



STEWART BROWN
Business Solutions

**AGED CARE
FINANCIAL PERFORMANCE SURVEY**

**YEAR ENDED
30 JUNE 2010**

EXTRACT REPORT

This report, including all data and analysis contained therein does not express or purport to express any opinion on the level of care provided to the residents or clients of the facilities and community care programs participating in the survey. This report is concerned only with the analysis of the financial performance of those participating facilities and community care programs.

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EXECUTIVE SUMMARY

This report covers the year ended 30 June 2010 and includes data for 432 residential aged care facilities (RACF), 125 Community Aged Care Packages (CACP) and 57 Extended Aged Care at Home (EACH) programs and 39 Extended Aged Care at Home Dementia (EACHD) programs.

There has not been a great deal of change in the results since March, which goes against the trends of the past when it would have been expected for the results to decline from September through the rest of the year. The average operating results for High Care (Bands 1 & 2) increased by \$0.21 per bed day and the average operating result for Low Care (Bands 3 to 5) declined by \$0.24 per bed day. Income levels, care costs and other costs all remained relatively consistent with those of the March survey. Across all facilities, the average operating results decreased by \$0.08 per bed day during the quarter.

Summary of Results

Facilities sorted by High and Low Care Summary of Stewart, Brown & Co aged care financial survey for residential aged care facilities for the twelve months ended 30 June 2010. All amounts shown are measured in \$ Per Bed Day.	High Care (Bands 1 & 2)		Low Care (Bands 3 to 5)	
	Year Ended 30 June 2010 \$	Year Ended 30 June 2009 \$	Year Ended 30 June 2010 \$	Year Ended 30 June 2009 \$
Income	179.09	172.34	126.35	120.31
Care Costs	112.94	114.53	69.09	67.24
<i>Care costs as % of income</i>	63.06%	66.46%	54.68%	55.89%
Operational Costs	71.39	67.49	60.50	59.04
Total Costs	184.30	182.02	129.59	126.28
Net Operating Result	(\$ 5.21)	(\$ 9.68)	(\$ 3.24)	(\$ 5.97)
Total Facility Result	\$ 2.10	(\$ 5.16)	\$ 4.94	\$ 1.90
EBITDA per bed per annum	\$ 4,486	\$ 1,434	\$ 4,763	\$ 2,851

Significantly there has been a sustained improvement in the average operating results during this financial year compared to the last. This is despite subsidy increases at the lower end rising by less than CPI. This is not to say that everything is rosy. Let's not forget that we are talking about average operating losses. There is also a widening gap between those facilities that are doing well and those that are not and this is of concern. It would appear that after 2 years of ACFI being in place that more operators are starting to understand the instrument better and are able to better maximise their funding under it. Those that have not made this leap are performing worse than ever.

There are some other changes occurring. We reported in March 2010 that the ratio of other nursing staff to registered nurses in High Care facilities has increased from 4:1 in June 2007 to 5.3:1 in that survey. In the full year to June this has come back to 4.7:1 and the care cost to income ratio has risen from 62.83% at March to 63.06% in this survey.

On top of this change to the staff mix, the average total number of care hours worked per resident per day has been declining. An example of this is that for the Top 25% of facilities of Low Care facilities total care hours have decreased from 1.59 hours per resident per day to 1.46 hours by March 2010. There has been a minor recovery in this latest June 2010 survey with a rise to 1.50 hours per resident per day.

Some of the outcomes from this survey are:

- The number of facilities making profits are slightly less than the March survey but significantly better than at June 2009
- 61 of the 161 (37.9%) High Care facilities achieved an operating profit (June 2009: 21.8%)
- 29 of the 161 (18.0%) High Care facilities had a negative EBITDA (June 2009: 31.8%)
- 119 of the 271 (43.9%) Low Care facilities achieved an operating profit (June 2009: 39.5%)
- 17.0% of the Low Care facilities had a negative EBITDA (June 2009: 30.5%)
- 41.7% of all facilities in the survey made an operating profit compared to 33.6% for the 2009 financial year
- 65.0% of facilities in this survey (June 2009: 50.2%) made an overall profit taking into account all sources of income and expenditure. This is also higher than the ratio of 63.5% at June 2008

The data below summarises the average operating results grouped by Bands of operating income per occupied bed day. **No group achieved an operating profit.**

Results by Income Band Extracts from Stewart, Brown & Co aged care financial survey for the year ended 30 June 2010.	Operating Income				
	Band 1 \$	Band 2 \$	Band 3 \$	Band 4 \$	Band 5 \$
<i>Total of Facilities 432</i>	<i>79 Facilities</i>	<i>82 Facilities</i>	<i>107 Facilities</i>	<i>119 Facilities</i>	<i>45 Facilities</i>
Income	191.83	168.04	144.23	117.27	96.38
Care Costs	121.87	105.18	83.60	60.73	47.72
<i>Care costs as % of income</i>	<i>63.53%</i>	<i>62.59%</i>	<i>57.96%</i>	<i>51.79%</i>	<i>49.51%</i>
Operational Costs	71.72	71.02	63.68	58.92	55.00
Total Costs	193.59	176.20	147.28	119.65	102.72
Net Operating Result	(\$ 1.76)	(\$ 8.16)	(\$ 3.05)	(\$ 2.38)	(\$ 6.34)
Total Result	\$ 5.71	(\$ 0.99)	\$ 3.85	\$ 6.08	\$ 5.01
EBITDA per bed per annum	5,948	3,228	4,744	5,104	3,767
Funded facility result per bed per annum	5,348	2,662	4,310	4,785	3,441

The average operating result for each Band continues to be an operating loss. This has been the case since the March 2008 survey. One of the reasons that this operating loss is growing is the allocation of income between operating and capital streams. With the introduction of the “Securing the Future” package back in March 2008, there has been a shift of income from operating to capital as a result of changes to subsidy streams. At that time there was an increase in the accommodation payment/charge/supplement and a reduction and/or cessation of the pensioner supplement. This has filtered through the High Care facilities at a much faster rate than Low Care facilities, due to the faster resident turnover rate. As a result, the operating losses have been declining, but the overall profitability of the facilities has shown some signs of minor improvements. We will examine this in a little more detail later in the report.

