Submission to the Productivity Commission Inquiry *Caring for Older Australians*

30 July 2010

CONTENTS

1 EXECUTIVE SUMMARY

1.1 Residential Aged Care

The Stewart Brown Aged Care Financial Performance Survey has tracked the financial performance of residential aged care facilities of not-for-profit aged care providers since 1997. The operating results of these facilities have been trending downwards since 2003. The reasons for this are varied, but overwhelmingly it has been due to the levels of income, the majority of which is regulated, not keeping pace with the costs of providing care in a residential setting.

Among many problems faced by the aged care industry, our survey points to a number of issues that are summarised as follows:

- There is no direct link between the costs associated with the provision of care and the income streams available to provide that care;
- The cost of the infrastructure involved in providing care services in a residential care setting is not adequately funded;
- Sections of the not-for-profit sector need to improve their financial performance through better management of income and costs; and
- Overwhelmingly there are too many not-for-profit aged care providers that have levels of financial performance that are not sustainable.

The not-for-profit sector plays an enormous part in the provision of aged care services and it needs to be placed on a footing that is financially sustainable. This needs to be done in a way that is affordable for government but does not disenfranchise those that cannot afford to pay for their own care. The not-for-profit sector has generally catered for those who are disadvantaged in the community, though there are many in our survey that cannot afford to keep doing do so under the current funding arrangements.

1.2 Community Aged Care

The Stewart Brown Aged Care Financial Performance Survey also tracks the results of Packaged Care programs, such as CACP, EACH and EACH-D.

All programs show a surplus, though the level of funding, staffing & surplus does vary considerably between these programs.

What is needed is a new funding system that covers all community aged care services, including HACC, and is in harmony with the funding model for residential aged care. This funding system needs to be based on the “benchmark” cost of community care services, appropriately indexed over time.

2 BACKGROUND

2.1 Purpose of this submission

In the many aged care reviews in recent years we have supported the submissions of others, without feeling compelled to submit our own. On this occasion, with the search for evidence-based proposals, we have chosen to contribute. Through our aged care surveys we have generated a wealth of evidence that, we believe, supports the need for significant change.

This submission does not seek to address the wide range of the Productivity Commission's Terms of Reference, but rather is limited to the evidence provided by our aged care surveys, and their implications for this Inquiry.

2.2 Aged Care Credentials

Stewart Brown & Co is a Chartered Accounting Firm that provides specialist services for aged care organisations. This specialty has grown over the past 30 years to now provide services for more than 200 aged care providers around Australia. Our aged care team of 15 people includes 6 people that have more than 10 years aged care experience.

Stewart Brown is a regular contributor to the aged care media, and speaker at conferences and seminars. Our services (relevant to this Inquiry) include aged care surveys, audit, business solutions, accounting & consulting services (see www.sbbsolutions.com.au for further details). Stewart Brown Business Solutions Pty Ltd is the part of Stewart Brown & Co with responsibility for our aged care surveys and business solutions.

2.3 Aged Care Surveys

The main body of evidence that we can contribute to this Inquiry comes from the quarterly Aged Care Financial Performance Surveys that we have conducted since the Aged Care Act was introduced in 1997. This data set has grown substantially in recent years.

Our most recent survey, which covered the nine months ended 31 March 2010, included data on 379 residential aged care facilities and 184 community aged care programs. Note that whilst all States of Australia are represented in this data set, 64% of the data came from NSW. This is the primary source that we will draw upon for this submission. A copy of our report on the March 2010 survey is attached to this submission as Appendix "A".

We now have 110 aged care organisations (predominantly not-for-profit providers) registered to participate in this survey that provide 458 residential aged care facilities and 232 community aged care programs. Our survey report on the year ended 30 June 2010 will be issued in November 2010 and will also be made available to the Productivity Commission. We will use that data set to test past research findings.

The survey is conducted four times each financial year, collecting year-to-date data on income & expenditure, occupied bed days, accommodation bonds, as well as staff hours by function and type.

Stewart Brown also conducts an Annual Aged Care Executive Remuneration Review.

3 RESIDENTIAL AGED CARE

3.1 Background to the survey

In order to provide some background to the trend graph on the next page, and the other information and conclusions reached in this submission, we make the following comments:

a) The main purpose of our survey is to provide a benchmarking service to the survey participants. Residential Aged Care Facilities ("RACF") are grouped in various ways for this benchmarking exercise, with the main groupings being operating income levels and size.

b) Under the previous funding model, facilities were allocated across 5 groups based on their average RCS. Since the introduction of ACFI we have used average operating income per occupied bed day to sort facilities in to the 5 groups. This method is used to approximate the facility's resident mix.

c) In the past, it was also important to group facilities into their broader designation of being a hostel or nursing home, which became known as Low Care and High Care facilities. With ageing in place now more prevalent in the industry, the designation of a facility as being High Care or Low Care is becoming increasingly less important. However, we continue to use this designation in a limited sense to provide some broader industry statistics and trend analysis of results as the graph below shows. Within our income band structure, High Care includes Bands 1 & 2 and Low Care Bands 3 to 5.

d) The Operating Result is based on what was traditionally classed as the operating income streams (daily care fee, daily care subsidies, pensioner supplement and minor supplements to offset direct costs such as enteral feeding, oxygen and payroll tax). On the expenditure side are the costs directly associated with the provision of personal care, catering, cleaning, laundry, property maintenance, utilities and administrative support. The other income streams were generally classed as being "capital" in nature and were measured against capital costs such as building depreciation, refurbishment and major maintenance costs. Capital income included accommodation charges, retentions from bonds, concessional or assisted resident supplements (now supported resident supplements), grants and in some cases interest income earned on bonds. While the overall profitability of the RACF was important, the operating performance is what managers were measured against and it was important that a facility could make a profit at this operating level.

e) Since the inception of the Securing the Future package of funding arrangements in March 2008, the lines between the operating and capital income streams have become increasingly blurred. This has occurred as a result of the rearranging of certain supplements, particularly the pensioner supplement. This supplement was widely regarded as an operating supplement. However, it ceased for high care residents admitted after March 2008 and is being phased out for low care residents admitted after that date. Instead there has been an increase in the accommodation charge for High Care residents by a similar amount and for Low Care residents it is not being replaced at all. It is assumed that Low Care residents will pay an increasingly higher accommodation bond and the additional income earned from that bond will make up any loss income from the pensioner supplement (now transitional supplement) being phased out.

f) As a result of these shifts in income, it has become increasingly important to measure the overall profitability of RACFs. The maximisation of all available income streams has now become one of the keys to better financial performance. Consequently, managers have now become accountable not only for ensuring that the day to day care of residents is of the highest quality, but also ensuring that processes are in place to monitor all income streams, not just the operating income streams.

3.2 Profit Measurement

Our survey uses five main measures of profit:

- Operating Result –see explanation above
- Non-Operating Result – result attributable to the capita income and expenditure streams
- Total Facility Result – the combination of the operating and non-operating results
- Earnings Before Interest, Taxation, Depreciation, and Amortisation (EBITDA) – this measure excludes interest income and expense, as well as depreciation, taxation and amortisation expenses
- Funded Facility Result (FFR) – is the EBITDA but also excludes other income not associated with government subsidies or resident fees and charges. It excludes things such as fundraising income, bequests and donations. It is a measurement of the profitability of a facility based solely on the funding and fees associated with the *Aged Care Act 1997* without the influence of financing decisions, depreciation policies or income streams that may not be available to all residential care facilities.

Whilst operating profit and the overall facility result remain important, it is this last measurement that we believe is becoming increasingly relevant for the purpose of measuring how one facility performs against another within the regulatory environment of the *Aged Care Act 1997*.

3.3 The Big Picture

Our first observations are the headline trends for High Care and Low Care facility groupings. The operating results of residential aged care facilities have declined considerably since the Aged Care Act was introduced in 1997. Figure 1 on the next page shows the average operating results for High Care and Low Care facilities over this period.

A number of observations can be made on the period covered by Figure 1:

1. The results for High Care and Low Care facilities were relatively stable up to 2003, and showed a small operating surplus.

2. The period 2003-2006 showed, in particular, rapid increases in the cost per hour of care staff, which was not met by the funding provided, leading to a rapid decline in results, particularly in High Care. This funding deficit has not since been restored.

3. Increased dependency of residents in Low Care facilities has meant that their results now resemble High Care facilities, with their higher cost base and poorer results.

4. Increases in hourly rates for registered (Div 1) nurses over the past 3 years (average of 3.5% per annum) have been offset by a further dilution in the Registered Nurse to Total Care Staff ratio (from 20% to 16%), leading to an average annual care staff cost increase over this period of only 1.2%. Note that these are historically low levels of increase, and are not expected to last.

5. Improvements in the results in the March 2010 survey period appear to be mainly due to the flow on of the ACFI / Securing The Future income increases, as well as the smaller cost increases.

6. Facility results generally show a seasonal trend, with income increases on 1 July leading to a stronger September quarter, and results gradually deteriorating for the remainder of the financial year.

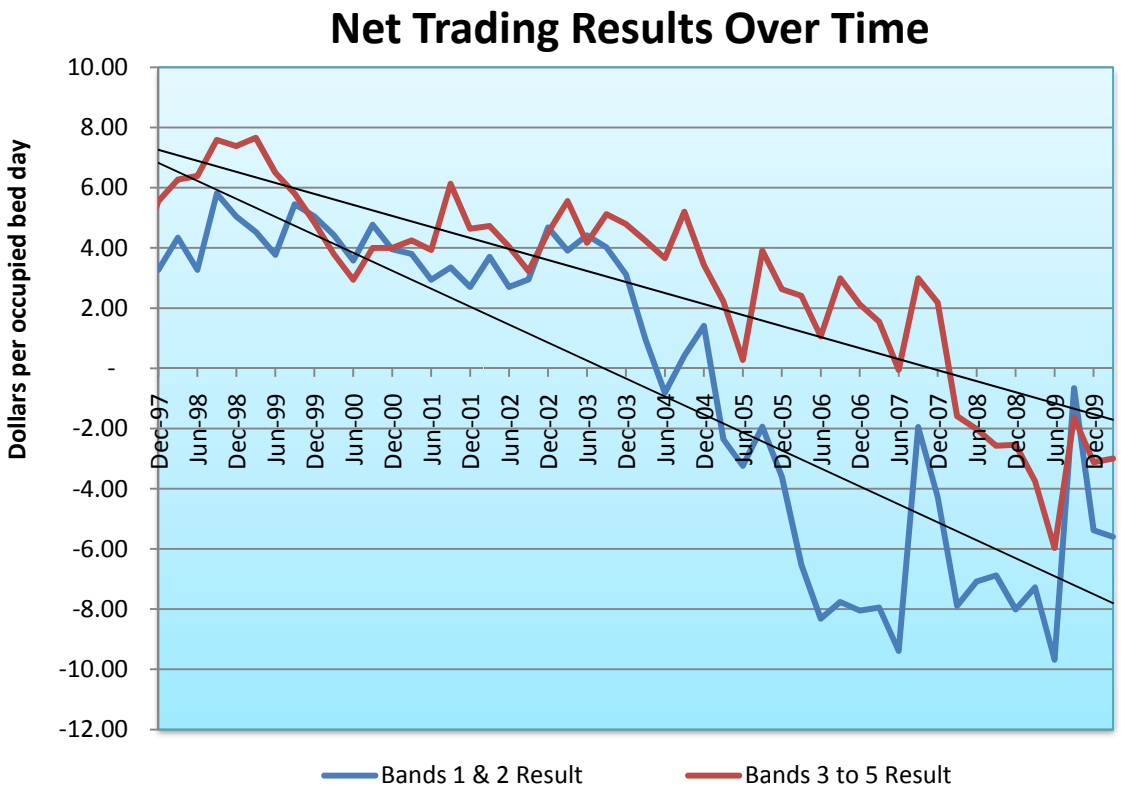


Figure 1

3.4 Results by Band

In order to provide greater definition to the High Care and Low Care results, we now consider the average operating results, and the benchmark results, for each of these income Bands. Note that none of these Bands achieved an average operating profit, though only Band 2 showed a deficit overall.

Table 1 on the next page provides a summary of these results by band for the nine months ended 31 March 2010.

Table 1

Results by Band Extracts from Stewart, Brown & Co aged care financial survey for the 9 months ended 31 March 2010.	***Operating Income***				
	Band 1 ***$***	***Band 2*** ***$***	***Band 3*** ***$***	***Band 4*** ***$***	***Band 5*** ***$***
Total of Facilities 379	*64 Facilities*	*71 Facilities*	*95 Facilities*	*110 Facilities*	*39 Facilities*
Operating Income	**190.62**	**168.11**	**143.36**	**116.72**	**98.24**
Care Costs	**120.03**	**105.40**	**83.54**	**59.35**	**49.19**
Care costs as % of income	*62.97%*	*62.70%*	*58.27%*	*50.85%*	*50.07%*
Operational Costs	**72.23**	**71.35**	**63.54**	**57.81**	**56.83**
Total Costs	192.26	175.75	147.08	117.16	106.02
Net Operating Result	**($ 1.64)**	**($ 8.64)**	**($ 3.72)**	**($ 0.44)**	**($ 7.78)**
Total Result	**$ 7.40**	**($ 0.65)**	**$ 3.86**	**$ 7.40**	**$ 4.90**
EBITDA per bed per annum	**$ 6,092**	**$ 3,444**	**$ 4,329**	**$ 5,537**	**$ 2,818**
FFR per bed per annum	**$ 5,453**	**$ 2,881**	**$ 4,059**	**$ 5,320**	**$ 2,156**

However, Table 2 (below) shows that the average of the Top 25% of facilities (the benchmark group) showed an operating profit in all 5 Bands. These are the results that we recommend aged care providers use to benchmark their results.

Table 2

Top 25% by Band Extracts from Stewart, Brown & Co aged care financial survey for the 9 months ended 31 March 2010.	***Operating Income – Top 25% facilities in each Group***				
	Band 1 ***$***	***Band 2*** ***$***	***Band 3*** ***$***	***Band 4*** ***$***	***Band 5*** ***$***
Total of Facilities 96					
Operating Income	**191.18**	**164.97**	**141.83**	**116.12**	**99.29**
Care Costs	**113.15**	**90.29**	**61.06**	**41.02**	**37.26**
Care costs as % of income	*59.19%*	*54.73%*	*43.05%*	*35.33%*	*37.53%*
Operational Costs	**63.05**	**64.94**	**60.18**	**53.36**	**52.36**
Total Costs	176.20	155.23	121.24	94.38	89.62
Net Operating Result	**$ 14.98**	**$ 9.74**	**$ 20.59**	**$ 21.74**	**$ 9.67**
Total Result	**$ 22.08**	**$ 15.56**	**$ 25.58**	**$ 26.99**	**$ 17.74**
EBITDA per bed per annum	**$ 11,304**	**$ 10,327**	**$ 12,394**	**$ 13,187**	**$ 8,580**
FFR per bed per annum	**$ 11,169**	**$ 9,618**	**$ 11,902**	**$ 13,053**	**$ 8,268**

In order to provide some background to the tables above, we make the following comments:

a) "Care Costs" includes resident care staff costs, related workers' compensation, as well as other direct care costs such as incontinence and chemist & medical supplies.

b) "Operational Costs" includes Hotel Services (such as Catering, Cleaning & Laundry), as well as Property & Maintenance, Utilities and Administration expenses. Staff costs are allocated to each of these functional areas.

A number of observations can be made on these Results by Band:

1. There is a substantial difference in the results of the benchmark group as compared to the survey average. Behind these numbers, there is a wide variation of results across the data set, and within each Band. Whilst the Top 25% record positive results, the results of the Bottom 25% are unsustainable, and bring down the overall averages.

2. There is significant difference in the results between bands, indicating that the impact of ACFI is not evenly spread. This may indicate that the ACFI tool, and related business rules, do not accurately reflect the cost of care differentials, and may need further refinement.

3. The FFR per bed per annum for Bands 1, 3 and 4 are all in excess of $10,000 for the benchmark groups. This is regarded as the minimum level of results for a facility to be viable in the long-term. The FFR average for each Band (ranging from $2,516 to $5,453) is simply not a sufficient return to sustain investment in aged care facilities.

4. The composition of the benchmark groups does vary over time. They do, however, contain facilities that are more efficient to operate (by virtue of their age and configuration). In addition, they are more likely to be part of a group, and they do appear to be better at managing their financial results.

5. Those facilities that manage their Care Cost to Operating Income ratio well do tend to have a better bottom line result.

3.5 Trends over time

When we look at the results of each Band over the past four years we can see an industry in transition, with the progressive impact of funding changes, and changes in resident & staff mix. The trends are far from uniform, and the impact of these changes is quite mixed.

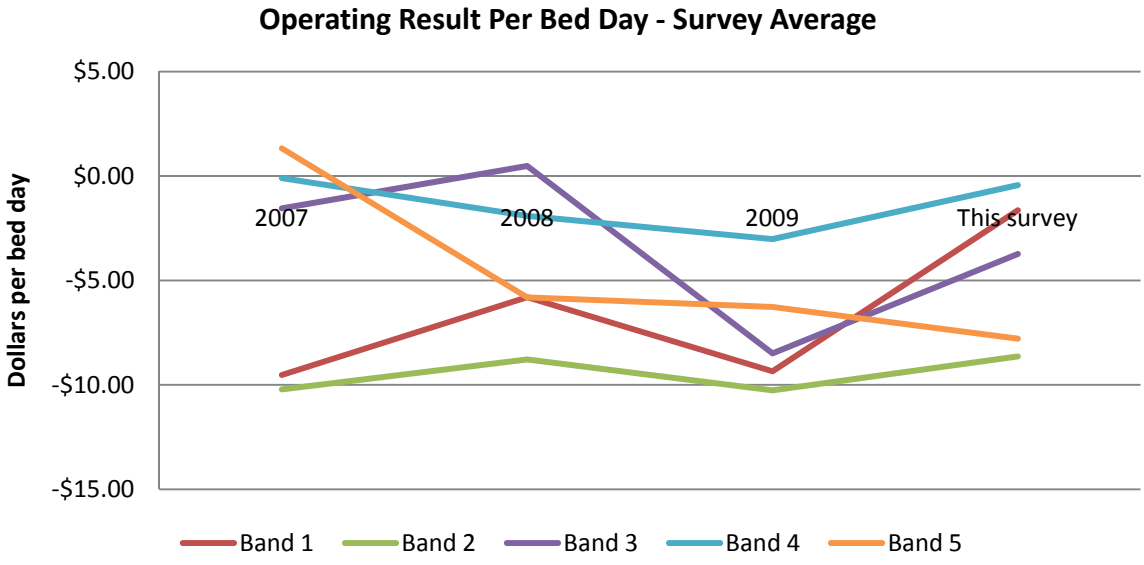


Figure 2

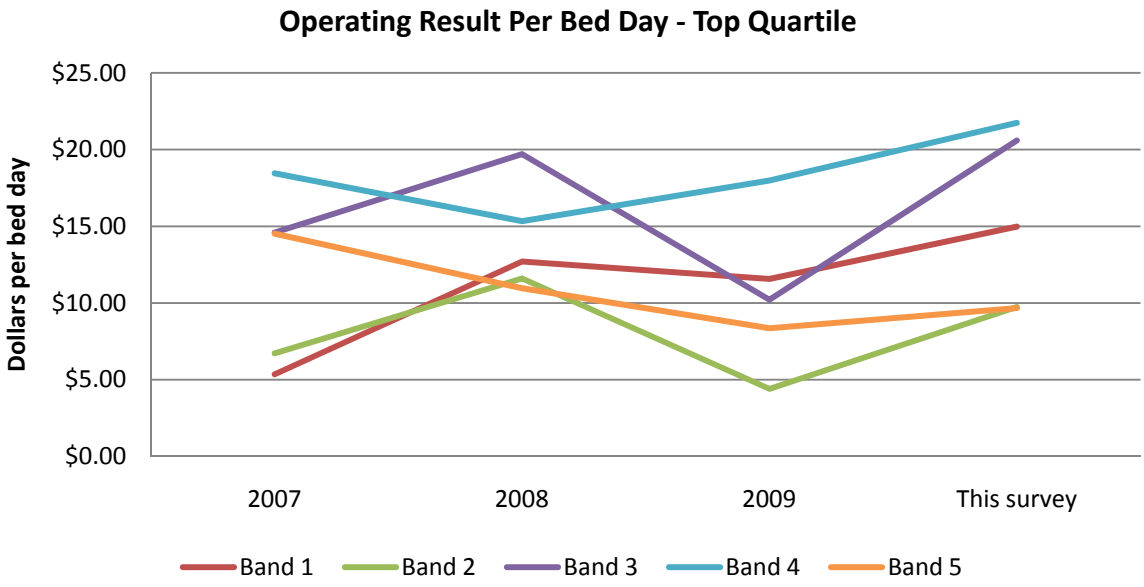


Figure 3

Apart from the Band 5 average, all Bands showed some improvement in the latest (March 2010) survey. It remains to be seen if these results are maintained in the full year to June 2010 survey, and beyond.

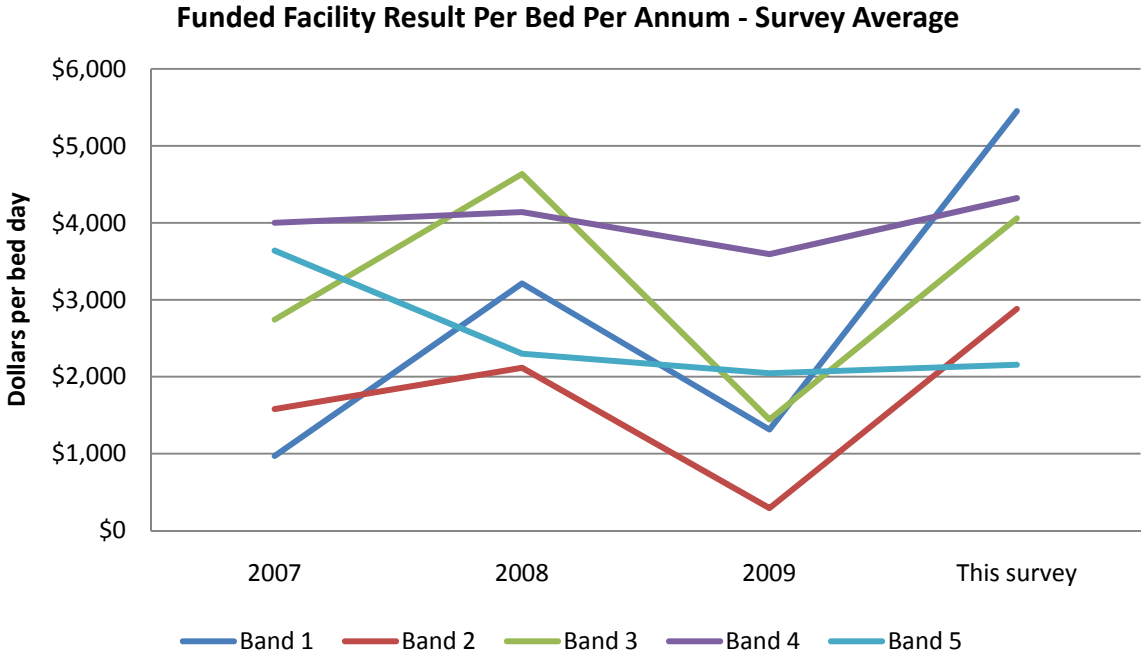


Figure 4

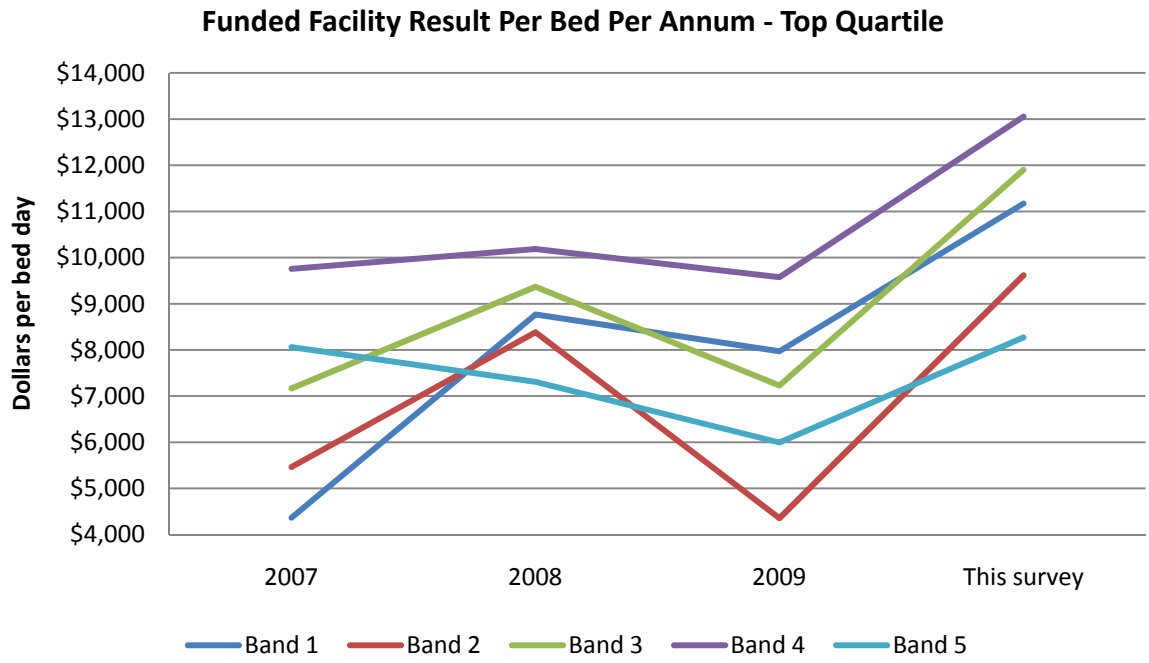


Figure 5

When we examine the overall profit as measured by the FFR of these facilities, sorted by income band, a similar picture is painted. The profit outcomes of the various bands are not consistent, nor is there any consistency on how their results have changed over time.

