	Residential Care (Actual per resident per week)
Care management	1.01	1.20	0.77
Direct service hours	7.76	9.23	18.83
Total hours of direct service	**8.76**	**10.43**	**19.60**

The home care hours above may not include all the hours provided by sub-contractors or third party service providers, nor does it take into account parts of the package that are used for goods or consumables rather than service provision. However, even taking those things into account, the number of direct service hours provided in an aged care home is significantly higher than would be provided under a home care package. One reason for that is that an aged care home is staffed on a 24/7 basis. Some of the home care hours is also spent travelling to and from the client rather than face to face.

In the design of any new system, the expectations regarding rate of subsidy and the hours of service provided will need to be taken into consideration.

Package Growth

The latest GEN Home Care Packages Program Data Report for the first quarter 2019-20 state that there has been a 28.3% growth in the number of persons in a home care package in the nine months to March 2020 and 38.1% growth in the twelve months to March 2020. In the March 2020 quarter the package growth was 6.3%.

The growth in the current financial year has been a result of significant increases in package numbers in the last quarter of 2019 and further package releases in the first quarter of 2019-20.

On 8 July 2020 the Government announced that $347.4 million over five years would be spent on an additional 6,105 home care packages (2,035 at level 1, 2 and 3) in 2020-21. These packages commenced being rolled out in July 2020.

The 23,000 packages announced in the 2020 budget are in addition to the 6,105 packages already announced in July. These will be allocated as follows:

Package Level	Number
1	5,000
2	8,000
3	8,000
4	2,000
Total	**23,000**

These packages will commence roll out in November 2020. With the addition of the July 2020 announcement, total Government outlay in the 2020-21 Budget is $1.9 billion.

Whilst the addition of new Home Care Packages is welcomed, in isolation it does not address issues surrounding the utilisation of packages whereby the amount of unspent package funds for each care recipient is, on average, over $8,000 and equates to over $1.1 billion in total.

The package growth for providers is included in the following graph.

Figure 34: Home Care Package growth for the 12 months to Jun-20

87

Providers representing 9.44% of National total of 922 providers at 31 March 2020

42,820

Packages held by Participating Providers in Jun-20 representing 31.28% of the National total of 136,909 packages at 31 March 2020

33,382

Packages held by participating Providers in June 2019

28.3%

Average Growth rate in packages at Provider level

22.3%

Median Growth in rate in packages at a Provider level

17.8%

Median growth rate of Providers with greater than 1,000 packages

44.6%

Median growth rate of Providers with under 50 packages

6. 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.*

ACFI Result

- ACFI Income (incl. MTCF) and care supplements Less
- Direct care wages and on-costs including w/comp and quality & education costs
- Other direct care expenses including medical, continence and therapy supplies

+

Everyday Living Result

- Basic Daily fee and extra/additional service fees

Less

- Hospitality services (catering, cleaning & laundry)
- Utilities
- MV expenses
- Routine property and other maintenance expenses

−

Administration Costs

- Cost of administration and support services excluding w/comp and quality and education costs (reallocated to care and everyday living)

=

ACFI + Everyday Living – Administration

CARE Result

ACFI + Everyday Living – Administration

CARE Result

+

Accommodation Result

- Accommodation supplements
- Retention from bonds
- Daily accommodation payments and accommodation charges
- Interest on outstanding deposits

Less

- Depreciation and amortisation
- Rent
- Room refurbishment costs
- Interest paid on outgoing bonds

=

Care + Accommodation

Operating (Facility) Result

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.

***Average*s**

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 *average*d 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 $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 <u>excludes</u> 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*.

7. CONTACT DETAILS

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

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