However, the conclusions reached were:

- On average the overall profitability of residential aged care facilities as measured by the Funded Facility Result is *greater* in this survey than it was in 2007
- The Band with the highest Funded Facility Result is Band 1 with \$5,348 per bed per annum. At this level it would not cover the cost of borrowing on the typical cost of construction of a residential facility
- The gap between the survey average for each Band and the top quartile as measured by both the operating result and the Funded Facility Result is *greater* in this survey than in 2007

The table below summarises the averages for the Top 25% of facilities in each Band. ***These are the results we recommend to be used for benchmarking results.***

Top 25% by Band Extracts from Stewart, Brown & Co aged care financial survey for the year ended 30 June 2010.	Operating Income – Top 25% facilities in each Group				
	Band 1 \$	Band 2 \$	Band 3 \$	Band 4 \$	Band 5 \$
Total of Facilities 109	20 Facilities	21 Facilities	27 Facilities	30 Facilities	11 Facilities
Income	192.05	166.44	142.19	117.02	99.92
Care Costs	109.70	94.02	63.65	42.23	34.37
Care costs as % of income	57.12%	56.49%	44.76%	36.09%	34.40%
Operational Costs	61.75	64.36	57.78	53.76	52.58
Total Costs	171.45	158.38	121.43	95.99	86.95
Net Operating Result	\$ 20.60	\$ 8.06	\$ 20.76	\$ 21.03	\$ 12.97
Total Result	\$ 24.55	\$ 10.49	\$ 22.74	\$ 26.49	\$ 21.34
EBITDA per bed per annum	12,462	7,939	10,777	12,830	10,309
Funded facility result per bed per annum	11,925	7,646	10,511	12,655	10,121

Wages Data

Table 8	Band 1	Band 2	Band 3	Band 4	Band 5	Bands 1 & 2 Average	Bands 1 & 2 TOP 25%	Bands 3 - 5 Average	Bands 3 - 5 TOP 25%
Total care Hours	3.17	2.90	2.45	1.86	1.55	3.03	3.04	2.09	1.50
Hotel services	0.60	0.61	0.58	0.49	0.48	0.60	0.61	0.53	0.43
Maintenance	0.05	0.07	0.06	0.06	0.06	0.06	0.05	0.06	0.05
Administration	0.15	0.20	0.15	0.14	0.17	0.17	0.15	0.15	0.10
Total Hours	3.97	3.78	3.24	2.55	2.27	3.87	3.85	2.82	2.08

Being the largest single expense in the day to day operations of a residential aged care facility, the control of wages continues to drive profitability. In this survey the average cost of wages as a percentage of operating income for High Care facilities was 70.86%. This is significantly less than the

average of 73.43% for the year ended June 2009 (and the average of 74.74% for the year to June 2008). In Low Care facilities the average was 65.87% which is marginally less than the average of 66.64% at June 2009 and marginally higher than the average of 64.60% for the year to June 2008.

Contracting Analysis

Cost Comparison of Contract Services and In-house Services	High Care Facilities		Low Care Facilities	
	Contracted \$	In-House \$	Contracted \$	In-House \$
Catering				
<i>Total Cost</i>	24.08	21.52	20.91	19.27
Cleaning				
<i>Total Cost</i>	6.12	6.60	4.99	5.40
Laundry				
<i>Total Cost</i>	4.69	3.31	2.81	2.36

In the detailed report we examine the significant rise in contract catering costs in High Care facilities. Further increases in the contract catering cost in High Care are a concern.

Community Care

Community Care continues to provide positive results for those operators of CACP and EACH packages. The CACP average result was a profit of \$2.67 (June 2009: \$3.50) per client day and for EACH packages it was \$14.31 (June 2009: \$10.55) per client day. We have split EACH Dementia packages into their own category and these services show an operating profit of \$14.52 (June 2009: \$19.88) per client day.

The profitability of CACP's has been in gradual decline for some time. On the other hand, EACH and EACHD packages are more profitable on average than CACP's ever were. Operators are achieving profits similar to the top quartile of residential care facilities – without the costs associated with the capital needed to construct those facilities. One of the interesting observations from this survey is the fact that the profitability of EACH and EACHD packages are almost identical as are the staff hours per client per week. It will be interesting to see how these profits move over time as the needs of the clients increase with greater frailty.

The table below summarises the hours per package per week for CACP, EACH and EACHD.

<i>Average staff hours per week per client package</i>	CACP	EACH	EACHD
Direct client care staff	4.51	13.02	13.06
Coordinators/Case managers	0.96	2.43	2.14
Administration	0.48	1.25	1.51
	<u>5.95</u>	<u>16.70</u>	<u>16.70</u>

Additional analysis this survey

We have collected a significant amount of additional data this survey including extracts from the financial statements of participants, property design details, concessional/supported resident ratios and energy usage. Our full analysis of this information is included in the supplemental section of this report. In addition our report also includes state based analysis for residential care as well as benchmark (top quartile) data for CACP programs. We have also examined CACP results based on the number of packages in a program. This is a bumper edition report