The significant difference in the outcomes for each of the Bands leads to the conclusion that the funding provided is not effectively matched to the cost of providing the services. Improvements are needed to ensure that providers are consistently funded across the full spectrum of care dependency, at rates that reflect the actual cost of providing the services.

This may be achieved through refinement of the ACFI system, with underlying funding rates that are benchmarked against the changing service costs over time.

3.6 Expenditure

3.6.1 Care Costs

Direct care costs include resident care staff and associated costs, as well as other direct care costs such as incontinence, therapy and medical supplies.

The movement in the Care Cost to Income Ratio over the past 12 years, as displayed in Figure 6 below, provides an important insight into the financial results. In High Care, an increase in this ratio generally resulted in declining results, and a reduction in this ratio showed improved results. The care cost to income ratio for high care facilities is now less than it was in 1998.

This is a result of productivity savings, changes to the mix of staff and wages not keeping pace with the rest of the community. The other stark observation is the narrowing of the gap between the ratio of High Care and Low Care facilities. In 1998 there was a difference of over 35%, yet in our March 2010 survey this had narrowed to be less than 10%.

This just reinforces the notion that the traditional "hostel" is largely disappearing, and that most Low Care facilities now have a large number, if not a majority, of high care residents. The main incentive to admit low care residents may be to attract an accommodation bond.

Of course the other way to improve this Care Cost to Income ratio is to increase income levels. We believe that for too long many managers have concentrated on cutting costs without giving equal effort into ensuring that they are maximising their entitlement to income under the funding framework.

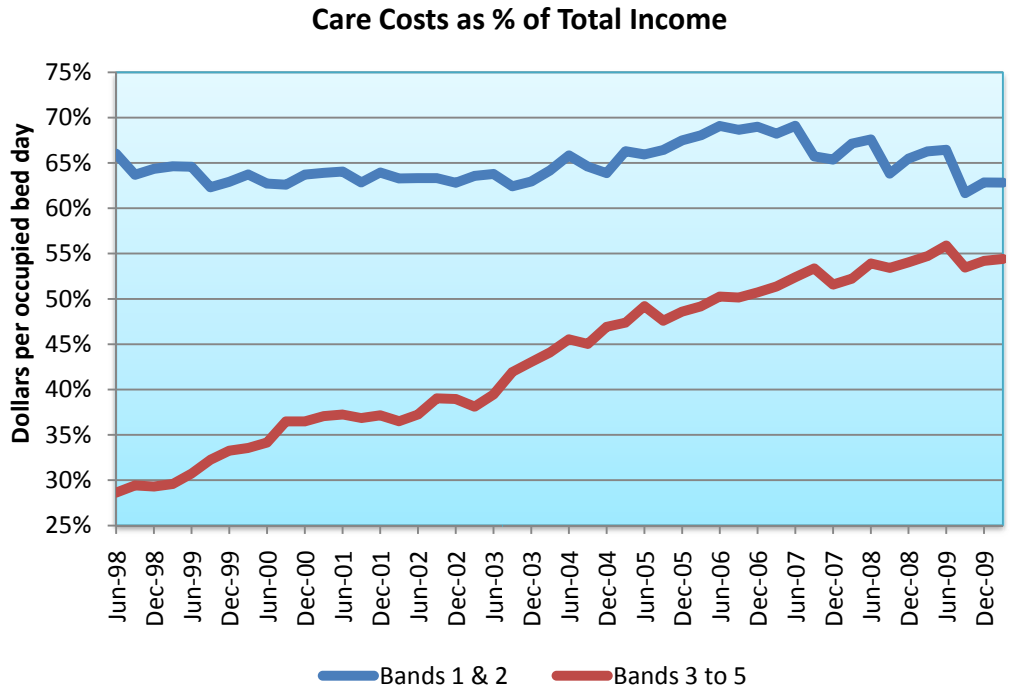


Figure 6

3.6.2 Other Operating Costs

Despite these productivity gains, the rise in other operating costs has meant that overall operating profits have generally declined over time. When we break these other costs down into their various categories, we can see real concerns with the large increases in recent years in administration and catering costs.

Administration costs, in particular, have increased by 45% in less than 4 years. As shown in Figure 7 on the next page, there is now more spent on administrative services than on catering.

This graph shows the trends for High Care facilities (similar results were also shown for Low Care facilities).

More recently we have seen very large increases in Utility costs, with further increases expected in the year ahead. As can also be seen in Figure 8 on the next page, these increases have been well in excess of the CPI.

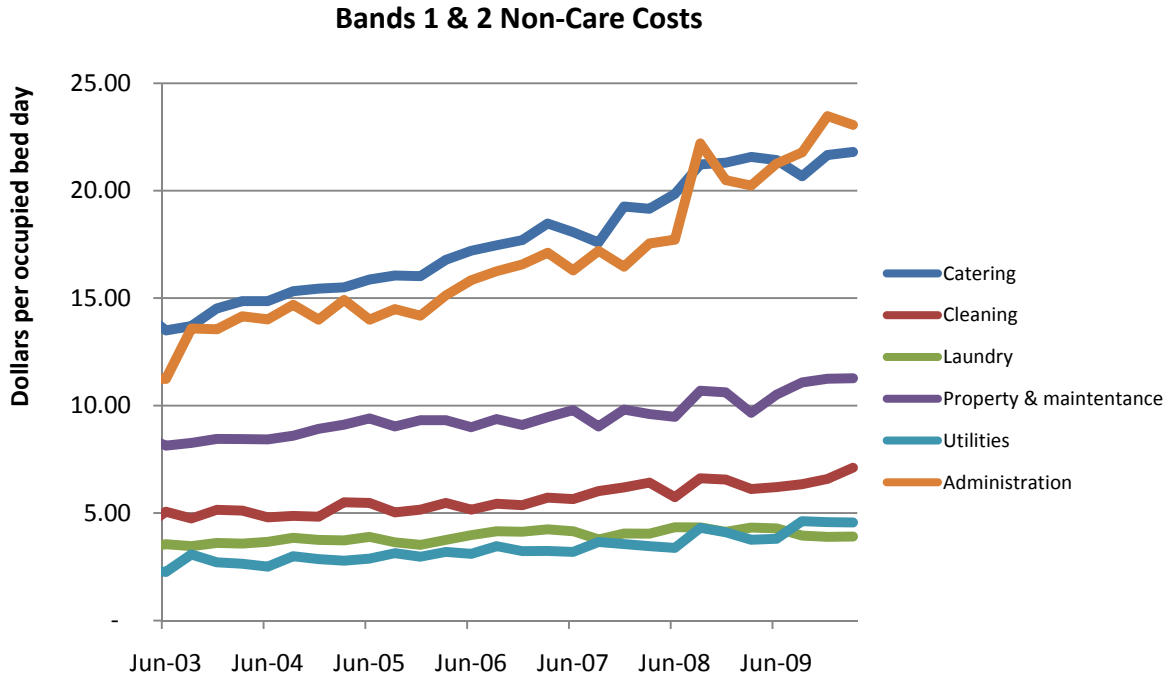


Figure 7

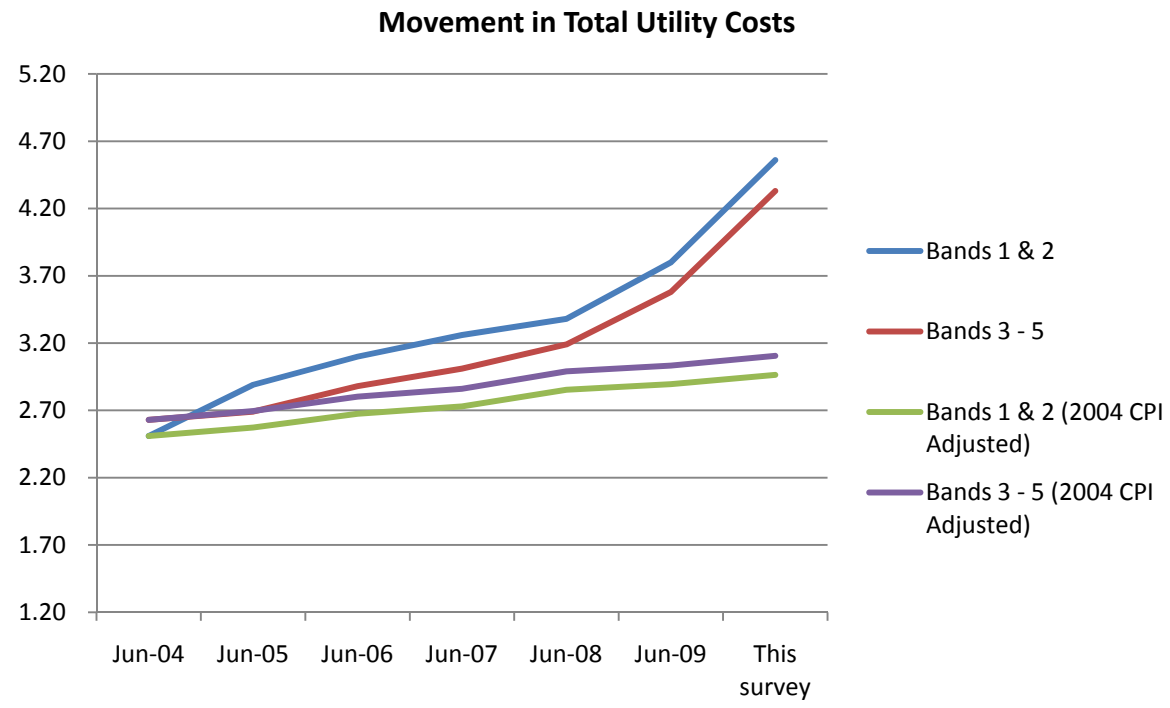


Figure 8

The table below shows the extent of the increase in the Utilities costs in the most recent survey. In addition, the cost of Rates increased by 45% in the previous financial year.

Table 3

Table	Electricity		Gas		Rates		Rubbish Removal		Total Utility Costs	
	This Survey	June 2009	This Survey	June 2009	This Survey	June 2009	This Survey	June 2009	This Survey	June 2009
Band 1	2.34	1.86	0.65	0.63	0.60	0.60	0.60	0.55	4.19	3.64
Band 2	3.10	2.32	0.64	0.64	0.60	0.63	0.51	0.49	4.85	4.08
Band 3	2.68	2.15	0.65	0.56	0.70	0.65	0.50	0.39	4.53	3.75
Band 4	2.55	1.98	0.58	0.53	0.62	0.58	0.47	0.39	4.22	3.48
Band 5	2.42	1.76	0.59	0.49	0.68	0.56	0.39	0.49	4.09	3.31
All Facilities	2.66	2.03	0.62	0.57	0.64	0.61	0.50	0.44	4.42	3.65
% Change	31.0%		8.8%		4.9%		13.6%		21.1%	

3.7 Conclusions

One obvious conclusion from the trends shown above is that the current funding system is simply not designed to take in to account the changes in the costs of providing residential aged care services.

What is needed is an agreed methodology and process that accurately captures the changing costs of providing residential aged care services, and incorporates these in to an effective funding model.

Recommendation:
Capture the changing costs of providing residential aged care services over time, and incorporate this in to an effective funding model.

What is also clear from the above analysis is that parts of the industry can and should do much better. Those providers with facilities that show below average results need to ask some searching questions: Why are they there? What can they do to improve their results?

Some of the poor performance is due to specific issues that are not expected to last. These include: facility building works / renovation, low occupancy, bouts of illness, commissioning new beds and the like. Some may point to their facility size, location and special resident mix as an explanation of their performance. Others deliberately spend more on resident services as part of their mission or philosophy. However, we believe that most of the poor performance is a result of poor management performance. These facilities simply need to do better.

National benchmark systems will identify the poor performers, and indicate the key areas of concern. Government could consider increasing the one-off assistance it makes available to these providers to help facilitate the changes required.

4 COMMUNITY CARE

Our quarterly Aged Care Financial Performance Surveys also include "Packaged Care" services, as follows:

Table 4

PROGRAM	ABBREVIATION	MARCH 2010 SURVEY DATA SET	
		Programs	Places
Community Aged Care Packages	CACP	103	5,360
Extended Aged Care in the Home	EACH	47	919
EACH Dementia	EACH-D	34	341

We have tracked the CACP changes in operating results since 2000, and staff hours since 2006. As can be seen from the following graphs, both the financial results and the hours of care provided have gradually reduced in recent years.

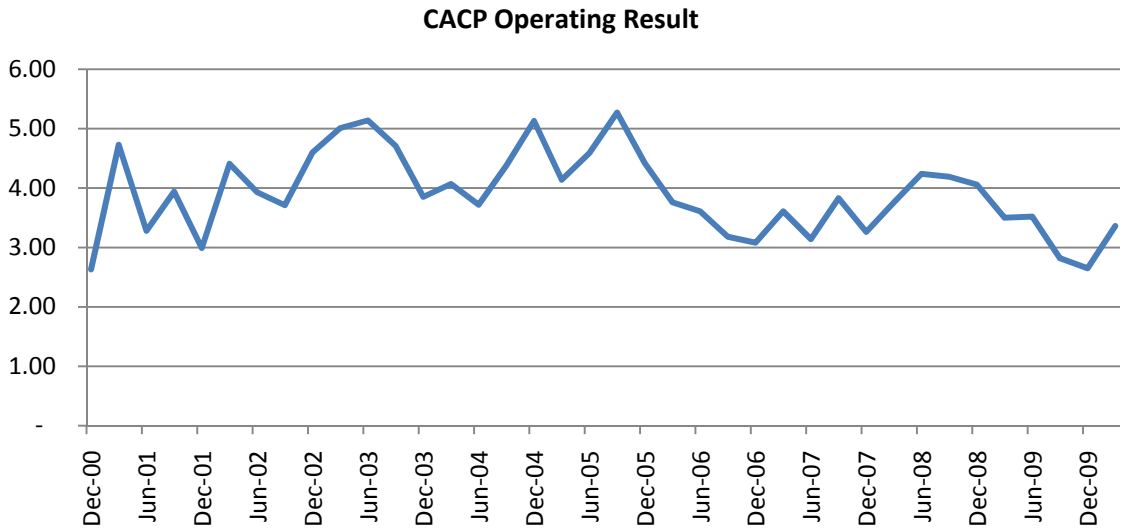


Figure 9

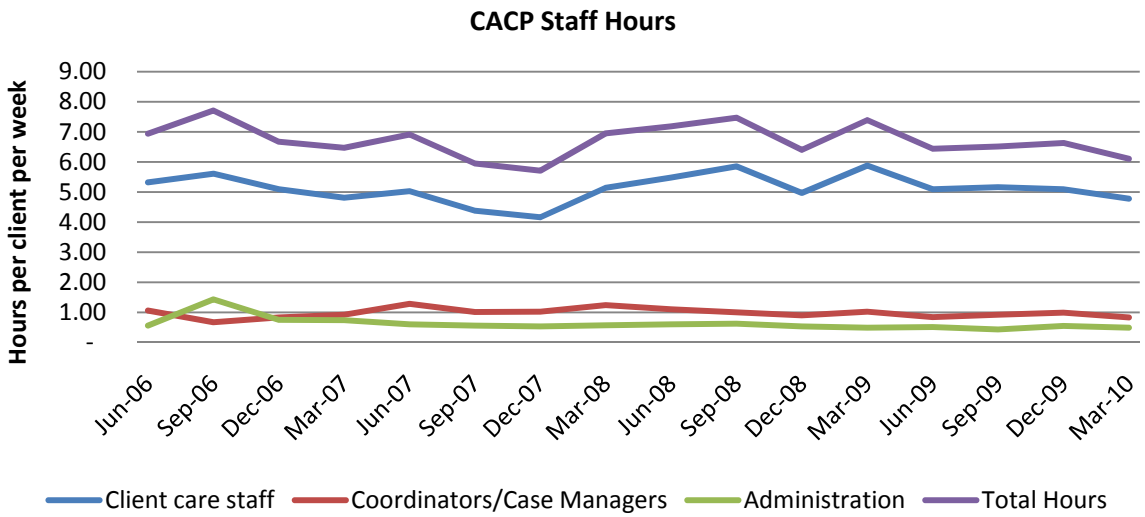


Figure 10

The data for the EACH programs continues to show good results, with both results improving and hours of care provided declining in the period to March 2010. Note that this is still a relatively small data set, and should be viewed as such. The full year to June 2010 will add further light on these apparent trends. The data on EACH Dementia is too small and recent to meaningfully include here.

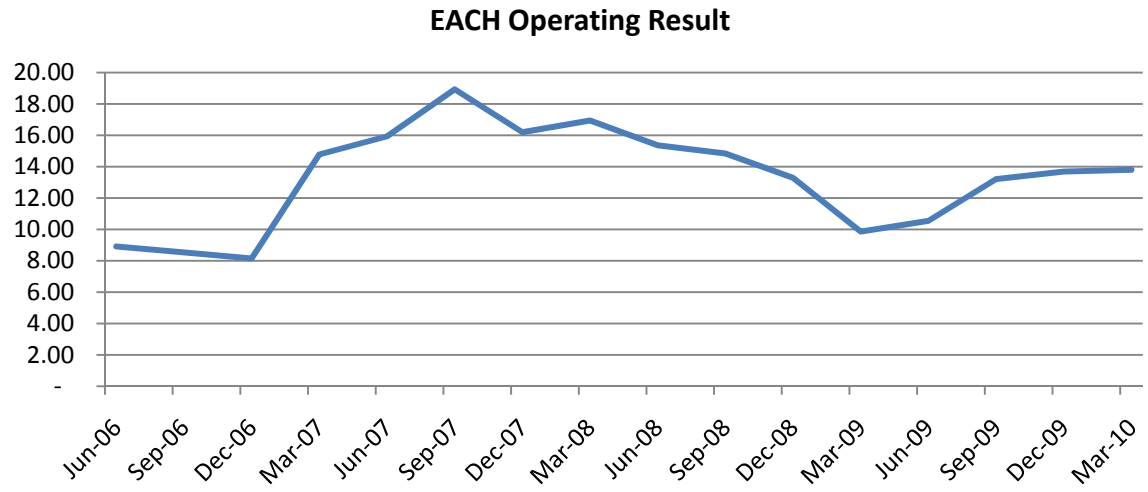


Figure 11

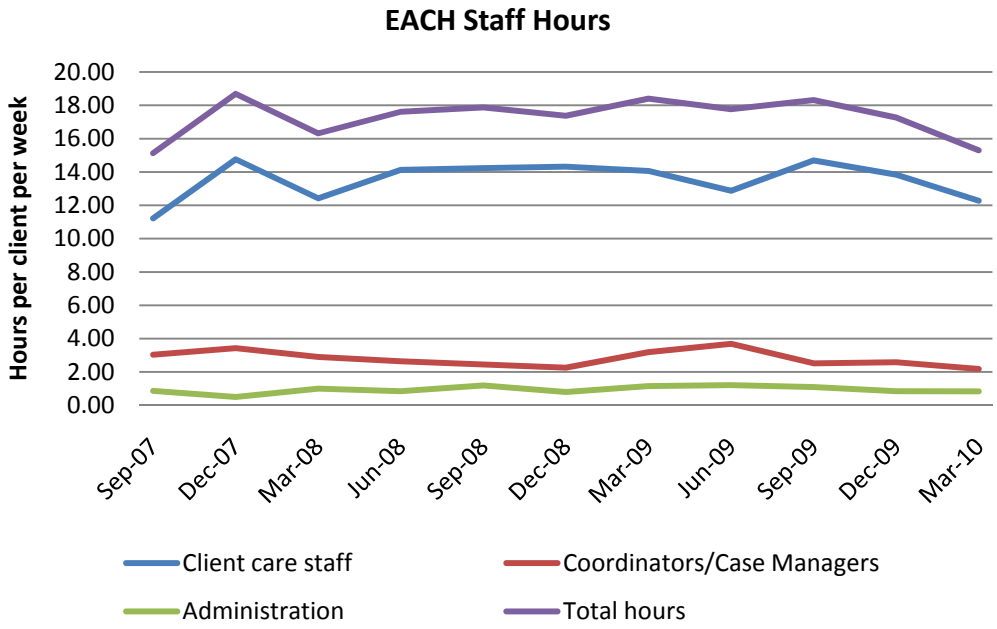


Figure 12

A summary of the results for the three Packaged Care types follows on the next page. They show big differences in results, as well as in funding and hours provided.

The big differences in the funding, and hours of care provided, between the CACP and EACH programs is at significant variance with the continuum of care funding in residential aged care, as defined through the Aged Care Funding Instrument ("ACFI"). The huge importance and expected growth of community aged care services in the future would indicate that a more appropriate funding model is needed. We envisaged that that model would more closely match the funding / care resources with the changing needs of the clients, and would be along the lines of the current ACFI model.

Table 5

PACKAGED CARE	MARCH 2010 SURVEY DATA SET		
	CACP $ ppd	EACH $ ppd	EACH-D $ ppd
INCOME	**39.96**	**122.75**	**129.32**
EXPENDITURE			
Client Care	27.24	86.00	80.43
Operating	2.16	4.31	6.99
Administration	7.20	18.65	18.86
Total Expenditure	**36.61**	**108.95**	**106.28**
RESULT	**3.36**	**13.80**	**23.04**
Hours per package week	**6.11**	**15.30**	**19.43**

Our concern, in particular, is for those clients that fall between the CACP & EACH resourcing. The gap between 6 hours of care per week (CACP) and 15 hours of care per week (EACH) is too great to meet the wide range of care options that clients need.

Far better to have a funding system that does provide resources commensurate with the assessed change in the client's needs. Better still if the system replaces not only EACH & CACP, but also HACC and all other community aged care programs, to provide a simple effective system that has the needs of the client as its focus.

As with residential aged care, the community care funding also needs to be based on the "benchmark" cost of the care delivered, and include a fair basis for funding "indexation", to ensure that the real value of the funding is not eroded over time.

4.1 Recommendations:

1. *Develop a new funding system covering all community aged care services, in harmony with the "ACFI" model for residential aged care.*

2. *Ensure that the above funding system is based on the "benchmark" cost of care services, appropriately indexed over time.*

APPENDIX "A"

STEWART BROWN
Business Solutions

AGED CARE
FINANCIAL PERFORMANCE SURVEY

9 MONTHS ENDED
31 MARCH 2010

Contents

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.

EXECUTIVE SUMMARY

This report covers the nine months ended 31 March 2010 and includes data for 379 residential aged care facilities (RACF), 103 Community Aged Care Packages (CACP) and 47 Extended Aged Care at Home (EACH) programs and 34 Extended Aged Care at Home Dementia (EACHD) programs.

The results for March are very similar to those of December, which goes against the trends of the past when it would have been expected for the results to continue to decline. The average operating results for High Care declined by $0.38 per bed day and the average operating result for Low Care improved by $0.12 per bed day. Income levels, care costs and other costs all remained consistent with those of the December survey.

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 nine months ended 31 March 2010. All amounts shown are measured in Dollars Per Bed Day.	***High Care (Bands 1 & 2)***			***Low Care (Bands 3 to 5)***	
	9 Months Ended 31 March 2010 $	***Year Ended 30 June 2009 $***		***9 Months Ended 31 March 2010 $***	***Year Ended 30 June 2009 $***
Income	**177.86**	**172.34**		**125.61**	**120.31**
Care Costs	**111.75**	**114.53**		**68.34**	**67.24**
Care costs as % of income	*62.83%*	*66.46%*		*64.41%*	*55.89%*
Operational Costs	**71.71**	**67.49**		**60.27**	**59.04**
Total Costs	183.46	182.02		128.61	126.28
Net Operating Result	**($ 5.60)**	**($ 9.68)**		**($ 3.00)**	**($ 5.97)**
Total Facility Result	**$ 2.86**	**($ 5.16)**		**$ 5.41**	**$ 1.90**
EBITDA per bed per annum	**$ 4,599**	**$ 1,434**		**$ 4,595**	**$ 2,851**

Based on this latest data, our expectations for the results for the full year to June 2010 are that the operating losses are unlikely to be as high as for the 2009 year. Of course that is not saying that the outlook is idyllic. There is still a long way to go before the average result for residential aged care facilities is a surplus. Particularly given that the COPO index for the 2010 year is set at 1.7% whereas the CPI index for the year through to March 2010 was 2.9% and wage increases have generally been in the range of between 3% and 4% per annum.

We may also have seen residential care facilities start to reach their limits in relation to staff hours and productivity savings. 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 this latest survey. On top of this change to the staff mix, the average number of hours worked per resident per day for the Top 25% of facilities in High Care has gone from 2.96 hours for the year to June 2007 to 2.82 hours in this survey. In Low Care facilities it has decreased from 1.59 hours per resident per day to 1.46 hours. In Low Care almost all of this reduction has been in registered nursing hours (0.17 hours to 0.05 hours). Note that this is for the facilities in the top quartile for their operating results.

Some of the outcomes from this survey are:

- The number of facilities making profits are slightly less than the December survey but still better than at June 2009
- 50 of the 135 (37.0%) High Care facilities achieved an operating profit (June 2009: 21.8%)
- 28 of the 135 (20.7%) High Care facilities had a negative EBITDA (June 2009: 31.8%)
- 111 of the 244 (45.5%) Low Care facilities achieved an operating profit (June 2009: 39.5%)
- 20.1% of the Low Care facilities had a negative EBITDA (June 2009: 30.5%)
- 42.5% of all facilities in the survey made an operating profit compared to 33.6% for the 2009 financial year
- 65.7% 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 9 months ended 31 March 2010.	***Operating Income***				
	Band 1 ***$***	***Band 2*** ***$***	***Band 3*** ***$***	***Band 4*** ***$***	***Band 5*** ***$***
Total of Facilities 379	*64 Facilities*	*71 Facilities*	*95 Facilities*	*110 Facilities*	*39 Facilities*
Income	**190.62**	**168.11**	**143.36**	**116.72**	**98.24**
Care Costs	**120.03**	**105.40**	**83.54**	**59.35**	**49.19**
Care costs as % of income	*62.97%*	*62.70%*	*58.27%*	*50.85%*	*50.07%*
Operational Costs	**72.23**	**71.35**	**63.54**	**57.81**	**56.83**
Total Costs	192.26	175.75	147.08	117.16	106.02
Net Operating Result	**($ 1.64)**	**($ 8.64)**	**($ 3.72)**	**($ 0.44)**	**($ 7.78)**
Total Result	**$ 7.40**	**($ 0.65)**	**$ 3.86**	**$ 7.40**	**$ 4.90**
EBITDA per bed per annum	**$ 6,092**	**$ 3,444**	**$ 4,329**	**$ 5,537**	**$ 2,818**

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 RCS Band Extracts from Stewart, Brown & Co aged care financial survey for the 9 months ended 31 March 2010.	***Operating Income – Top 25% facilities in each Group***				
	Band 1 ***$***	***Band 2*** ***$***	***Band 3*** ***$***	***Band 4*** ***$***	***Band 5*** ***$***
Total of Facilities 96					
Income	**191.18**	**164.97**	**141.83**	**116.12**	**99.29**
Care Costs	**113.15**	**90.29**	**61.06**	**41.02**	**37.26**
Care costs as % of income	*59.19%*	*54.73%*	*43.05%*	*35.33%*	*37.53%*
Operational Costs	**63.05**	**64.94**	**60.18**	**53.36**	**52.36**
Total Costs	176.20	155.23	121.24	94.38	89.62
Net Operating Result	**$ 14.98**	**$ 9.74**	**$ 20.59**	**$ 21.74**	**$ 9.67**
Total Result	**$ 22.08**	**$ 15.56**	**$ 25.58**	**$ 26.99**	**$ 17.74**
EBITDA per bed per annum	**$ 11,304**	**$ 10,327**	**$ 12,394**	**$ 13,187**	**$ 8,580**

The average 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 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 $5,453 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

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	3.30	2.63	2.27	1.60	1.40	3.04	2.82	1.92	1.46
Hotel services	0.66	0.68	0.57	0.45	0.54	0.67	0.57	0.52	0.45
Maintenance	0.06	0.06	0.06	0.08	0.08	0.06	0.06	0.07	0.05
Administration	0.18	0.15	0.15	0.15	0.15	0.16	0.14	0.15	0.11
Total Hours	4.20	3.52	3.05	2.27	2.16	3.93	3.59	2.72	2.06

Being the biggest 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 71.17%. 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 66.13% 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					
Total Cost	**23.20**	**21.16**		**20.24**	**19.18**
Cleaning					
Total Cost	**6.28**	**7.50**		**5.01**	**5.80**
Laundry					
Total Cost	**4.80**	**3.27**		**2.61**	**2.22**

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 $3.36 (June 2009: $3.50) per client day and for EACH packages it was $13.80 (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 $23.04 (June 2009: $19.88) per client day.

The profitability of CACP's has been in gradual decline for some time although it showed some slight improvement in this survey compared to the December 2009 survey. 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. 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.

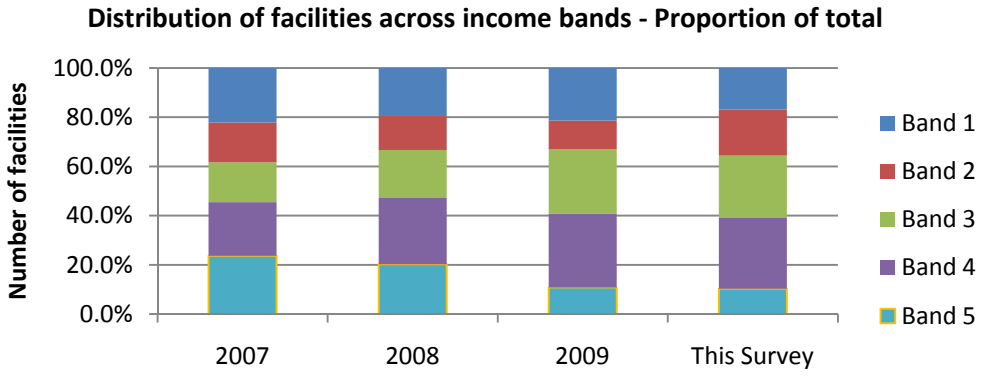
Average staff hours per week per client package	**CACP**	**EACH**	**EACHD**
Direct client care staff	4.78	12.28	15.28
Coordinators/Case managers	0.83	2.18	2.62
Administration	0.49	0.84	1.52
	6.11	15.30	19.43

NOTES FOR THE MARCH 2010 SURVEY

Revenue Bands
The revenue Bands in this survey have remained the same as the other surveys in this financial year.

The income levels for each of the Bands are as follows:

	This Survey	2009 Surveys	June 2008 Survey
Band 1	Over $180	Over $173	Over $163
Band 2	$155 to $180	$153 to $173	$150 to $163
Band 3	$130 to $155	$122 to $153	$120 to $150
Band 4	$105 to $130	$97 to $122	$95 to $120
Band 5	Under $105	Under $97	Under $95



As you can see, there has been a shift in the distribution of facilities over the past 4 years. Some of this has been as a result of the changing of the Band parameters, however it has also been influenced by the changing profiles of the facilities participating in the survey. As many facilities adopted ageing in place they transitioned from the lower Bands into the middle and upper Bands. In this current financial year we have adopted a standard interval between Bands of $25. It is our intention to make this our policy in future surveys. However, with the growing number of participants it is our goal to eventually make the Bands even narrower so that benchmarking can be more focused and facilities can be compared more closely to their counterparts.

EBITDA
Our Calculation
Our EBITDA calculation is as follows:

- Our starting point is the Net Result of a facility including all sources of income and expenditure directly associated with that facility as reported to us.
- In calculating EBITDA we add back interest expense on borrowings and outstanding bonds, depreciation expense (operating and non-operating), and we exclude interest income on funds invested.

One of the more controversial issues in this measurement is whether or not to include interest income in the calculation. We decided against this because there was no consistency across organisations as to whether interest is reported as income at the facility level.

Funded Facility Result

As an alternative to EBITDA we have defined the Funded Facility Result as a measurement of whether a facility can operate profitably within the guidelines and funding arrangements under the Aged Care Act. We have included all subsidy income, all charges to residents for their care and accommodation and any retentions that may be charged on bonds. We have excluded depreciation and amortisation, taxation expenses, interest income and expense and any other income such as donations and bequests and other sources of income. It is the exclusion of these other sources of income that sets it apart from the EBITDA measure.

This measure shows us how a facility performed using the funding available to it under the Aged Care Act excluding the effects of any financing decisions, depreciation policies or how the entity might be structured for taxation purposes. It also shows us what is available to recover the costs of building.

The table below shows what the FFR would have been for each of the Bands for the June 2009 and June 2008 surveys as well as for each survey period in the current financial year. The amounts shown are dollars per annum.

	All Facilities	Band 1	Band 2	Band 3	Band 4	Band 5
March 2010						
Funded Facility Result	4,209	5,453	2,881	4,059	5,320	2,156
December 2009						
Funded Facility Result	4,403	6,252	3,147	3,946	5,243	3,394
September 2009						
Funded Facility Result	4,739	5,716	4,696	4,551	5,069	3,249
June 2009						
Funded Facility Result	1,937	1,313	292	1,445	3,592	2,045
June 2008						
Funded Facility Result	3,482	3,212	2,117	4,635	4,139	2,300

All Bands (except Band 3) are currently better off using this measure than in both the 2009 and 2008 financial years. However, there has been some decline in the FFR for a number of the Bands since the September survey. This is expected given the decline in the operating results in this survey period compared to September.

If an aged care provider was to construct a new High Care facility with a typical construction cost of around $180,000 per place, the payback period would be somewhere between 36 and 83 years. This is not a good return by any known measurement. It is further evidence that current funding arrangements are not likely to encourage the construction of High Care places without the inclusion of extra service places.

We will examine the movement of the Funded Facility Result compared to operating results in more detail later in the report. We believe that this measure or one like it will become increasingly important as a result of the continual shifting of fees and subsidies between the operating and capital income streams.

DETAILED ANALYSIS

This current survey has provided a few surprises. The results for residential aged care facilities have not followed normal trends and continued the annual decline towards June. Up until December 2009 normal trends were being repeated. There was a spike in September as new subsidy rates and increases to resident fees kicked in. The lift in results in the September survey was more than likely exaggerated by the lifting of the cap on subsidy rates by a further $10 per bed day resulting in a significant rise in subsidy rates at the High Care end of the spectrum. Results then started to decline again in the December survey. In the past this decline has continued to June each year and then the pattern repeats itself. In this survey period High Care results were only marginally worse off than in December and Low Care results improved marginally. The average result across all facilities was a loss of $3.88 per bed day and in December it was a loss of $3.89 per bed day.

Profile of Participants

There are 379 residential aged care facilities in this survey. There are facilities in this survey representing all States of Australia. There are 184 community care programs including CACP, EACH and EACH Dementia. We would like to take this opportunity to thank all those long term participants as well as welcome the new participants.

Activity	Number of facilities / programs				Number of beds / places			
	This Survey	June 2009	June 2008	June 2007	This Survey	June 2009	June 2008	June 2007
Band 1	64	71	54	56	4,312	5,144	3,767	3,991
Band 2	71	39	40	41	5,655	2,821	2,823	2,856
Band 3	95	87	55	41	7,563	8,006	5,011	3,148
Band 4	110	100	76	55	7,505	6,984	4,903	3,837
Band 5	39	36	57	60	2,510	2,390	3,608	4,037
Residential	***379***	***333***	***282***	***253***	***27,545***	***25,345***	***20,112***	***17,869***
CACP	103	88	65	62	5,360	4,040	3,469	3,215
EACH	47	39	29	21	919	804	494	386
EACHD	34	21	-	-	341	186	-	-
Community	***184***	***148***	***94***	***83***	***6,620***	***5,030***	***3,963***	***3,601***
Total	563	481	376	336	34,165	30,375	24,075	21,470

The residential facilities are located in the following states and territories:

	NSW/ACT	VIC	SA / NT	TAS	QLD	WA	TOTAL
High Care	90	20	3	9	5	8	**135**
Low Care	153	27	9	19	13	23	**244**
Total	243	47	12	28	18	31	**379**

We will be providing some data by state in the June survey given the growth in participation in states other than NSW. It is likely to be relatively high level (high care/low care) at this point but as participation grows the depth of analysis will also grow.

RESIDENTIAL CARE

Summary of Results

The tables below display the results of the survey for High Care and Low Care facilities based upon their operating income. We have designated as High Care those facilities with operating income of $155 per occupied bed day or higher (Bands 1 & 2). Those with a lower operating income are classified as Low Care (Bands 3 to 5). The average operating loss of High Care facilities was $5.60 per occupied day and for Low Care it was a loss of $3.00 per occupied day.

From a benchmarking viewpoint we believe that it is less important to use these High/Low Care designations and more important to benchmark to those facilities within similar income Bands – indicating similar resident profiles. So many "Low Care" facilities now have a predominance of High Care residents in their facility. Similarly, some co-located facilities are now managed as one, often under the same RACS ID. What may once have been a High Care facility and Low Care facility is now mid range. We will still continue to group facilities as High Care and Low Care as this has implications from an accommodation bond viewpoint. However, from a benchmarking viewpoint we would encourage participants to align more closely to the individual Income Bands. Our goal is to make these Bands narrower so that closer comparisons can be made between facilities and benchmarking can become more focused.

Table 1
Extracts from Stewart, Brown & Co aged care financial survey for the 9 months ended March 2010. All amounts shown are measured in Dollars Per Bed Day.

	High Care (Bands 1 & 2)				*Low Care (Bands 3 – 5)*		
	9 Months Ended 31 March 2010 $	***Year Ended 30 June 2009 $***	***Change $***		***9 Months Ended 31 March 2010 $***	***Year Ended 30 June 2009 $***	***Change $***
Income	**177.86**	**172.34**	**5.52**		**125.61**	**120.31**	**5.30**
Care Costs	**111.75**	**114.53**	**2.78**		**68.34**	**67.24**	**(1.10)**
Care costs as % of income	*62.83%*	*66.46%*			*54.41%*	*55.89%*	
Operational Costs							
Catering	21.80	21.42	**(0.38)**		19.57	19.49	**(0.08)**
Cleaning	7.11	6.21	**(0.90)**		5.52	5.22	**(0.30)**
Laundry	3.91	4.29	**0.38**		2.52	2.50	**(0.02)**
Property & maintenance	11.27	10.51	**(0.76)**		10.25	10.36	**0.11**
Utilities	4.56	3.80	**(0.76)**		4.33	3.58	**(0.75)**
Administration	23.06	21.26	**(1.80)**		18.08	17.89	**(0.19)**
Total Operational costs	**71.71**	**67.49**	**(4.22)**		**60.27**	**59.04**	**(1.23)**
Total Costs	183.46	182.02	**(1.44)**		128.61	126.28	**(2.33)**
Net Operating Result	**($ 5.60)**	**($ 9.68)**	**3.94**		**($ 3.00)**	**($ 5.97)**	**2.97**
Total Facility Result	$ 2.86	($ 5.16)	8.02		$ 5.41	$ 1.90	3.51
EBITDA per bed per annum	$ 4,599	$ 1,434	3,165		$ 4,595	$ 2,851	1,744
Funded Facility Result	$ 4,000	$ 945	3,055		$ 4,292	$ 2,398	1,894
Average Bond held	$ 151,122	$ 142,241	8,881		$ 165,970	$ 156,639	9,331
Ave Bond Taken past 12 mths	$ 181,848	$ 199,726	(17,878)		$ 204,986	$ 235,195	(30,209)

High Care (Bands 1 & 2)

After significant improvements in the operating results in September, our December survey saw seasonal trends being repeated and results declining. Such an improvement is not unusual for the first quarter of the year. It usually has the benefit from subsidy increases from 1 July, resident fee increases at the end of the quarter and only modest cost increases. The September survey saw the average result of High Care facilities improve by $9.01 per bed day. The reasons for this were fairly evenly split between increases in income and reductions in expenses. The December survey saw a decline in the results of $4.71 per bed day so that the average result was a loss of $5.38 per bed day at that point.

In this current survey the results for High Care facilities have declined only marginally ($0.22 per bed day) so that average results were a loss of $5.60 per bed day. This decline was significantly less than expected. Given the decline in results in the December survey and the trends in past years, we might have expected the results to decline by between $2 and $4 per bed day in this survey period. While this is a good sign, it is too early to make any judgements on whether things have stabilised.

There are a number of good signs. On average, care costs have continued to decline and as will be shown later in this report, the care cost to income ratio of facilities across most income bands shows sign of a decline. This can be a good thing – as long as it is a result of increasing income levels and that staff hours are not being cut to the point where it is affecting levels of care.

Income levels continue to benefit from the relaxation of the subsidy cap by a further $10 per bed day from 1 July 2009. The highest daily care subsidy is now capped at $20 above the maximum RCS saved rate. This increase, on top of the increase in the actual RCS saved rates, has benefited the High Care facilities in particular because they had more residents on the capped subsidy rate. The reduction in care costs since June 2009, observed in the September survey, has been maintained albeit at a lower amount. Later in this report we provide data on wage hours and costs. What we observed in this survey period is that the mix of care hours continues to change. The ratio between registered nursing hours and other nursing hours continues to rise and at the same time the average cost of care wages has declined. This happened for the first time for some time in December 2009 and it has been maintained in this survey period.

With the exception of laundry, the other costs areas have increased during this survey period compared to June 2009. Administration costs continue to rise. We also observed significant rises in utility costs in the September survey and these have been maintained in this survey. We have a closer examination of these costs later in this report.

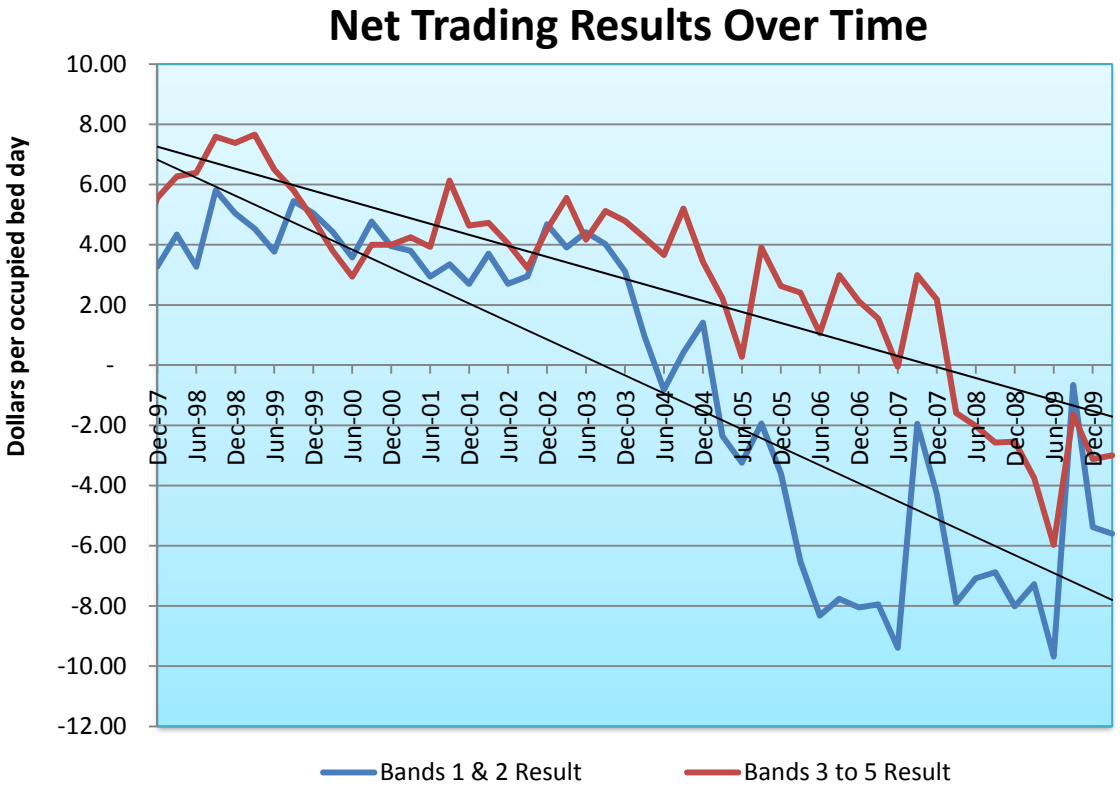
Low Care (Bands 3 to 5)

Low Care facilities have achieved better results on average in this survey compared to the June 2009 financial year and are marginally better than in the December 2009 survey. The average operating loss for the period was $3.00 per bed day, an improvement of $2.97 per bed day on the results for the 2009 year. The improvement in results has largely been due to the increases in income being greater than increases in costs. In comparison to High Care, where care costs had declined since the 2009 year, Low Care facilities have seen a marginal increase in care costs although the care cost to income ratio has declined.

Low Care facilities have not experienced the significant rise in administration costs since June 2009 that High Care facilities experienced. Administration costs only rose by $0.19 per bed day, whereas the average increase in High Care facilities was $1.80 per bed day.

Result Trends

Illustration 1



The illustration above depicts the movement in the net trading results of High Care and Low Care facilities over time. You can see the 'spike' in the results for the September quarter which is more pronounced than in recent years. This graph also illustrates the continued steep decline of the results of Low Care facilities. Their results are edging closer to that of High Care, unfortunately on the wrong side of the break-even line.

In this survey:

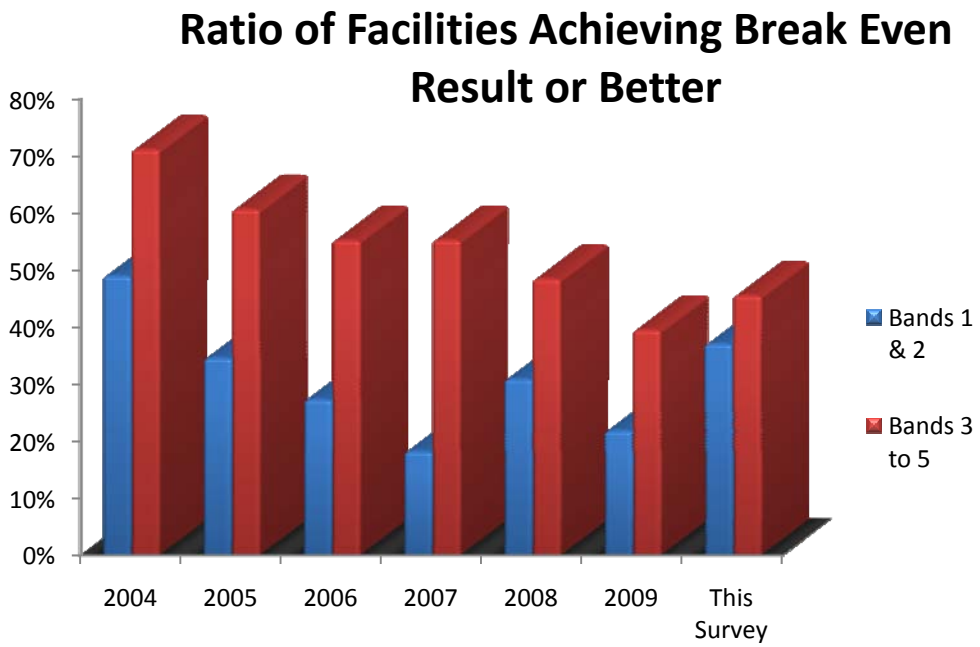
- 50 of the 135 (37.0%) High Care facilities achieved an operating profit (June 2009: 21.8%)
- 28 of the 135 (20.7%) High Care facilities had a negative EBITDA (June 2009: 31.8%)
- 111 of the 244 (45.5%) Low Care facilities achieved an operating profit (June 2009: 39.5%)
- 20.1% of the Low Care facilities had a negative EBITDA (June 2009: 30.5%)
- 42.5% of all facilities in the survey made an operating profit compared to 33.6% for the 2009 financial year
- 65.7% 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.

To give some notion of relativity to these ratios 48.9% of High Care facilities and 71.1% of Low Care facilities achieved an operating profit at June 2004.

The average total net result across all the facilities was a profit of $4.54 per bed day compared to a loss of $0.35 per bed day at June 2009. At June 2008 this was a profit of $4.61 per bed day.

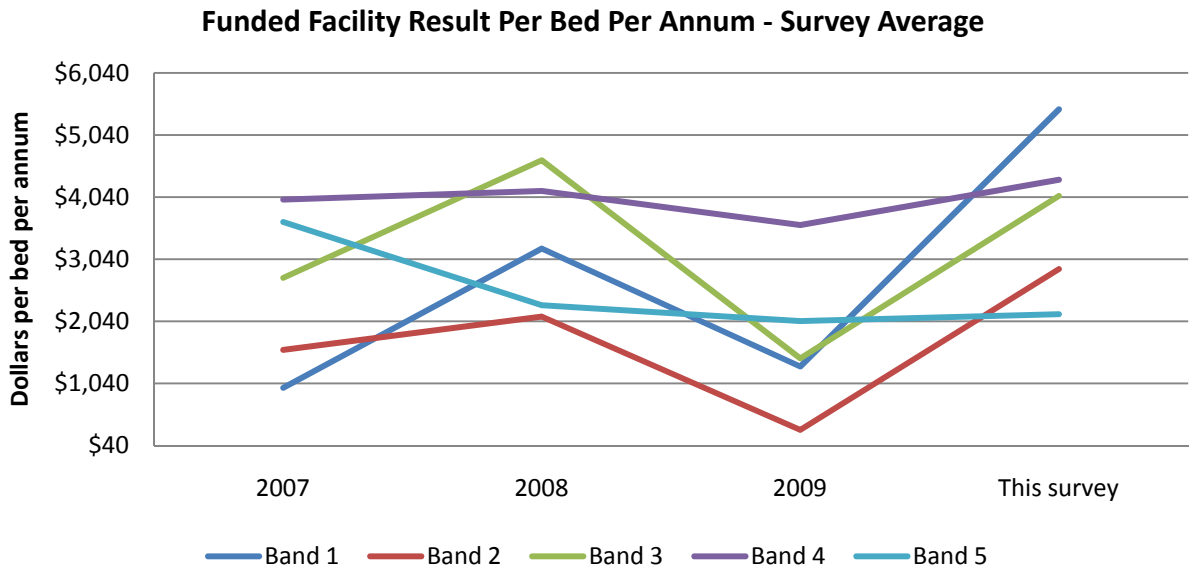
Illustration 2 depicts these break even ratios over a period of time.

Illustration 2



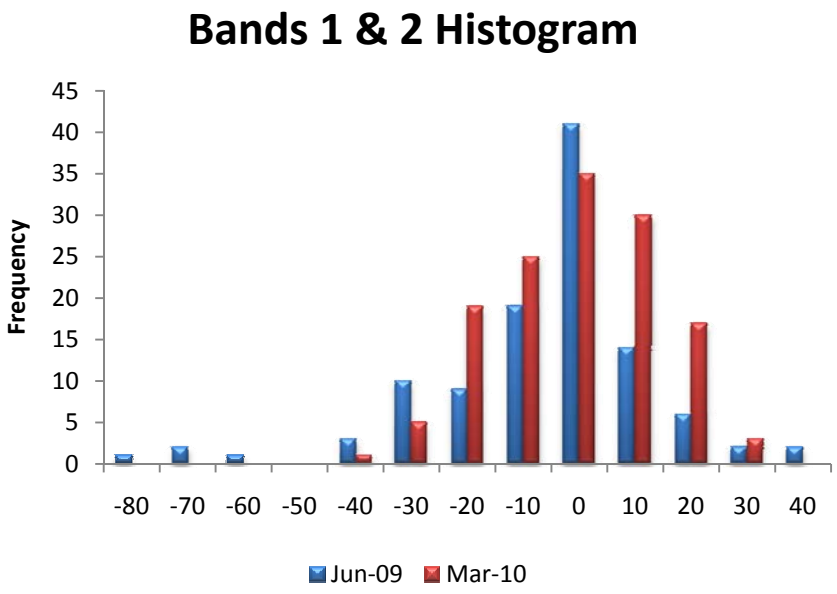
Using the Funded Facility Result (FFR) as a profit measurement we can see that there have been some improvements in results for Bands 1 through 4 since June 2007. In the case of facilities in Band 5, after an initial decline in the FFR in the 2008 financial year, the FFR has remained relatively constant since then. So if we take out the cost of the building and equipment (depreciation) and take out income factors such as fundraising income and interest revenue then facilities do make a profit over all. However, at an average of just over $5,000 per bed per annum for a facility in Band 1 it would take over 37 years to recover the cost of constructing a new facility and that does not take into account the cost of borrowings.

Illustration 3



Data Distribution

Illustration 4



Illustrations 4 (above) and 5 (below) show the distribution of results for High and Low Care facilities in Bands of $10. In both graphs there has been a distinct shift to the right due to more facilities achieving better results, including operating surpluses.

Illustration 5

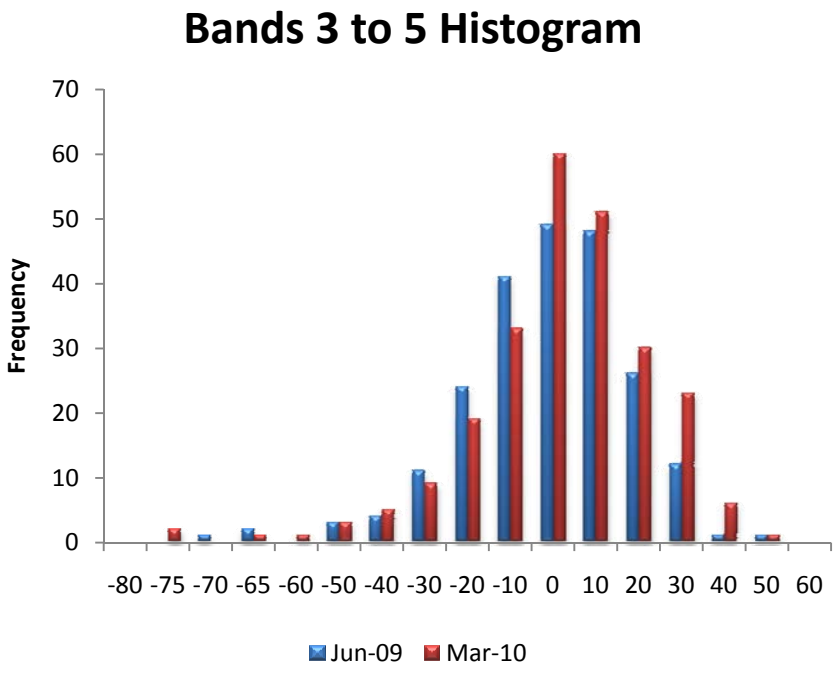
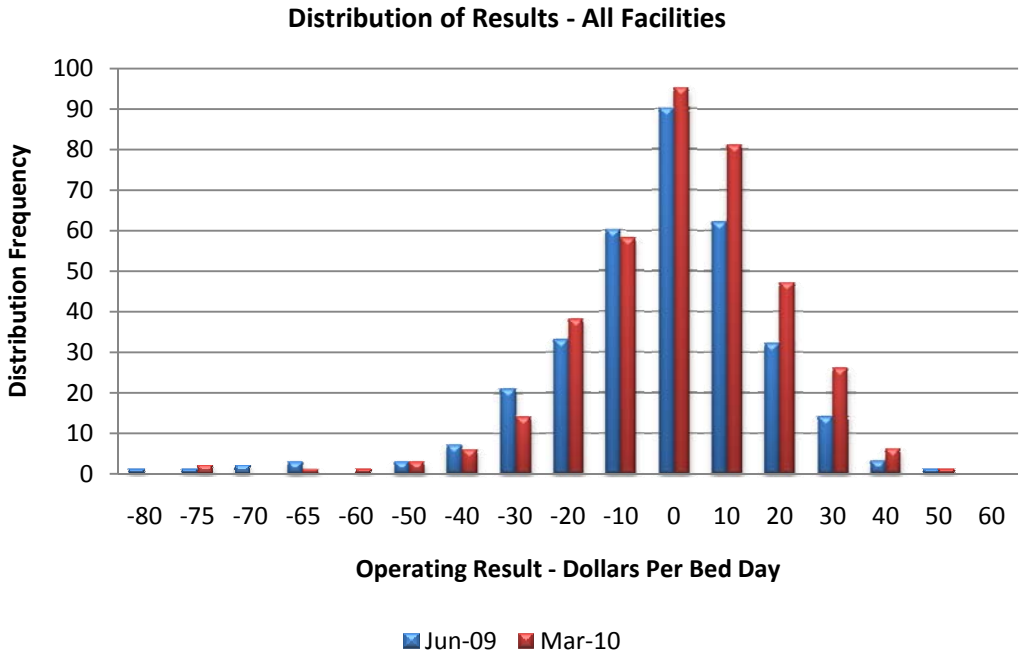


Illustration 5 shows the distribution of all the facilities in the survey. Again, it shows a shift to the right where there are significant increases in the Bands to the right of break even and decreases in the frequency of facilities in the loss making Bands.

Illustration 6

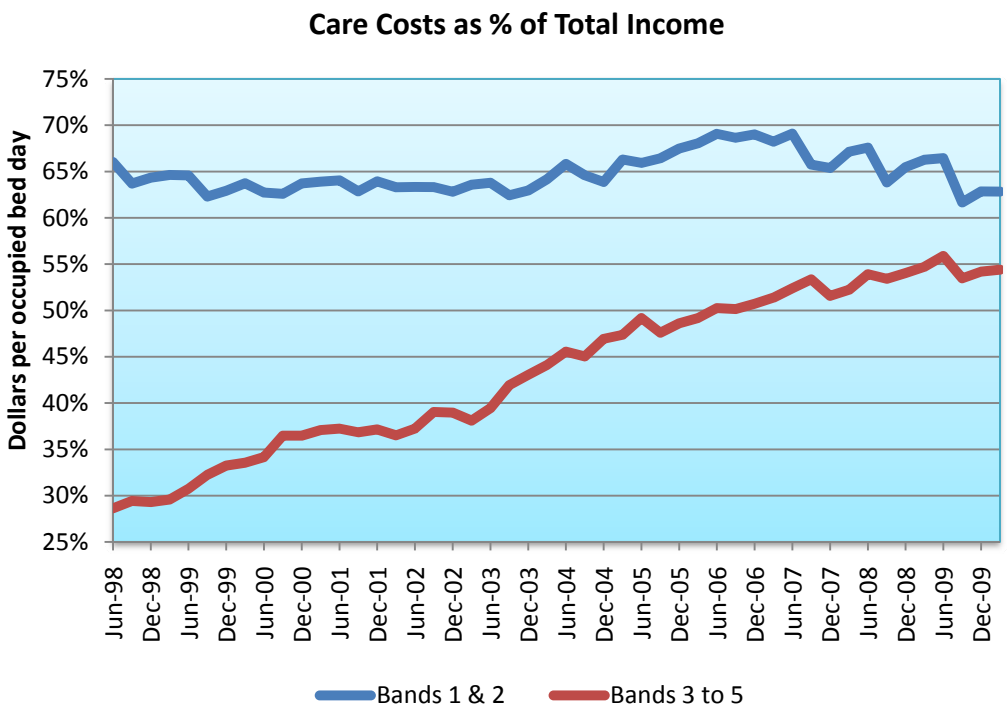


Movements in Care Costs

For High Care facilities, care costs as a percentage of income are approximately 3.6% lower at this point than at June 2009. Whilst there has been a significant rise in income, there has also been a slight decrease in care costs. The major increase in costs for High Care and to a lesser extent Low Care facilities has been in the area of other operating costs. In Low Care facilities, there has been a 1.48% decrease in the care cost to income ratio since June 2009. This is despite an increase in the actual average care cost per bed day of $1.10.

The following graph (illustration 7 over page) shows the movement in this care cost to income ratio over a long period of time. During this period you can see the fairly steady and generally steep increase in the Low Care ratio. By contrast, the High Care ratio has been relatively stable although it did see fairly constant increases in the ratio from June 2003 to June 2006. During this time increases in award rates of pay were greater than the relative increases in subsidies and resident fees.

Illustration 7



Other Operating Costs

The illustrations below display the breakdown of costs in both High Care and Low Care facilities. As you might expect the main difference between the two is the proportion of expenditure allocated to direct resident care. However, this ratio is becoming closer over time as shown in Illustration 7. This gap is now only 7.77% compared with 10 years ago when the gap was close to 35%.

Illustration 8

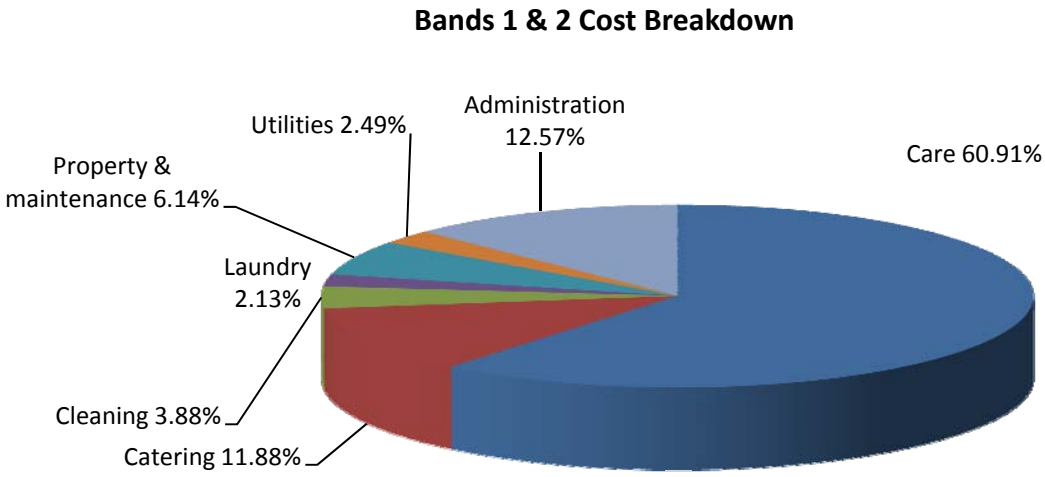
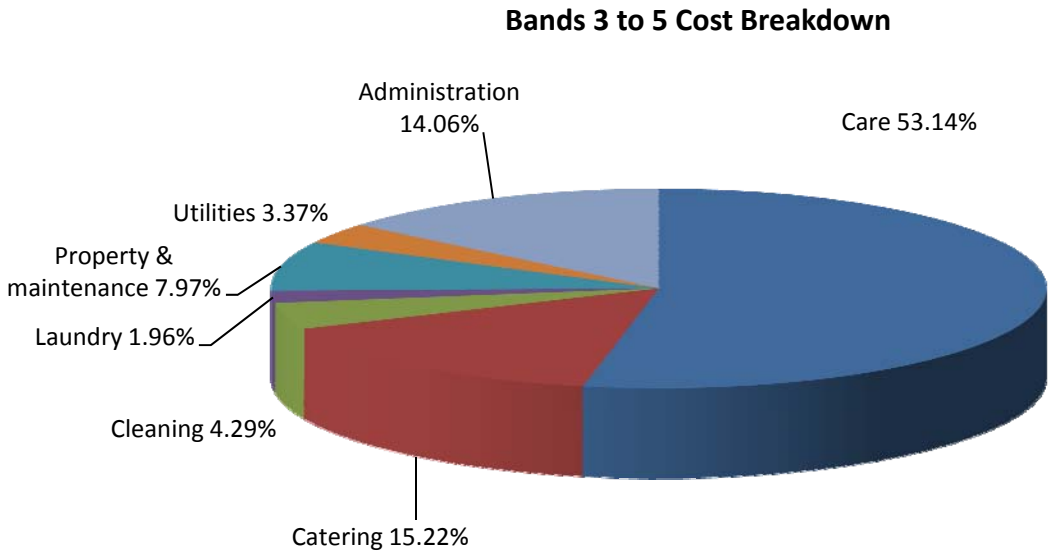


Illustration 9



There has been a further increase in the differential between operating costs of High Care and Low Care facilities in this survey period. There has also been a significant rise in the differential between the surplus available after care costs for High and Low Care facilities. At June 2009 the surplus available to High Care and Low Care facilities was $57.81 and $53.07 per bed day respectively, a difference of $4.74 per bed day. In this survey period these amounts are $66.11 for High Care and $57.27 for Low Care, a difference of $8.84 per bed day. This is almost double what it was at June 2009. Similarly, the differential between operating costs has gone from $8.45 at June 2009 to $11.44 in this survey, an increase of $2.99 per bed day. The following illustrations and tables clearly show these changes.

Illustration 10

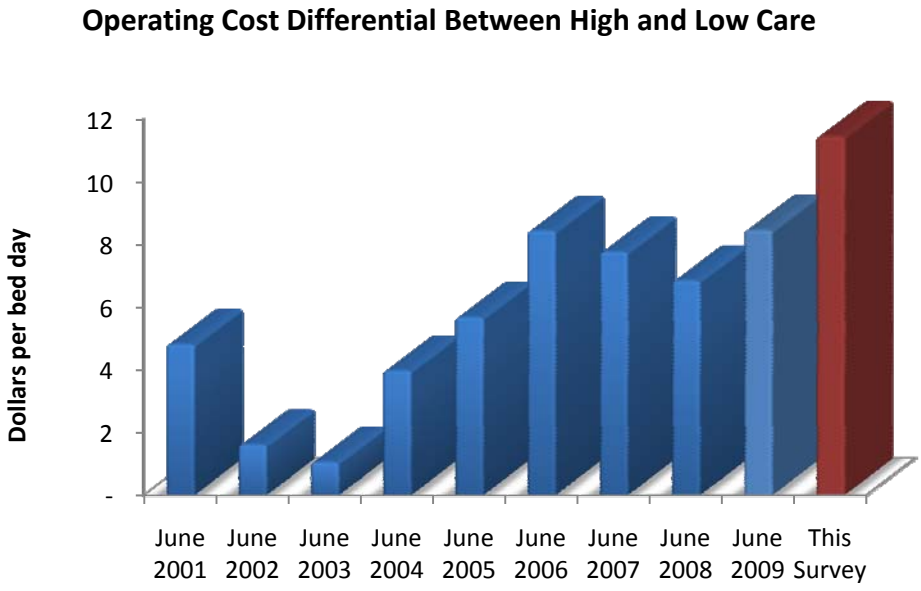


Table 2	Bands 1 & 2	Bands 3 to 5	Difference This Survey	Difference June 2009
Surplus after Care Costs	**66.11**	**57.27**	**8.84**	**4.74**
Other Operating Costs				
Catering	21.80	19.57	2.23	1.93
Cleaning	7.11	5.52	1.59	0.99
Laundry	3.91	2.52	1.39	1.79
Property & maintenance	11.27	10.25	1.02	0.15
Utilities	4.56	4.33	0.23	0.22
Administration	23.06	18.08	4.98	3.37
Total	**71.71**	**60.27**	**11.44**	**8.45**

Two of the main areas of expense that contribute to this difference are catering and administration expenses but there are also significant differences in the other expense areas as well. The movements in all these non-care expenses are shown in the graphs below.

Illustration 11

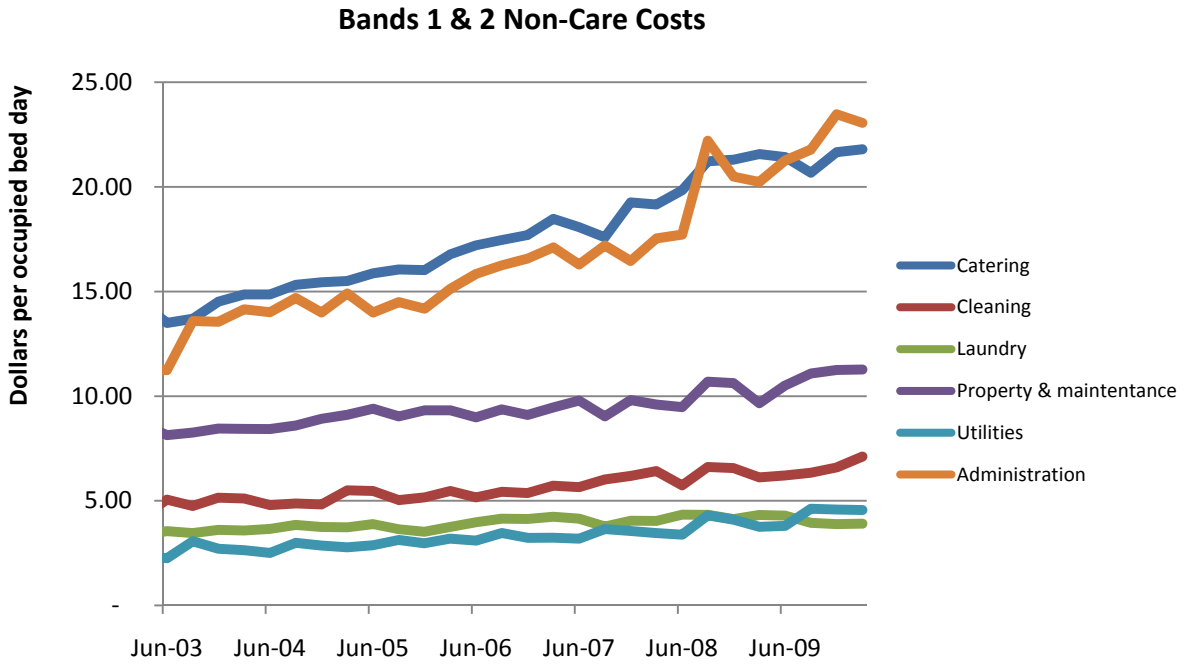
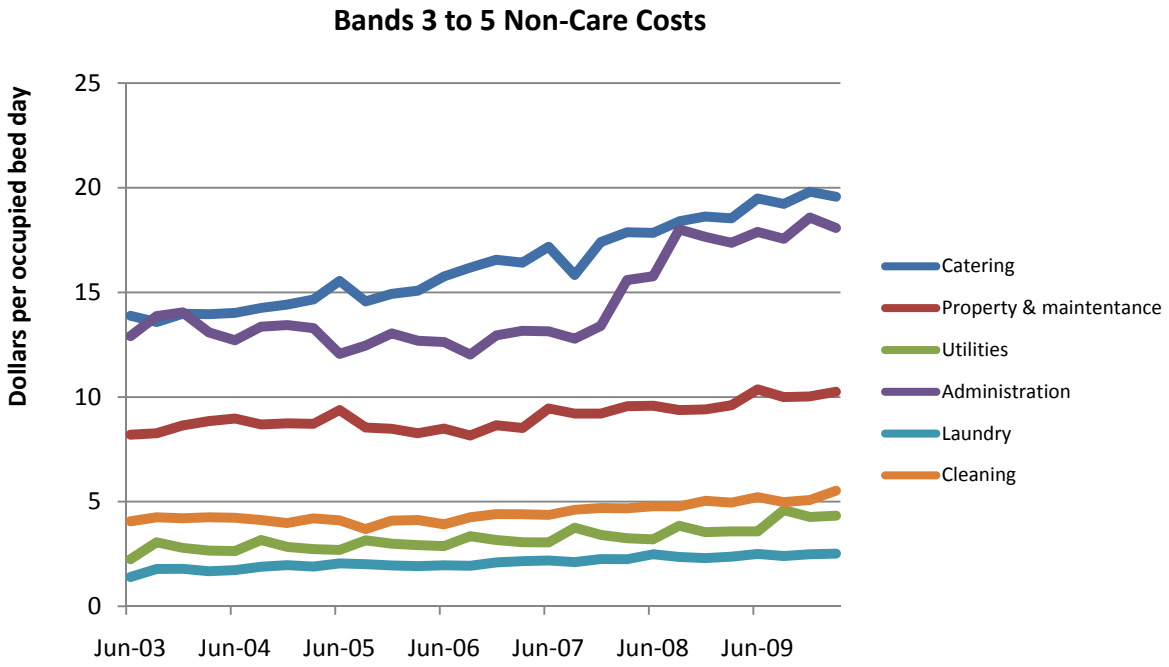


Illustration 12



Administration Costs

The two graphs on pages 16 and 17 show the increases in catering and administration costs over time. With regard to the differential between administration costs in High Care and Low Care, this is mainly due to differences in administration charges and wage costs. Table 3 breaks this cost item down into its individual components to highlight which item contributes more than the others to the total difference.

Table 3	*Bands 1 & 2*	*Bands 3 to 5*	*Difference This Survey*	*Difference June 2009*
Administration Costs				
Administration charges	11.43	8.67	2.76	2.07
Staff costs (direct)	6.24	5.71	0.53	0.66
Workers compensation (non-care wages)	1.43	0.82	0.61	0.26
Other administration costs	3.96	2.98	1.08	0.38
Total	**23.06**	**18.08**	**4.98**	**3.37**

One of the items that may be impacting on these administration costs is the additional cost of computer systems including licence fees, maintenance charges and the amortisation of software and infrastructure costs. In the administration survey that we conducted in 2009 we found that a significant number of participants had implemented one or more computer systems to assist with the administrative burden and to help with linking clinical and financial systems including linking with Medicare for the purpose of subsidy claiming. Of course, most of the initial costs of these systems would have been capitalised but the ongoing costs associated with them would now be impacting on the profit and loss account.

Utility Costs

As observed earlier in this report, we have seen a significant and sustained rise in utility costs over the past two years. As shown in the table below, there has been a 20% increase in total utility costs since June 2009 across all the facilities in the survey. Whilst the increases in electricity costs lead the way, there have also been increases in the other areas as well. Interestingly, while there was a large increase in the cost of rates between the 2008 and 2009 years, there has been no such rise in the current financial year (refer to illustration 16 on page 23).

Table 4	Electricity		Gas		Rates		Rubbish Removal		Total Utility Costs	
	This Survey	June 2009	This Survey	June 2009	This Survey	June 2009	This Survey	June 2009	This Survey	June 2009
Band 1	2.34	1.86	0.65	0.63	0.60	0.60	0.60	0.55	4.19	3.64
Band 2	3.10	2.32	0.64	0.64	0.60	0.63	0.51	0.49	4.85	4.08
Band 3	2.68	2.15	0.65	0.56	0.70	0.65	0.50	0.39	4.53	3.75
Band 4	2.55	1.98	0.58	0.53	0.62	0.58	0.47	0.39	4.22	3.48
Band 5	2.42	1.76	0.59	0.49	0.68	0.56	0.39	0.49	4.09	3.31
All Facilities	2.66	2.03	0.62	0.57	0.64	0.61	0.50	0.44	4.42	3.65
% Change	31.0%		8.8%		4.9%		13.6%		21.1%	

On each of the following graphs, we have included a comparison to a CPI adjusted amount based on the costs at June 2004. While the costs have generally risen at a rate slightly above this CPI adjusted amount there has been a significant departure from this amount in the 2009 and current financial years. These trends are likely to show us a glimpse of the future. Building design, the use of alternative energy sources and the storage of rainwater will become increasingly important to ensure that these costs can be managed effectively. It may also cause providers to re-examine the case for expenditure on things like solar panels that may have been too expensive to justify in the past.

Illustration 13

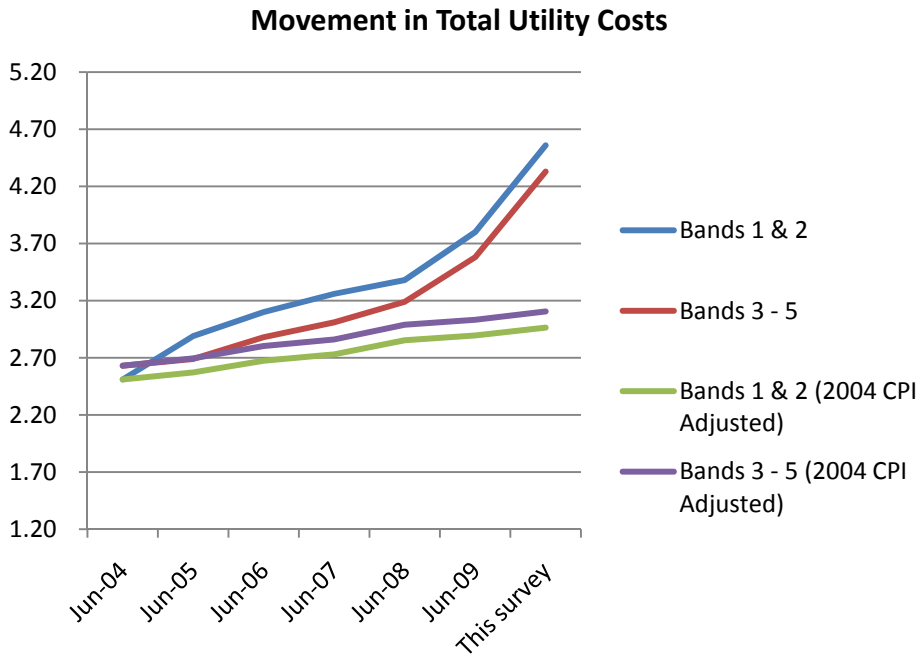


Illustration 13

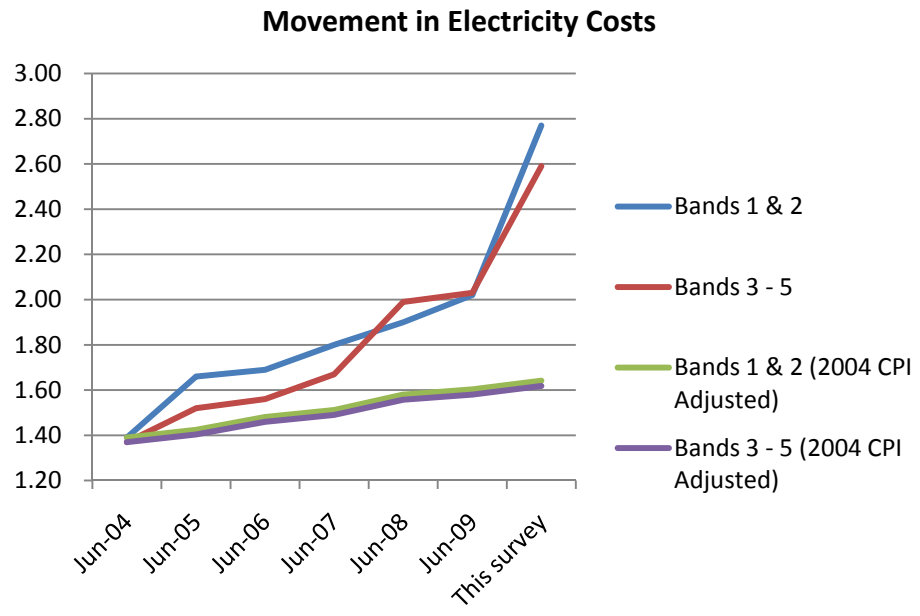
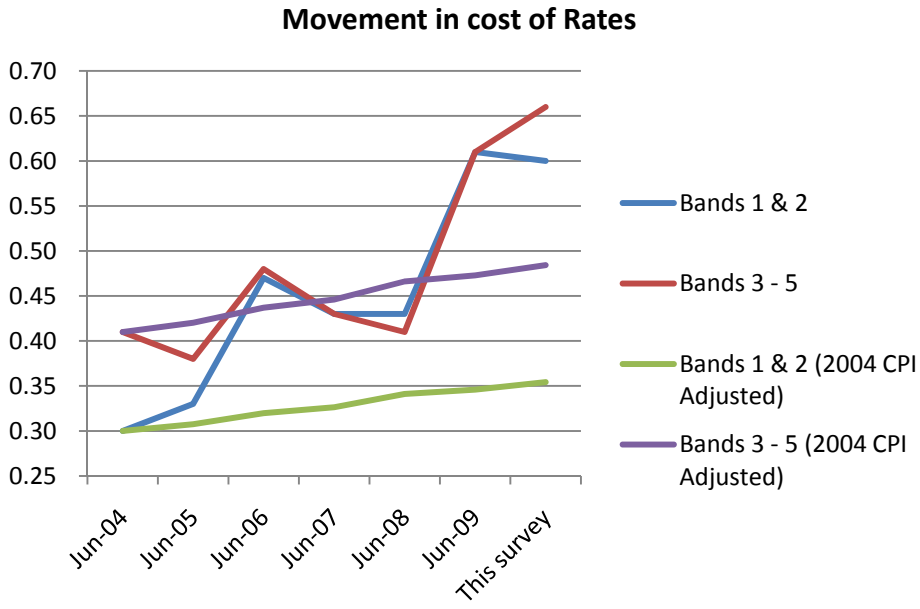


Illustration 14



These graphs show that the total utility costs have increased at an accelerated rate during the 2009 and current financial years. During the 2009 year it was largely the increase in rates that had the biggest impact and in the current financial year it is the rise in electricity costs. This March survey continues to show these sustained increases in utilities. In the past these costs were often thought of as fixed and not "manageable". It is becoming increasingly clear that managers will need to start managing these costs as well as those that have traditionally been within their purview.

We have received a number of enquiries on whether we might look at gathering information on utility usage statistics such as actual Kwh's used, volume of trade waste disposal. Before we try and gather this type of information we would like to gauge the level of interest among participants. We will be sending a communication out to you all to establish whether there is sufficient interest in this information and whether participants will be able to provide us with the information necessary without too much trouble.

Analysis of Highs and Lows

As has been the case in previous surveys there is a significant gap in operating results between the top and bottom facilities. The gap for facilities in Bands 1 & 2 is now $19.06 per bed day which is similar to the difference registered in the June 2009 financial year. Later in this report we look at these gaps in a lot more detail.

While income differences contribute a small amount to the overall difference, the largest contributing factor is the differences in costs, with the non-care costs contributing the largest share.

Table 5 – Bands 1 & 2 Benchmarks Comparison of results of various groups of facilities for the 9 months ended 31 March 2010.	**Survey Average**	**BENCHMARK Top 25% Average**	**Difference Between Benchmark and Survey Average**
(Total 135 facilities in survey)			
Care Income	**177.86**	**179.34**	**1.48**
Care Costs	**111.75**	**103.24**	**8.51**
Care costs as % of income	*62.83%*	*57.57%*	
Operational Costs			
Catering	21.80	20.03	1.77
Cleaning	7.11	6.23	0.88
Laundry	3.91	3.36	0.55
Property & maintenance	11.27	9.59	1.68
Utilities	4.56	4.12	0.44
Administration	23.06	20.20	2.86
Total Operational costs	**71.71**	**63.53**	**8.18**
Total Costs	183.46	166.77	16.69
Net Operating Result	**($ 5.60)**	**12.57**	**18.17**
Average Number of beds	*74*	*73*	
Average Occupancy rate	*95.23%*	*96.93%*	
Total Facility Result	$ 2.86	$ 18.35	*15.49*
EBITDA per bed per annum	$ 4,599	$ 10,426	5,827
Funded Facility Result pbpa	$ 4,000	$ 10,255	6,255
June 2009 Operating Result	($ 9.68)	$ 8.76	$ 18.44
June 2008 Operating Result	($ 7.08)	$ 12.32	$ 19.40
June 2007 Operating Result	($ 9.81)	$ 5.99	$ 15.80

Whilst there is a minor difference in income levels, the majority of the difference is attributable to different cost profiles. Unlike High Care facilities, where the differential in costs was weighted towards non-care costs, the major difference in Low Care is attributable to care costs.

Table 6 – Bands 3 to 5 Benchmarks Comparison of results of various groups of facilities for the 9 months ended 31 March 2010.	**Survey Average**	**BENCHMARK Top 25% Average**	**Difference Between Benchmark and Survey Average**
(Total 244 facilities in survey)			
Care Income	**125.61**	**124.85**	**(0.76)**
Care Costs	**68.34**	**49.19**	**19.15**
Care costs as % of income	*54.41%*	*39.40%*	
Operational Costs			
Catering	19.57	19.18	0.39
Cleaning	5.52	4.53	0.99
Laundry	2.52	1.97	0.55
Property & maintenance	10.25	9.50	0.75
Utilities	4.33	3.95	0.38
Administration	18.08	16.73	1.35
Total Operational costs	**60.27**	**55.86**	**4.41**
Total Costs	128.61	105.05	23.56
Net Operating Result	**($ 3.00)**	**19.80**	**22.80**
Average Number of beds	*72*	*61*	
Average Occupancy rate	*94.33%*	*94.83%*	
Total Facility Result	*$ 5.41*	*$ 25.41*	*19.70*
EBITDA per bed per annum	$ 4,595	$ 12,317	7,722
Funded Facility Result pbpa	$ 4,292	$ 12,034	7,742
June 2009 Operating Result	($ 5.97)	$ 14.39	20.36
June 2008 Operating Result	($ 2.02)	$ 14.86	16.88
June 2007 Operating Result	($ 0.01)	$ 15.81	15.82

The gap between the survey average and benchmark group for low-care facilities continues to rise. It is now $22.80 per bed day compared with $20.36 for the year to June 2009 and $16.88 at June 2008. The gap in the Total Facility Result is now $18.95 per bed day compared to $15.62 at June 2009 and $13.95 per bed day at June 2008.

EBITDA has also changed. The gap is now $7,722 per bed per annum compared to $6,769 for the 2009 year and $5,350 for the 2008 year. For a typical 70 bed facility this represents a difference of over $540K per annum at the EBITDA and Funded Facility Result level. These are big sums to make up from alternative sources of income, if indeed it is being made up. It would require around $8.3M invested in at an average rate of 6% per annum to make up that in interest income. It is also money that cannot be expected to be funded totally through government subsidies. Some of this gap will need to be bridged through savings or better management by the providers.

Analysis by Income Band

The following analysis relates to the data when sorted into narrower income Bands and should be more relevant to users than the broader analysis by High Care and Low Care. These Bands can be more closely targeted to the individual circumstances for each facility being benchmarked.

The following tables display this data in two ways. Table 7 contains data for the average of income Band. Table 8 contains the data for the Top 25% of facilities in each income Band.

Table 7 – Analysis by Income Band Extracts from Stewart, Brown & Co aged care financial survey for the 9 months ended 31 March 2010.	***Operating Income***				
	Band 1 ***$***	***Band 2*** ***$***	***Band 3*** ***$***	***Band 4*** ***$***	***Band 5*** ***$***
Total of 379 Facilities					
Income	**190.62**	**168.11**	**143.36**	**116.72**	**98.24**
Care Costs	**120.03**	**105.40**	**83.54**	**59.35**	**49.19**
Care costs as % of income	*62.97%*	*62.70%*	*58.27%*	*50.85%*	*50.07%*
Operational Costs					
Catering	22.03	21.64	20.23	18.62	20.42
Cleaning	7.17	7.07	5.93	5.39	4.64
Laundry	4.54	3.43	2.69	2.22	2.04
Property & maintenance	10.58	11.80	10.82	9.85	9.73
Utilities	4.19	4.85	4.53	4.22	4.09
Administration	23.72	22.56	19.34	17.51	15.91
Total Operational costs	**72.23**	**71.35**	**63.54**	**57.81**	**56.83**
Total Costs	192.26	176.75	147.08	117.16	106.02
Net Operating Result	**($ 1.64)**	**($ 8.64)**	**($ 3.72)**	**($ 0.44)**	**($ 7.78)**
Total Facility Result	$ 7.40	($ 0.65)	$ 3.86	$ 7.40	$ 4.90
EBITDA per bed per annum	**$ 6,092**	**$ 3,444**	**$ 4,329**	**$ 5,537**	**$ 2,818**
EBITDA per bed per annum 2009	$ 1,829	$ 741	$ 1,957	$ 4,036	$ 2,307
EBITDA per bed per annum 2008	$ 4,039	$ 2,658	$ 4,812	$ 4,705	$ 3,005
EBITDA per bed per annum 2007	$ 1,508	$ 2,522	$ 4,237	$ 5,495	$ 4,608
Funded Facility Result pbpa	**$ 5,453**	**$ 2,881**	**$ 4,059**	**$ 5,320**	**$ 2,156**
Funded Facility Result pbpa 2009	$ 1,313	$ 292	$ 1,445	$ 3,592	$ 2,045
Funded Facility Result pbpa 2008	$ 3,212	$ 2,117	$ 4,636	$ 4,139	$ 2,300
Funded Facility Result pbpa 2007	$ 971	$ 1,580	$ 2,741	$ 4,000	$ 3,639
Net Operating Result	**($ 1.64)**	**($ 8.64)**	**($ 3.72)**	**($ 0.44)**	**($ 7.78)**
Net Operating Result – June 2009	($ 9.35)	($ 10.26)	($ 8.49)	($ 3.02)	($ 6.27)
Net Operating Result – June 2008	($ 5.80)	($ 8.78)	$ 0.48	($ 1.91)	($ 5.81)
Net Operating Result – June 2007	($ 9.53)	($ 10.22)	($ 1.55)	($ 0.10)	$ 1.33

Table 7 (above) shows us that the average operating result for each group of facilities is an operating loss. Illustration 15 on page 24 also shows us that the average operating result for all groups has shown some level of improvement since the June 2009 financial year. Table 7 also contains data on the EBITDA and Funded Facility Result (FFR). For each of these measures the table displays improvement in this survey compared to the June 2009 year and preceding periods.

Table 8 – Analysis by Income Band Extracts from Stewart, Brown & Co aged care financial survey for the 9 months ended 31 March 2010.	***Operating Income – Top 25% of facilities in each Group***				
	Band 1 $	***Band 2 $***	***Band 3 $***	***Band 4 $***	***Band 5 $***
Total of 96 Facilities					
Income	**191.18**	**164.97**	**141.83**	**116.12**	**99.29**
Care Costs	**113.15**	**90.29**	**61.06**	**41.02**	**37.26**
Care costs as % of income	*59.19%*	*54.73%*	*43.05%*	*35.33%*	*37.53%*
Operational Costs					
Catering	18.79	20.31	19.42	19.09	19.80
Cleaning	6.29	6.21	4.70	4.55	4.40
Laundry	3.69	2.66	1.90	2.06	1.67
Property & maintenance	8.51	11.55	10.71	8.55	8.60
Utilities	3.98	4.35	4.17	3.91	3.39
Administration	21.79	19.86	19.28	15.20	14.50
Total Operational costs	**63.05**	**64.94**	**60.18**	**53.36**	**52.36**
Total Costs	176.20	155.23	121.24	94.38	89.62
Net Operating Result	**$ 14.98**	**$ 9.74**	**$ 20.59**	**$ 21.74**	**$ 9.67**
Total Facility Result	$ 22.08	$ 15.56	$ 25.58	$ 26.99	$ 17.74
EBITDA per bed per annum	**$ 11,304**	**$ 10,327**	**$ 12,394**	**$ 13,187**	**$ 8,580**
EBITDA per bed per annum 2009	$ 8,122	$ 4,590	$ 7,705	$ 9,823	$ 6,364
EBITDA per bed per annum 2008	$ 9,912	$ 8,827	$ 9,629	$ 10,701	$ 7,821
EBITDA per bed per annum 2007	$ 4,701	$ 6,147	$ 8,056	$ 10,213	$ 8,329
Funded Facility Result pbpa	**$ 11,169**	**$ 9,618**	**$ 11,902**	**$ 13,053**	**$ 8,268**
Funded Facility Result pbpa 2009	$ 7,969	$ 4,355	$ 7,229	$ 9,575	$ 5,994
Funded Facility Result pbpa 2008	$ 8,767	$ 8,384	$ 9,366	$ 10,187	$ 7,307
Funded Facility Result pbpa 2007	$ 4,365	$ 5,464	$ 7,165	$ 9,756	$ 8,059
Net Operating Result	**$ 14.98**	**$ 9.74**	**$ 20.59**	**$ 21.74**	**$ 9.67**
Net Operating Result – June 2009	$ 11.57	$ 4.40	$ 10.21	$ 17.99	$ 8.36
Net Operating Result – June 2008	$ 12.71	$ 11.60	$ 19.71	$ 15.34	$ 10.96
Net Operating Result – June 2007	$ 5.35	$ 6.72	$ 14.59	$ 18.45	$ 14.52

Table 8 displays the same data for the top quartile for each income Band. As these tables show, there is a considerable gap between the operating results at the survey average and the results achieved by the benchmark group. The analysis that follows looks more closely at this gap between the groups.

BRIDGING THE GAP

Earlier in this report there was some analysis of the difference between the survey average and top quartile based on whether facilities were High Care or Low Care. In this analysis we will examine this gap between the two groups and endeavour to explain why the gap has widened.

The period that we have reviewed is from June 2007 up to and including this current survey. This covers the full financial year prior to the introduction of ACFI, the periods leading up to ACFI and those since its introduction.

Profitability

The profitability of the different bands has certainly changed over the past three years, though the trends in profitability have not been consistent across the various bands.

Illustration 15

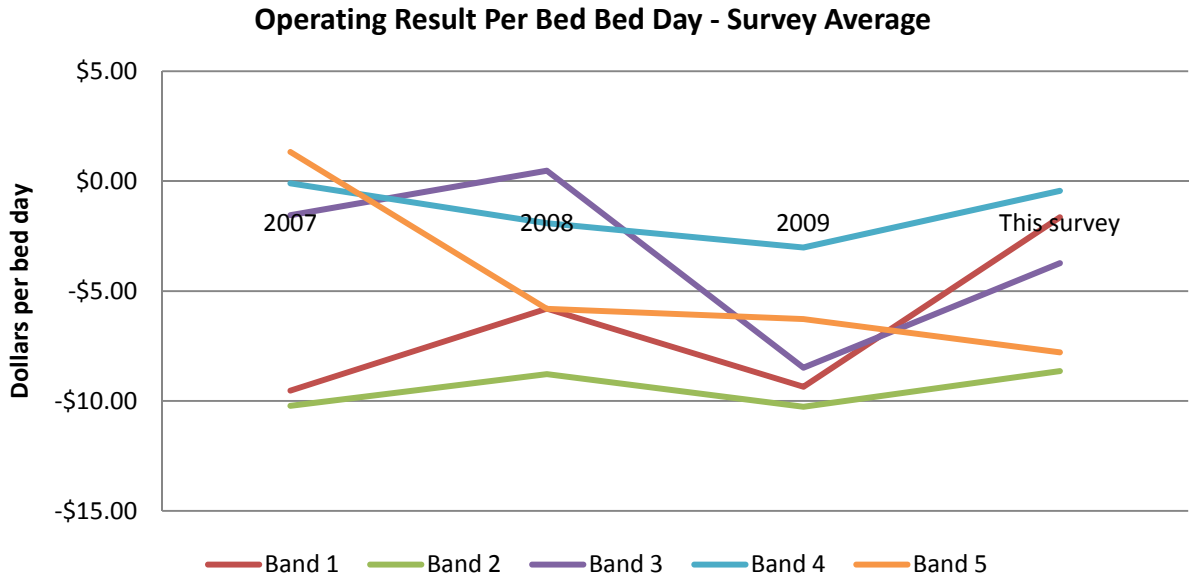
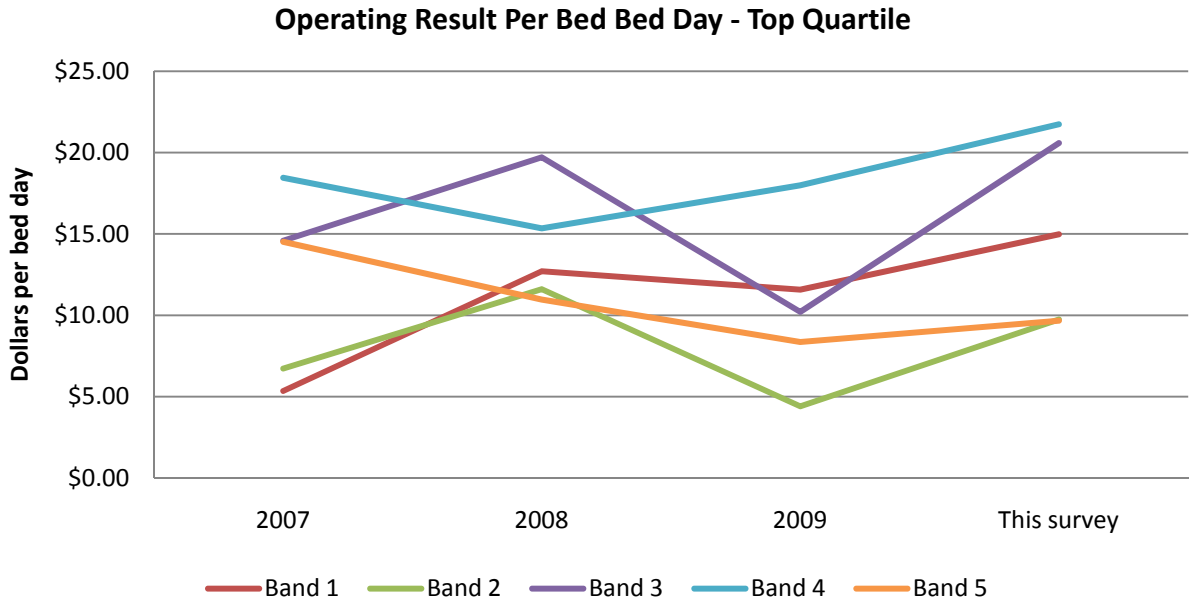


Illustration 16



There is not a great deal of difference in the trends for each band within the survey averages and the benchmark groups. The one exception to this is in Band 3. The survey average for Band 3 is worse than Bands 1 and 4. However, for the benchmark group it performs significantly better than Band 1 and is marginally below Band 4. For the benchmark group, the results are now better than what they were back in 2007. For the survey average the results are worse now compared to 2007.

There are a number of other interesting observations to make from these two graphs:

- In Band 4, the benchmark group appears to have recovered more quickly from a downward trend in results than did the survey average
- In Band 5, the benchmark group has seen a slight recovery of results in the current financial year whereas the survey average continues to decline for the same group
- In Band 1, both the survey average and the benchmark group are better off now than in 2007. Interestingly. this trend started prior to the introduction of ACFI
- For the benchmark groups, only those facilities in Band 5 are, on average, worse off in the current survey compared to 2007. Similarly, facilities in the Band 2 benchmark group are marginally worse off than they were in 2008 when ACFI was introduced however if current trends continue, they are likely to be back on par or better off by the end of this financial year
- In contrast, for the survey average, only Bands 1 and 2 are better off than in 2007 (and Band 2 only marginally so).

The gap between the benchmark groups and the rest

The following graph illustrates the change in the gap between the survey average result and the benchmark result over time for each band.

Illustration 17

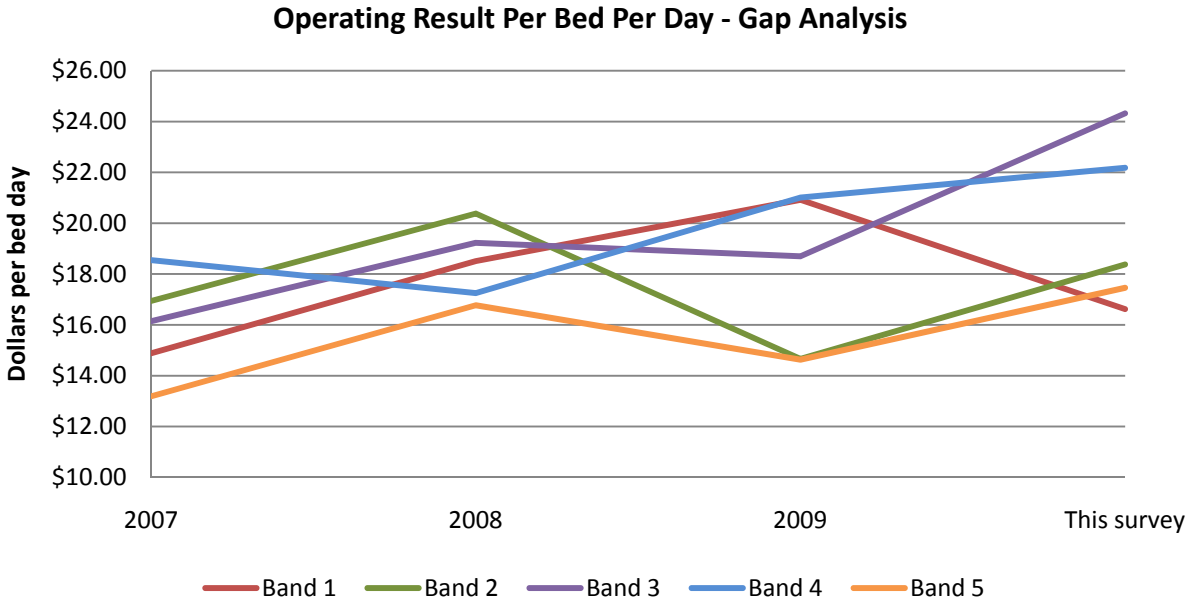


Table 9	Band 1 $ pbd	Band 2 $ pbd	Band 3 $ pbd	Band 4 $ pbd	Band 5 $ pbd
Gap in result at 31 March 3010	16.62	18.38	24.32	22.18	17.46
Difference in gap between results this survey compared to June 2007	1.74	1.44	8.18	3.63	4.27

As highlighted by the previous graph and accompanying table, the gap between the benchmark group and the survey average is higher now for all bands than what it was at June 2007. The worrying aspect of this is that, with the exception of those facilities in Band 1, the trend over this current financial year is for the gaps to be widening.

While the gap is greater now than in 2007 for each band, the amount by which the gap has increased varies significantly across the various bands. At the High Care end of the spectrum the change is not as pronounced. In contrast, Band 3 facilities have seen the gap widen by $8.18 per bed day over the three years. This group would typically represent a purpose-built ageing in place facility or a former Low Care facility that has adopted an ageing in place philosophy and now has a large proportion of High Care residents. The change in the gap in results for facilities in Bands 4 and 5 has also increased by a significant amount.

The widening gap for Band 3 is expected given the previous graphs showing that the recovery in results for this group has been at a much faster rate for the benchmark group than by the survey average. In fact, as previously pointed out, with the exception of Band 5, the average results for the other bands have all shown improvement during the current financial year. Unfortunately they have not improved by as much as their counterparts in the benchmark groups, or have not recovered enough to wipe out the large gaps incurred prior to this year.

Income and Care costs

The amount that is expended on care costs and the relationship of this to the income earned remains the predominant influence on profitability. Based on the survey averages, those facilities with a majority or significant numbers of High Care residents have seen the ratio of care costs to income decrease since 2007. For those facilities in Band 4 the ratio has remained relatively constant. For those in Band 5, which typically would be a Low Care facility with very few, if any, High Care residents, the care cost to income ratio has increased during these past three years. This is an indication that ACFI has done what it was meant to do and that is shift funding from Low Care to High Care.

These decreases in the care cost to income ratio have been on the back of keeping rises in care costs to a minimum and income levels increasing. We have seen over a similar period the mix in staff hours change with the ratio of other nursing to registered nursing hours go from 4:1 in 2007 for an average High Care facility to 5.3:1 in this survey. In Low Care there has not been as much room to move because the base amount of registered nurse hours was already low. Despite this the ratio has changed from 7.8:1 to 8.9:1 over that same three year period.

Illustration 18

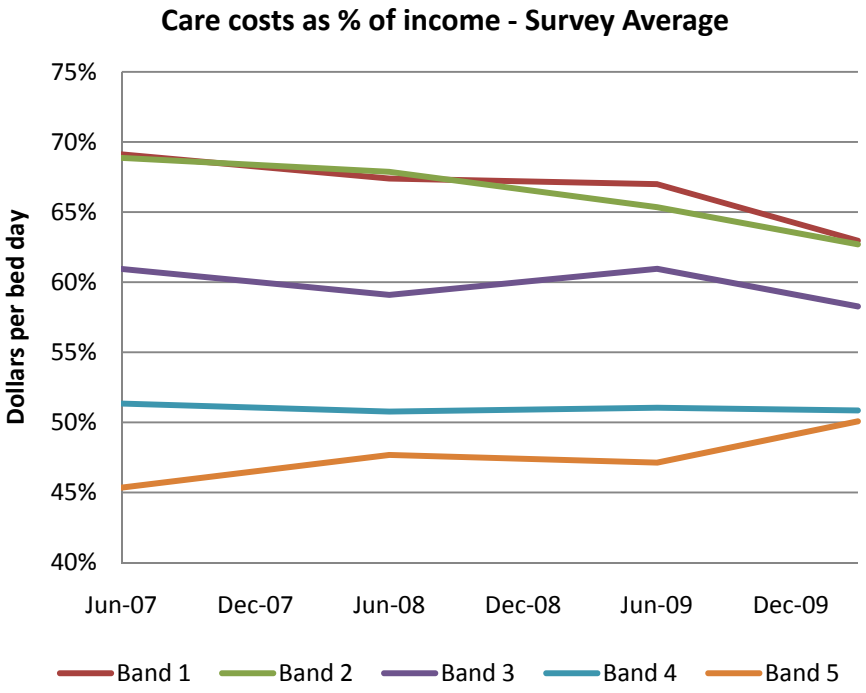
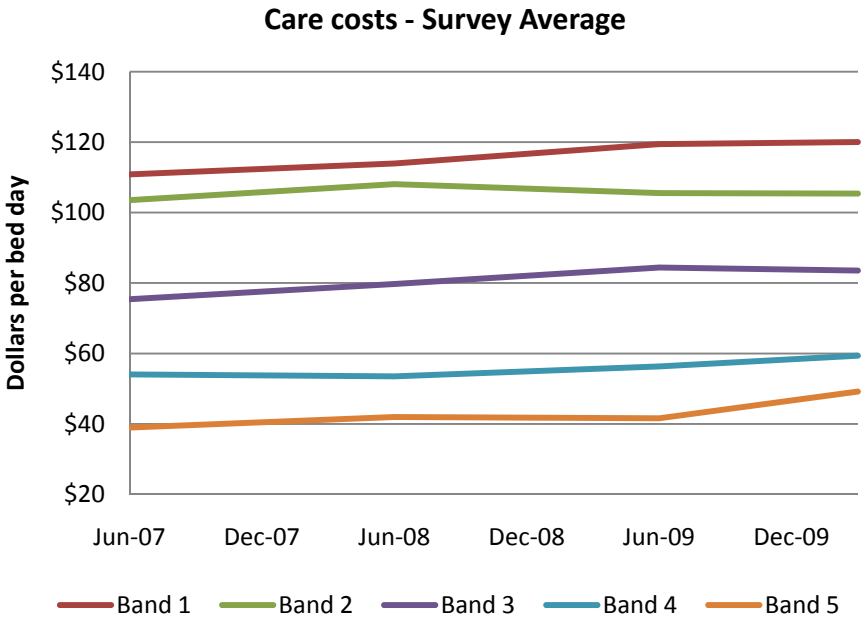
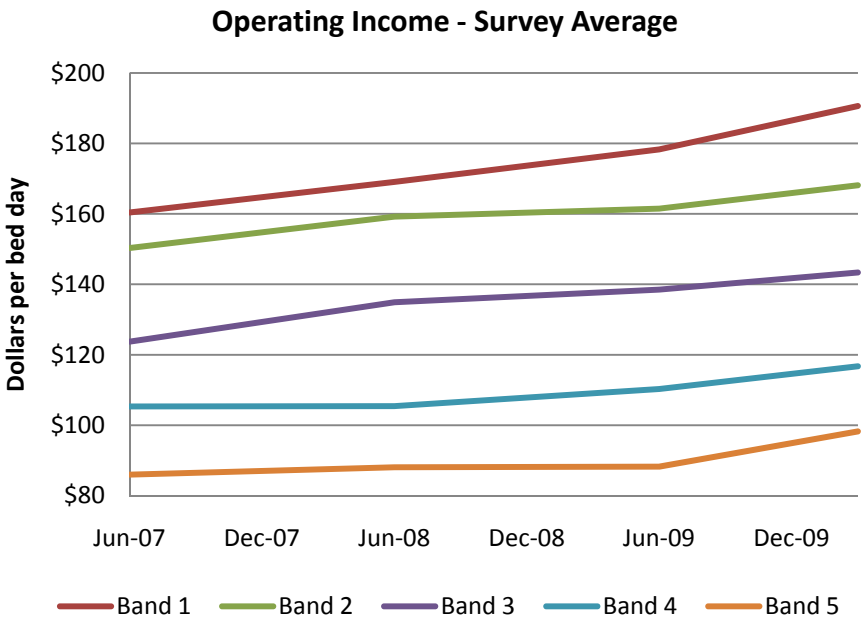


Illustration 19



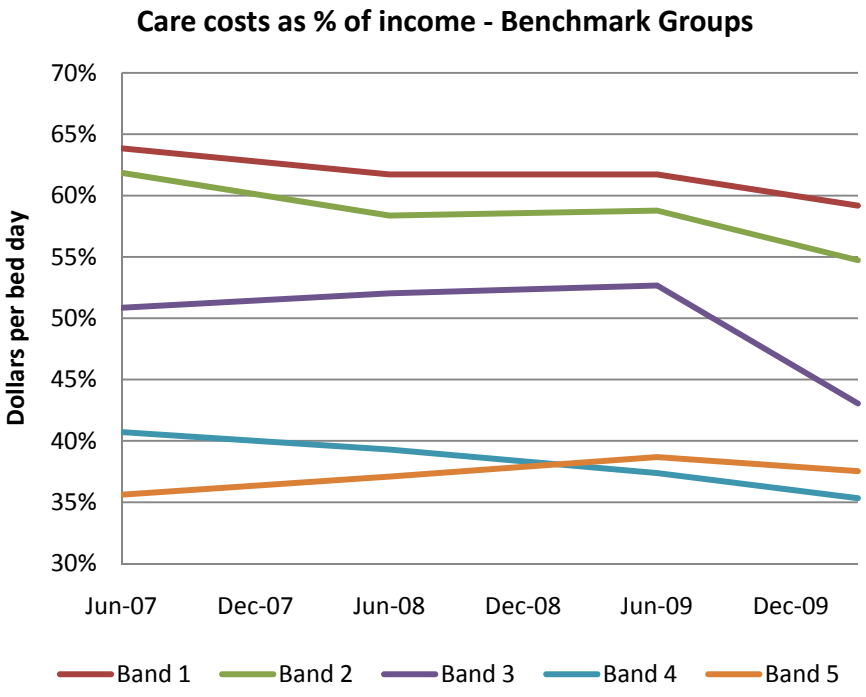
As the graphs above and below show, in raw dollar terms, the increases in income for those High Care bands have been in excess of the increases in care costs. For this reason the care cost to income ratio has decreased. This has been mainly as a result of the relaxing of the ACFI capping rather than increases in subsidy rates.

Illustration 20



When we look at the care cost to income ratio of the facilities in each of the benchmark groups a similar picture is portrayed to that of the survey average. The main difference is that Band 4 facilities have also seen their care cost to income ratio decline and the increase in the ratio for Band 5 facilities is not as pronounced as it was for the survey average.

Illustration 21



The interesting aspect is to look at the movement in the gap in this ratio between the survey average and the benchmark groups.

Illustration 23

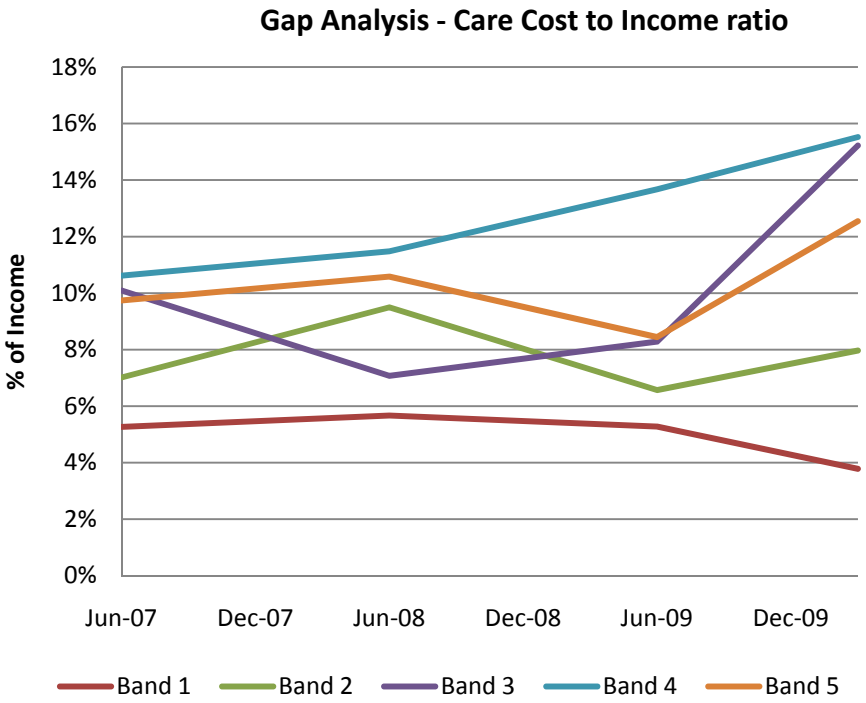
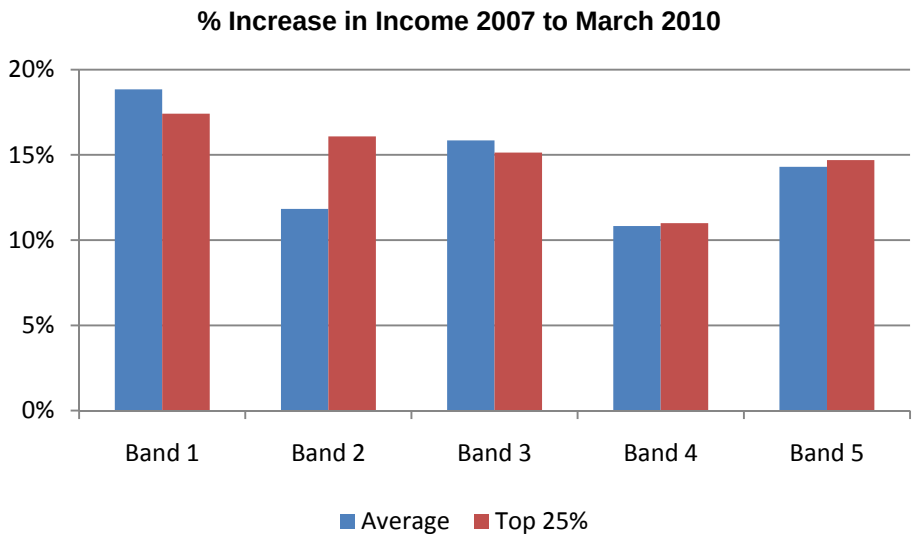


Table 10	Band 1	Band 2	Band 3	Band 4	Band 5
Difference in gap between care cost to income ratio this survey compared to June 2007	(1.5%)	1.0%	5.1%	4.9%	2.8%

Earlier we highlighted the fact that the gap in operating results has widened for all bands in the past three years. Now we are looking to identify the factors contributing to that gap widening. The previous graph and the table above shows that in the case of Band 1, the gap in the care cost to income ratio has actually narrowed over the past three years by 1.5%. So for these facilities the care cost to income ratio is not the reason for the gap in profitability widening.

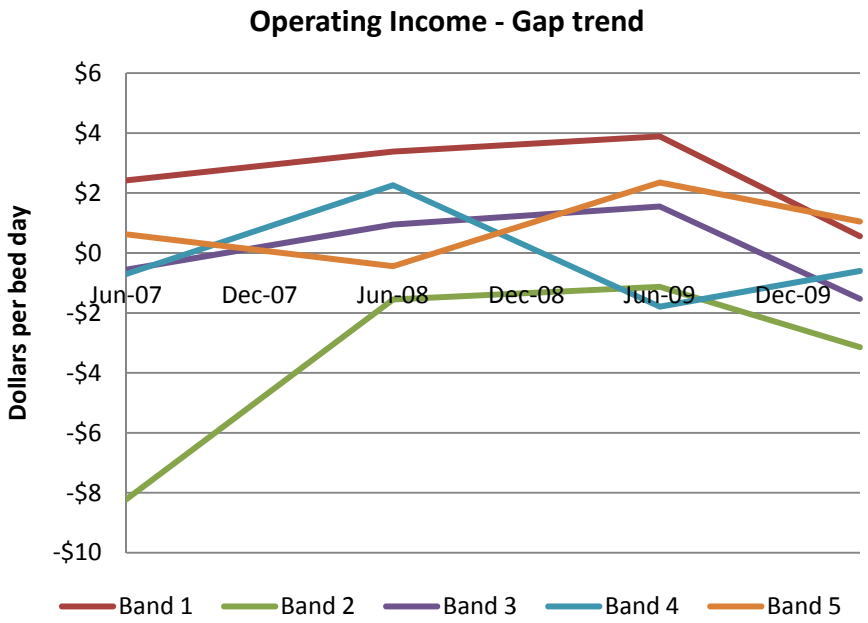
For the facilities in Bands 2 to 5 the movement in the care cost to income ratio has been a contributing factor to the widening gap. In the case of Bands 3 and 4 it has been a significant factor. This tells us that the facilities in the benchmark group have managed processes better than those outside this group. However, there are variations on this theme across the various bands. For some changes in income levels has been the main contributing factor, for others it has been care costs and for the rest it has been a combination of the two.

Illustration 24



Band 2 facilities
This group has seen both the survey average and the benchmark group benefit from a reduction in the care cost to income ratio. Despite this, the gap in results has widened as has the gap in care cost to income ratio. The graph above shows that for Band 2 facilities the rate of income increase by the benchmark group is significantly more than the survey average for that group. The main reason for this is that the benchmark is coming off a lower base income than the survey average. The benchmark group has actually closed the gap between its average income levels and that of the survey average. Care cost to income ratio has widened predominantly because of increased income levels for the benchmark group and maintaining care cost increases to a minimum.

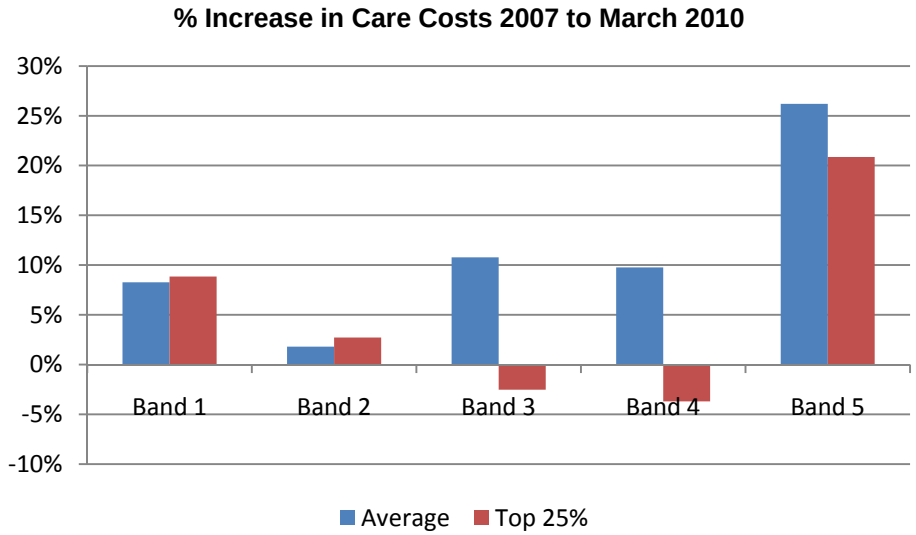
Illustration 25



Band 3 facilities
The facilities in this group have seen the largest increase in the gap in operating results between the benchmark group and survey average. Similarly, the gap in the care cost to income ratio has also widened significantly (factor of 5.1%). In the case of this group it has not been the increases in income that has caused this gap to widen. Rather it is the care costs themselves. The benchmark group has actually reduced their level of care costs by 2.52% over the three year period. In contrast, care costs for the survey average have increased by 10.78%.

Band 4 Facilities
This is a similar story to that of the Band 3 group. The gap in the care cost to income ratio has widened by a factor of 4.9% and this has been a result of rising care costs in the survey average against declining care costs in the benchmark group.

Illustration 26



Band 5 facilities
The analysis for this group is similar to Band 2. The gap in care costs has only risen by a moderate amount. The contributing factors have been a moderate increase in the income gap and a moderate increase in the care cost gap.

Other Costs

The other contributing factor to profitability is the way other operating costs are managed, in particular hotel services and administration costs. Our analysis to date has shown that the gap in operating results for Band 1 facilities has widened and this was not as a result of the movement in the care cost to income ratio. In fact for this group, the gap in the care cost to income ratio has narrowed. As the graph and table below shows, for this group of facilities, there has been a widening of the gap in other costs for these facilities. Over the three years this gap has widened by $3.62 per bed day. This has more than offset the savings made by reducing the care cost to income ratio for this group.

Illustration 27

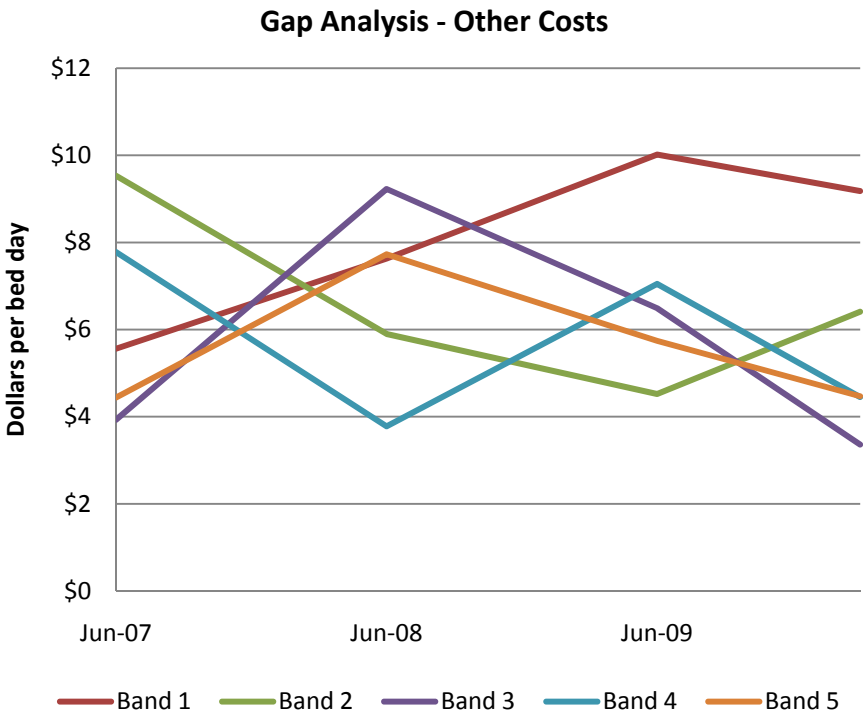
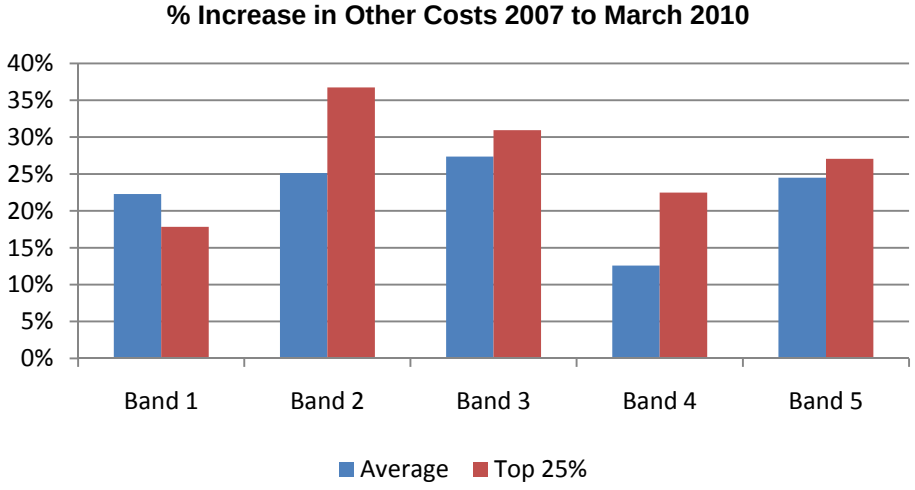


Table 11	Band 1 $	Band 2 $	Band 3 $	Band 4 $	Band 5 $
Difference in gap between other cost this survey compared to June 2007	3.62	(3.12)	(0.57)	(3.33)	0.03

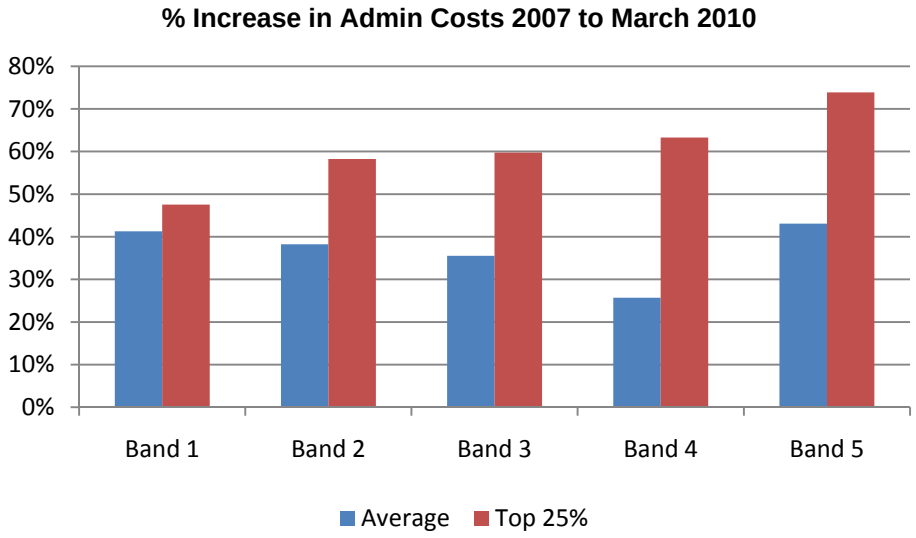
For Bands 2 through 4, there has been a reduction in the gap between the survey average and the benchmark group. The graph below clearly shows the rate of increase in the other operating costs of the survey average has been less than that of the benchmark group although for Band 5 it is only marginally so.

Illustration 28



There are numerous costs under this other cost category including catering, cleaning, laundry, utilities and maintenance. However, one of the major contributors to this contrasting rate of cost increase has been for administration costs. As the graph below shows, the rate of increase in administration costs for the benchmark group has been much higher than for the survey average. For Band 1 it is only marginally so but for the other bands there is a significant difference in rates of increase over the period. This is certainly one of the main reasons why the overall change in results has not been as great as it might have been for these groups based upon the influence of the care cost to income ratio alone. That is not to say that there still does not exist a gap between the survey average and the benchmark group. This gap remains and it is a significant one (refer table).

Illustration 29



Summary

We have learnt a number of things from this analysis. The first is that there is not a simple answer to the question "Why do the benchmark groups do better than the others?"

Band 1 – the gap between the operating results has increased by $1.74 per bed day since 2007. There are opposing forces at work here. Across the survey average the gap in the care cost to income ratio has improved at a faster rate than that of the benchmark group. The fact that this ratio has improved for both groups is also worth noting. In contrast, other costs have been increasing at a faster rate for the survey average compared to the benchmark group. This has more than offset any savings made in care costs.

Band 2 – this group has seen all facilities on average have a reduction in the care cost to income ratio. Unfortunately the rate of decrease has been greater for the benchmark group compared to the survey average and the gap in this ratio has widened marginally. To compensate for this there have been reductions in the gap for other costs, including administration costs. The net change in the gap in results was $1.44 per bed day.

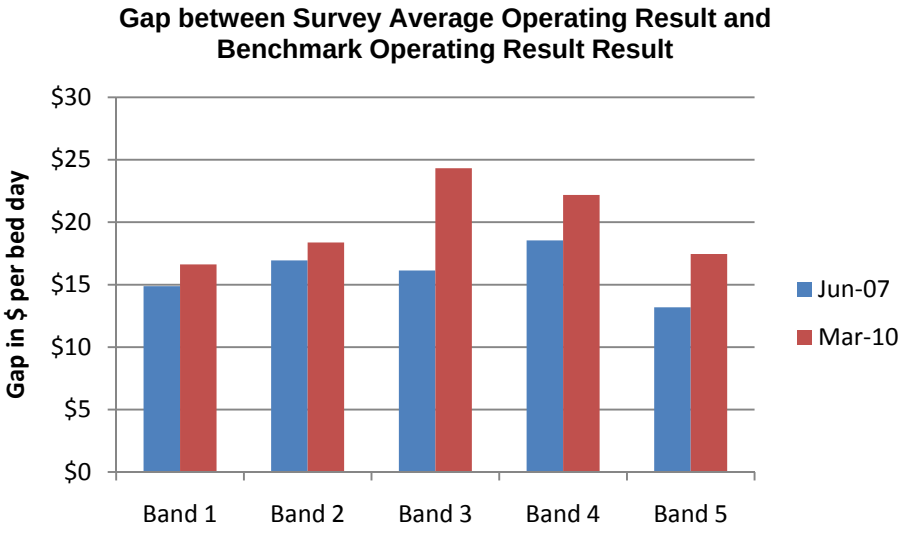
Bands 3 and 4 – the story for these groups of facilities is similar. The facilities in these groups have seen the largest increase in the gap in operating results between the benchmark group and survey average. Similarly, the gap in the care cost to income ratio has also widened significantly (factors of

5.1% and 4.9% respectively). In the case of these groups it has not been the rate of increase in income that has caused this gap to widen. Rather it is the care costs themselves. The benchmark groups have actually reduced their level of care costs by 2.52% and 3.71% respectively over the three year period. In contrast, care costs for the survey average have increased by 10.78% and 9.77% respectively.

Band 5 - The gap in care costs has only risen by a moderate amount. This has been caused by a combination of both a moderate increase in the income gap and a moderate increase in the care cost gap.

The unfortunate factor is that the gap in operating results between the survey average and the benchmark groups in each of these bands has widened over this three year period. The other unfortunate factor is that this gap is significant, as the graph below shows. Until these gaps can be bridged, large numbers of residential aged care facilities will continue to incur operating losses.

Illustration 30

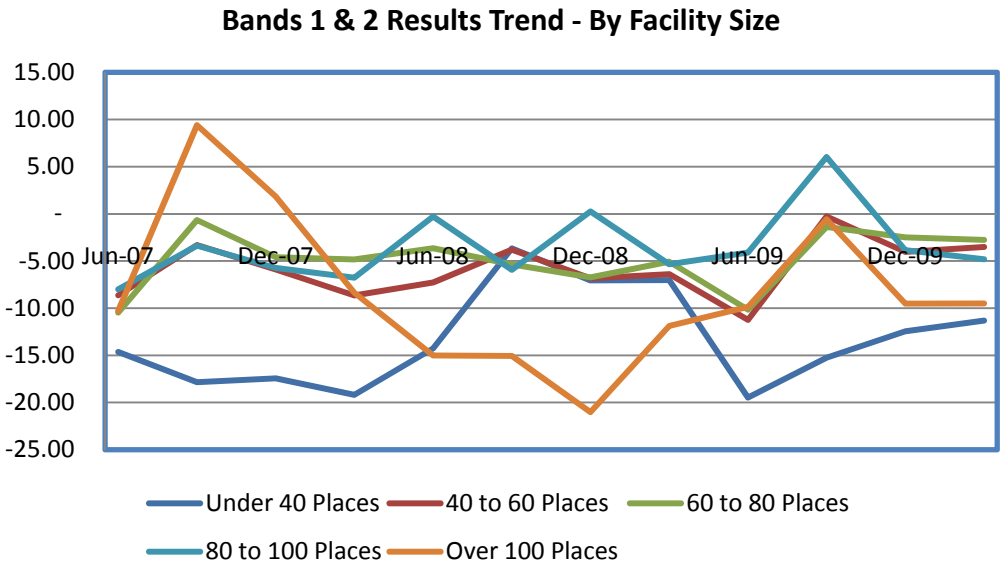


ANALYSIS BY SIZE

Anecdotally, the size of a facility would appear to play some part in how likely it is to make a profit. However, the actual results are mixed, as illustrated in the tables and graphs on the following pages.

Table 12 – Analysis by Size Extracts from Stewart, Brown & Co aged care financial survey for the 9 months ended 31 March 2010.	***Bands 1 & 2 Facility Size***				
	0 to 40 Places $	***40 to 60 Places $***	***60 to 80 Places $***	***80 to 100 Places $***	***Over 100 Places $***
Total of 135 Facilities					
Income	**179.91**	**182.33**	**178.99**	**181.74**	**171.10**
Care Costs	**121.27**	**113.15**	**110.36**	**118.12**	**107.06**
Care costs as % of income	*67.41%*	*62.06%*	*61.66%*	*64.99%*	*52.57%*
Operational Costs					
Catering	21.64	21.42	20.68	22.45	23.05
Cleaning	9.15	7.14	6.73	6.92	7.21
Laundry	4.81	4.10	3.72	3.80	3.89
Property & maintenance	9.31	11.25	11.30	10.17	12.23
Utilities	4.67	4.65	4.71	4.15	4.55
Administration	20.38	24.14	24.27	20.94	22.62
Total Operational costs	**69.96**	**72.70**	**71.41**	**68.43**	**73.55**
Total Costs	191.23	185.85	181.77	186.55	180.61
Net Operating Result	**($ 11.32)**	**($ 3.52)**	**($ 2.78)**	**($ 4.81)**	**($ 9.51)**
Total Facility Result	**($ 1.78)**	**$ 7.41**	**$ 6.18**	**$ 2.21**	**($ 2.82)**
Net Operating Result – June 2009	($ 19.47)	($ 11.24)	($ 10.16)	($ 4.10)	($ 9.88)
Net Operating Result – June 2008	($ 14.26)	($ 7.28)	($ 3.65)	($ 0.29)	($ 15.01)
Net Operating Result – June 2007	($ 14.64)	($ 8.63)	($ 10.46)	($ 8.01)	($ 10.28)

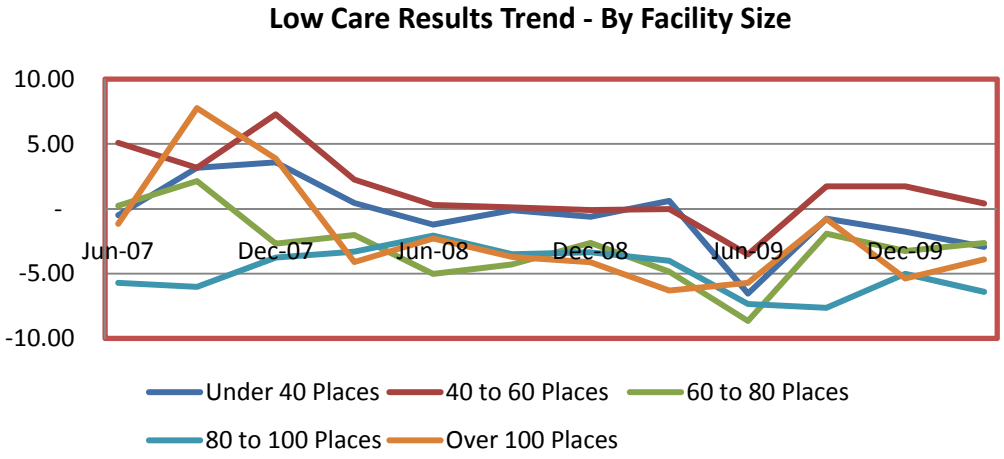
Illustration 31



Not surprisingly given the overall results of the survey, and the stabilisation of results, there has been little change in the results by size of facility since the December survey. For the past few surveys the results of Band 1 & 2 groups with between 40 and 80 beds have been converging. This group has shown significant improvement during the latter half of this financial year and it is now performing better on average than it was at the same time in 2008. The group with between 80 and 100 places continues to perform best on average. The groups of facilities with less than 40 places and more than 100 places continue to perform worse than the others on average.

Table 13 – Analysis by Size Extracts from Stewart, Brown & Co aged care financial survey for the 9 months ended 31 March 2010.	***Low Care Facility Size***				
	0 to 40 Places $	***40 to 60 Places $***	***60 to 80 Places $***	***80 to 100 Places $***	***Over 100 Places $***
Total of 244 Facilities					
Income	**122.32**	**118.99**	**124.90**	**122.17**	**131.98**
Care Costs	**64.56**	**59.06**	**66.67**	**67.16**	**76.18**
Care costs as % of income	*52.78%*	*49.63%*	*53.38%*	*54.97%*	*57.72%*
Operational Costs					
Catering	17.39	18.68	19.39	19.89	20.59
Cleaning	6.16	5.38	5.33	5.50	5.54
Laundry	1.90	2.23	2.48	2.37	2.59
Property & maintenance	11.05	10.73	11.00	10.33	9.44
Utilities	4.64	4.27	4.60	4.12	4.28
Administration	19.54	18.22	18.06	19.21	17.28
Total Operational costs	**60.68**	**59.51**	**60.86**	**61.42**	**59.72**
Total Costs	125.24	118.57	127.53	128.58	135.90
Net Operating Result	**($ 2.92)**	**$ 0.42**	**($ 2.63)**	**($ 6.41)**	**($ 3.92)**
Total Facility Result	**$ 8.94**	**$ 9.14**	**$ 8.85**	**$ 3.00**	**$ 1.90**
Net Operating Result – June 2009	($ 6.54)	($ 3.53)	($ 8.65)	($ 7.32)	($ 5.72)
Net Operating Result – June 2008	($ 1.22)	$ 0.29	($ 5.02)	($ 2.07)	($ 2.30)
Net Operating Result – June 2007	($ 0.50)	$ 5.08	$ 0.23	($ 5.72)	($ 1.16)

Illustration 32



After a time when the results of most groups were converging, there has been some fragmentation of results in the past two survey periods. The results of those facilities with less than 60 places remain significantly better on average than the other groups.

WAGE HOURS AND COST ANALYSIS

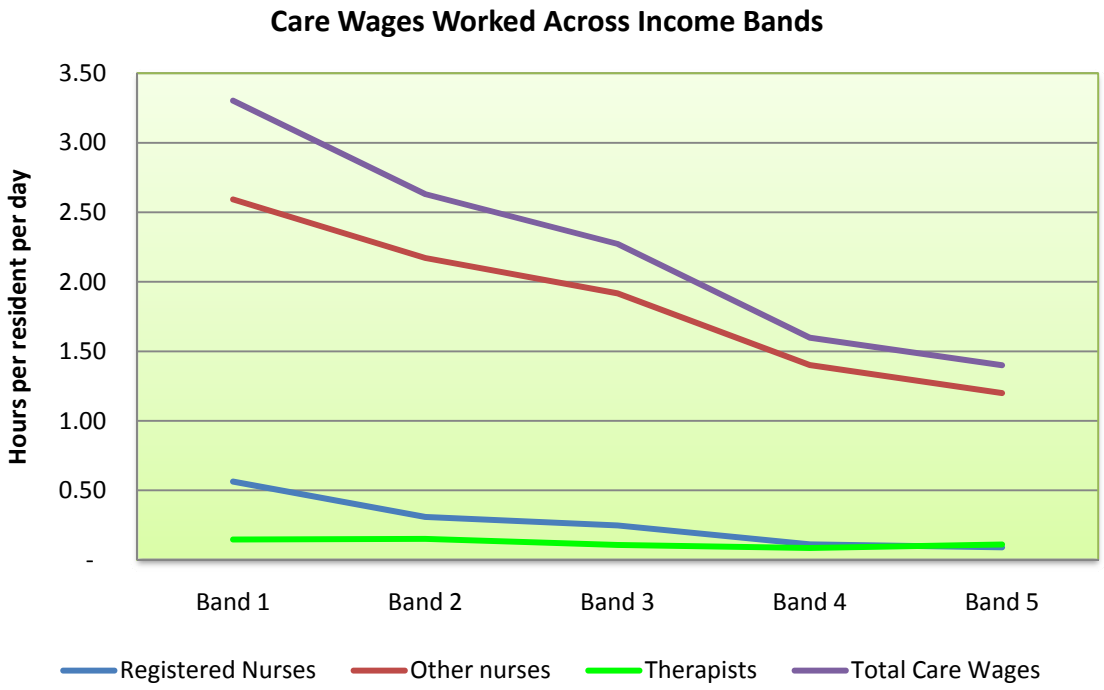
The following tables show the breakdown of hours per resident per day for the various staff categories. Table 15 provides the same information across the various income Bands.

Table 14	Bands 1 & 2 Average	Bands 1 & 2 TOP 25%	Bands 3 to 5 Average	Bands 3 to 5 TOP 25%
Registered Nurses	0.46	0.48	0.19	0.05
Other care staff	2.43	2.23	1.69	1.30
Therapists	0.15	0.12	0.10	0.12
Total care Hours	3.04	2.82	1.98	1.46
Hotel services	0.67	0.57	0.52	0.45
Maintenance	0.06	0.06	0.07	0.05
Administration	0.16	0.14	0.15	0.11
Total Hours	3.93	3.59	2.72	2.06

Table 15	*Band 1*	*Band 2*	*Band 3*	*Band 4*	*Band 5*
Registered Nurses	0.56	0.31	0.25	0.11	0.09
Other care staff	2.59	2.17	1.92	1.40	1.20
Therapists	0.15	0.15	0.11	0.09	0.11
Total care Hours	3.30	2.63	2.27	1.60	1.40
Hotel services	0.66	0.68	0.57	0.45	0.54
Maintenance	0.06	0.06	0.06	0.08	0.08
Administration	0.18	0.15	0.15	0.15	0.15
Total Hours	4.20	3.52	3.05	2.27	2.16

Table 15 and Illustration 33 (over page) show what might be expected given the financial data provided earlier in this report. As we move across the Bands from High Care to Low Care there is a reduction in total care hours as well as a change in the mix of hours between registered nurses and other care staff.

Illustration 33



In the past, registered nursing hours remained relatively constant through Bands 1 & 2 and then began to decline. In this survey period we have observed something different. Registered nursing hours decline at a steady rate throughout the Bands until income Band 4 at which point they flatten out and remain relatively constant through the last Band. There is obviously a base level of RN hours that must be, or is being maintained. The registered nursing hours have shown a similar pattern to other nursing hours in this survey period.

Illustration 34

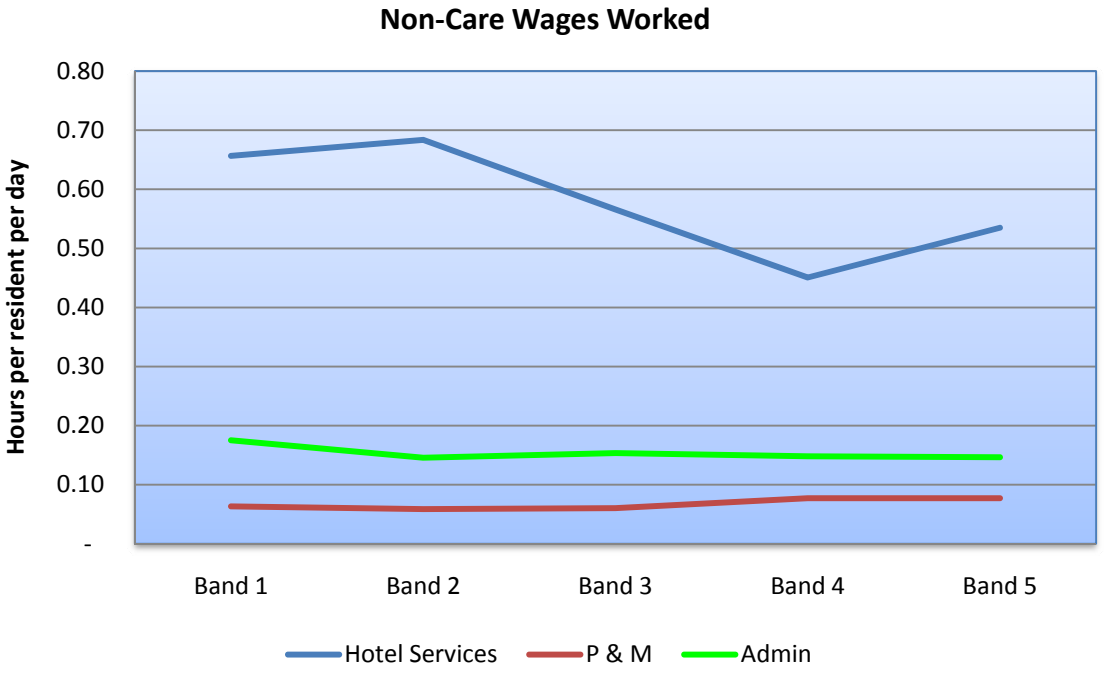


Illustration 35

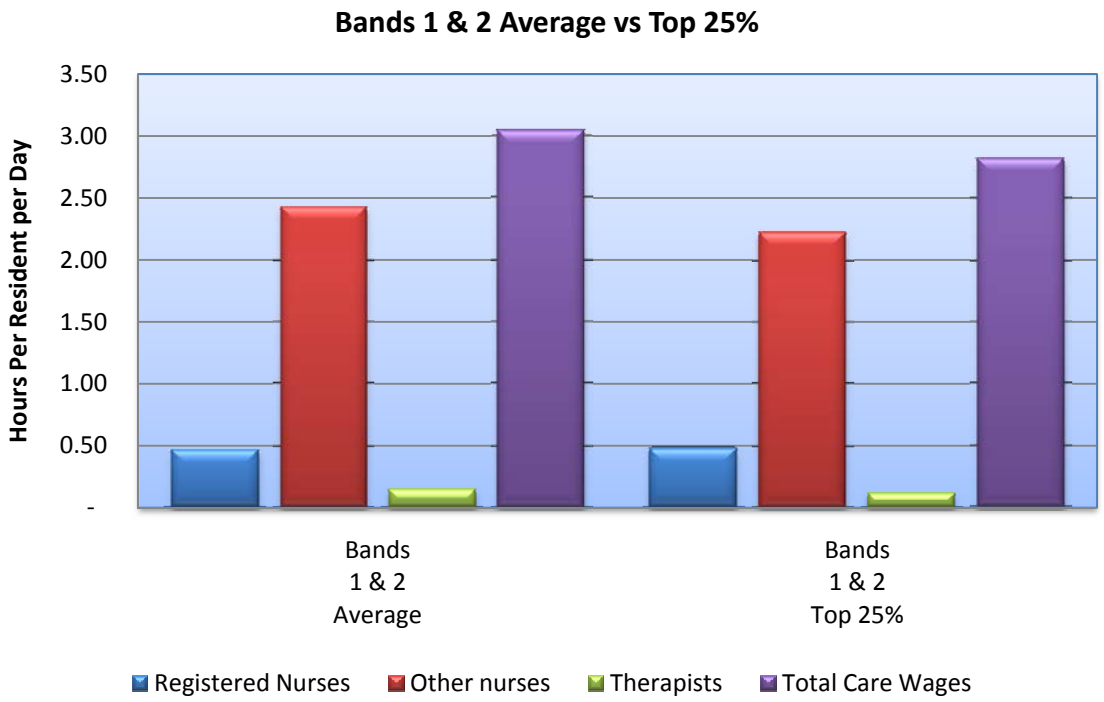
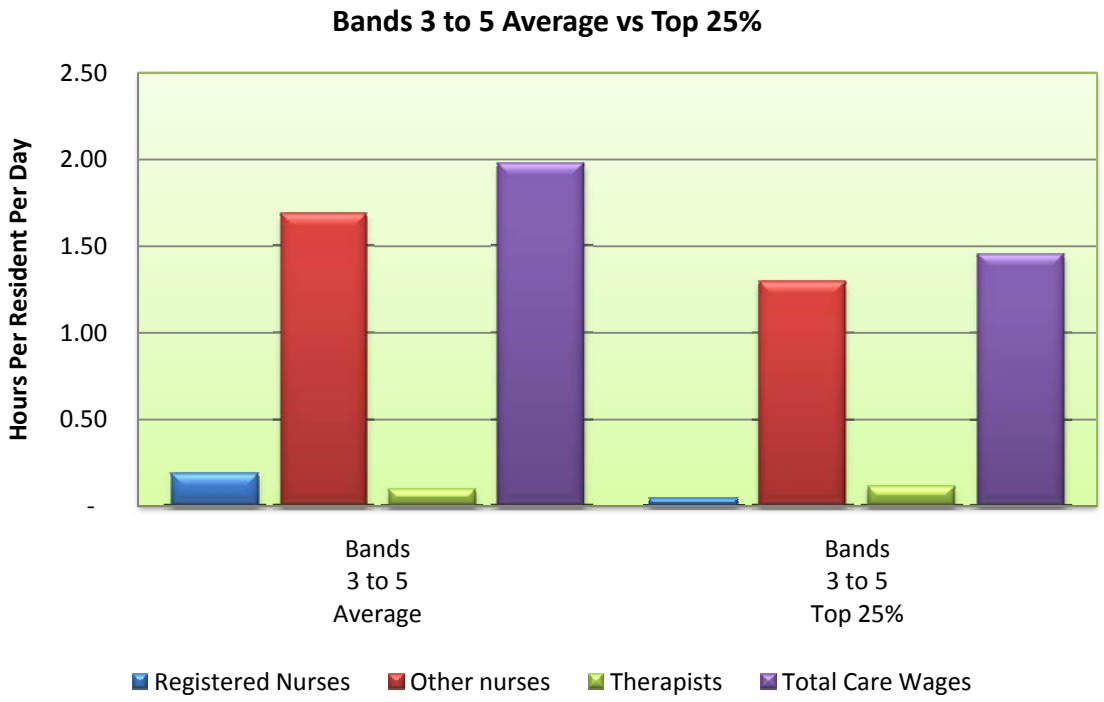


Illustration 36



Once again there appears to be a discernable difference between the amount of staff employed across all facilities compared to the Top 25% group of facilities. The two exceptions are the Registered Nursing hours in High Care and therapy hours at all levels.

Table 16 displays further data on wage hours and costs. Significantly, the average hourly cost of registered nurses in High Care facilities is almost exactly the same as it was for the 2009 financial year. The overall cost of care staff has actually declined. This could be partly due to the continued reduction in registered nursing hours employed as a proportion of total nursing hours. This ratio is now 5.3:1 in High Care compared to 3:1 back in 2006. A similar situation has occurred in Low Care facilities. The ratio of other nursing hours to registered nursing hours is now 8.9:1 compared with 8.1:1 in the June 2009 survey. The ratio was 7:1 back in 2007.

Table 16 – WAGE DATA	**SURVEY AVERAGE**					
	JUNE 2006	**JUNE 2007**	**JUNE 2008**	**JUNE 2009**	**LAST SURVEY**	**THIS SURVEY**
Bands 1 & 2						
Other Care staff to Registered Nurse ratio	**3:1**	**4:1**	**4.5:1**	**4.4:1**	**5:1**	**5.3:1**
Average hourly cost (all wages paid)	$	$	$	$	$	$
Registered nurses	41.42	41.77	43.33	45.16	45.17	46.22
Other care/nursing staff	26.65	24.73	25.52	28.01	26.51	25.99
Therapists	26.11	20.79	21.90	21.27	25.33	23.38
Total all care staff (ave hourly cost)	**29.76**	**27.89**	**28.46**	**30.73**	**29.46**	**28.92**
Hotel Services		21.51	19.42	23.90	22.93	21.36
Maintenance		24.62	20.52	24.76	24.25	23.83
Administration		29.87	28.92	30.77	31.83	31.56
Total – All staff (ave hourly cost)		**26.97**	**26.90**	**29.65**	**28.46**	**27.59**
Agency staff hrs as % of total hrs paid (where facility uses agency staff)						
Registered nurses	7.08%	5.44%	7.03%	9.15%	11.15%	7.45%
Other nursing/care staff	3.76%	4.23%	3.67%	5.98%	4.33%	2.94%
Overtime hours as % of total hours paid						
Registered nurses	0.94%	0.97%	0.83%	0.96%	1.05%	0.84%
Other nursing/care staff	0.98%	0.91%	0.88%	1.18%	0.86%	0.77%
Bands 3 to 5						
Other Care staff to Registered Nurse ratio		**7:1**	**7.8:1**	**8.1:1**	**9.3:1**	**8.9:1**
Average hourly cost (all wages paid)	$	$	$	$	$	$
Registered nurses		37.12	42.27	43.41	43.01	44.68
Other care/nursing staff		24.46	24.75	26.42	25.60	26.65
Therapists		20.27	22.09	22.64	26.31	25.74
Total all care staff (ave hourly cost)	**28.20**	**25.72**	**26.58**	**28.06**	**27.29**	**28.38**
Hotel Services		22.00	21.67	23.00	23.30	22.88
Maintenance		24.95	17.91	22.10	23.73	22.35
Administration		26.89	30.88	29.64	33.64	32.90
Total – All staff (ave hourly cost)		**25.13**	**25.80**	**27.09**	**26.84**	**27.43**
Agency staff hrs as % of total hrs paid (where facility uses agency staff)						
Registered nurses	8.83%	9.47%	7.77%	6.30%	9.94%	7.48%
Other nursing/care staff	2.68%	3.99%	4.20%	4.43%	3.33%	2.69%
Overtime hours as % of total hours paid						
Registered nurses	N/A	0.76%	1.00%	1.48%	1.02%	0.94%
Other nursing/care staff	N/A	1.25%	1.38%	1.81%	1.04%	1.55%

Of course the concern with these cost-cutting measures with respect to wages and staff hours is that it will eventually have an impact on the level of care provided to residents. There is certainly evidence, as provided in the analysis performed in this survey, that there are real cuts in care wage costs and that this is being done across all levels of residential care facilities.

HOTEL SERVICES

Hotel Services is the name used to describe those support services of catering, cleaning and laundry. The table below shows the averages for these cost areas analysed on the basis of whether the service has been contracted to a third party or provided in-house. A third party contractor includes, for example, the situation of a central kitchen supplying a number of facilities within an organisation.

Table 17 Extracts from Stewart, Brown & Co aged care financial survey for the 9 months ended 31 March 2010. All amounts shown are measured in Dollars Per Bed Day.	***High Care Facilities***			***Low Care Facilities***	
	Contracted ***$***	***In-House*** ***$***		***Contracted*** ***$***	***In-House*** ***$***
	41 facilities	*94 facilities*		*76 facilities*	*168 facilities*
Catering					
Staff Costs	6.48	13.28		5.12	11.61
Consumables	1.07	8.25		0.91	7.83
Contract catering	15.74	0.01		14.33	(0.03)
Income from sale of meals	(0.09)	(0.38)		(0.12)	(0.24)
	23.20	21.16		20.24	19.18
30 June 2009	23.16	20.22		19.75	19.29
30 June 2008	20.42	19.47		18.08	17.61
	44 facilities	*91 facilities*		*79 facilities*	*165 facilities*
Cleaning					
Staff costs	0.15	6.25		0.28	4.76
Consumables	1.15	1.16		0.79	0.94
Contract cleaning	4.98	0.08		3.94	0.09
	6.28	7.50		5.01	5.80
30 June 2009	5.76	6.49		5.10	5.29
30 June 2008	5.72	5.21		5.05	4.71
	60 facilities	*75 facilities*		*113 facilities*	*131 facilities*
Laundry					
Staff costs	1.02	2.74		0.47	1.73
Consumables	0.33	0.58		0.24	0.48
Contract laundry	3.45	(0.05)		1.90	0.02
	4.80	3.27		2.61	2.22
30 June 2009	5.06	3.39		2.64	2.30
30 June 2008	5.23	3.34		2.52	2.44

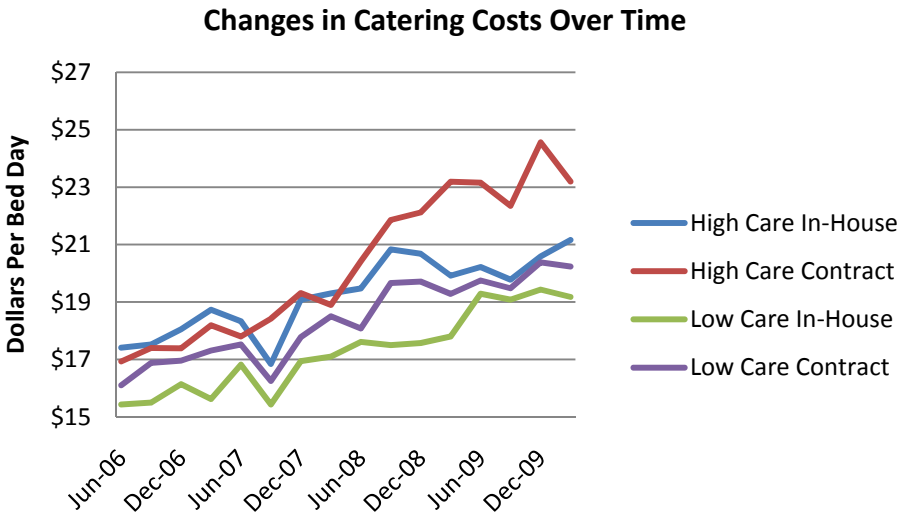
Catering

Catering costs continue to increase at a rate greater than many of the other costs associated with running an aged care facility. In fact the increases in catering costs have been one of the contributing factors to falling operating results. Using June 2006 as a base comparison, the CPI has increased by 9.85% to December 2009. In that same period catering costs have increased as follows:

Table 18	Rate of Increase
High care Contract	37.01%
High care In-house	21.55%
Low care Contract	25.69%
Low care In-house	24.28%

These increases in catering costs are further demonstrated by the graph below.

Illustration 37



Whilst the other catering categories have followed a similar pattern, the cost of contract catering in High Care has risen at a rate well above the others. It would appear to have come back somewhat in this latest survey period, though the cumulative increase in these costs are still well above those of the other catering categories.

Cleaning

The differences in costs for in-house and contract cleaning services remain marginal at best. This is an area where the decision is likely to be based on how to best manage this service rather than the cost involved.

Laundry

The contracted service remains the more expensive alternative in High Care. The difference is marginal in Low Care particularly if depreciation of equipment and energy costs were to be taken into consideration.

COMMUNITY CARE

Analysis of Community Aged Care Packages (CACP)

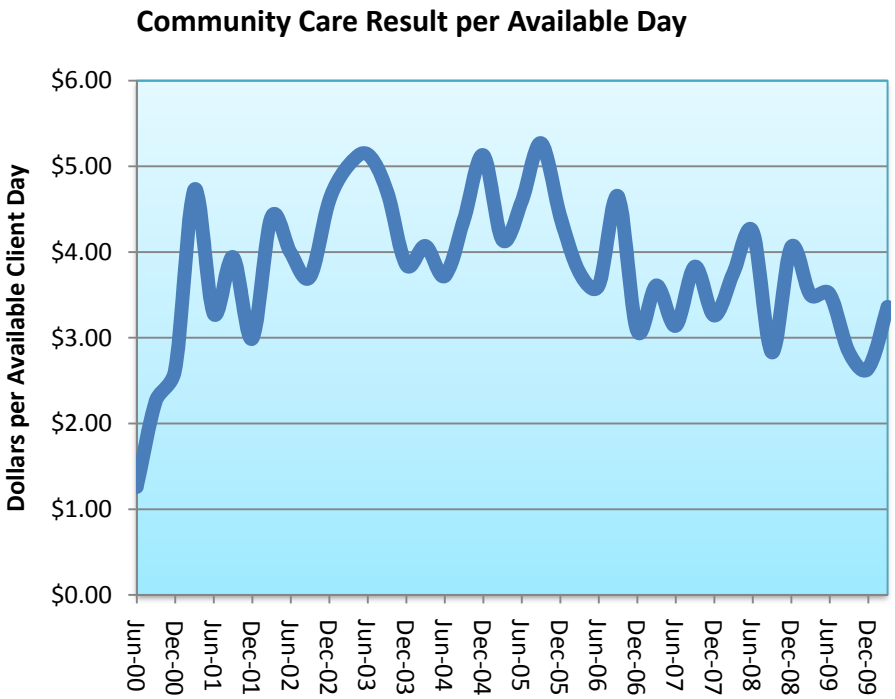
Table 19 Extracts from Stewart, Brown & Co aged care financial survey for the 9 months ended 31 March 2010. All amounts shown are measured in Dollars Per Available Client Day.	***Community Aged Care Packages***		
	9 Months Ended 31 March 2010 $	***Year Ended 30 June 2009 $***	***Change $***
Income	**39.96**	**42.49**	**(2.53)**
Expenditure			
Client Care Costs			
Staff Costs (care staff & coordinators incl. W/comp)	24.25	26.34	2.09
Care travel costs (incl MV expenses)	1.18	1.28	0.10
Other care costs	1.81	2.11	0.30
	27.24	29.73	2.49
Client Care costs as % of income	*68.17%*	*69.95%*	
Other Costs			
Operating costs	2.16	1.72	(0.44)
Administration	6.85	7.14	0.29
Depreciation – non building	0.35	0.38	0.03
Total Expenditure	36.61	38.97	2.36
Net Operating Result	**$ 3.36**	**$ 3.52**	**(0.16)**
Result as % of income	*8.40%*	*8.24%*	
Average Staff Hours per available package per week			
Client care staff	4.78	5.09	*(0.31)*
Coordinators/Case Managers	0.83	0.84	*(0.01)*
Administration	0.49	0.51	*(0.02)*
Total	**6.11**	**6.45**	*(0.33)*

The results for this period are only $0.16 per day worse than those for the 2009 financial year after some improvement in the current survey period. The main reason for this is that the reduction in care wage costs has almost matched the reduction in income. We will be looking at collecting information on actual days subsidised in future so that we can bring you better data taking into account utilisation of package numbers. Unfortunately the current data is based upon available client days so it is skewed by packages not being utilised. This can be seen by the income per available day being less this year to last year. This is due to new packages coming on board in the lead up to December and not being fully utilised. The extent to which this is happening is not known.

In future we would like to report on a similar basis to residential care where we use the actual utilised days as the base and report on the occupancy or utilisation factor.

One thing that is evident, however, is the gradual and sustained decline in operating results as displayed by illustration 28 (below). The EBITDA for CACP's is $1,154 per package per annum. This compares to $1,424 per package per annum for the 2009 financial year.

Illustration 38



Extended Aged Care at Home (EACH)

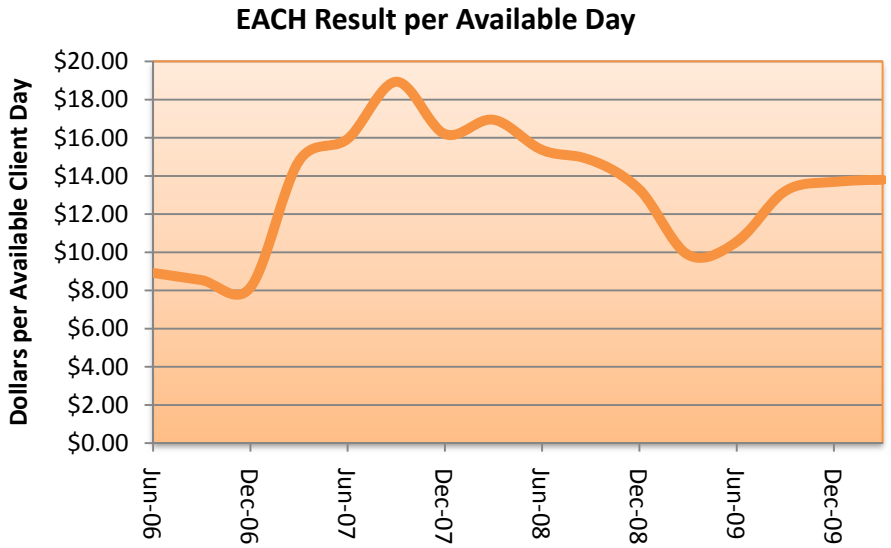
EACH results appear to be trending back upwards again after a period of decline during the 2008 and early part of 2009 financial years. There has been an increase in the trading results this year predominantly on the back of increases in income levels and little movement in costs. The results in March are very similar to those achieved in the December survey period. As was the case with CACP's we cannot be sure of the effect of the utilisation factor on these amounts.

This survey appears to indicate that there has been some reduction in the hours worked per client per week since 2009. However, this has not translated into a reduction in the cost of wages per available client day. This could be the result of a number of things including the fact that not all participants supply wage hours data. As this participation rate and consistency of the data increases the value of this data will also increase.

The EBITDA for EACH packages for the current survey period is $5,318 per package per annum. This compares with $4,172 for the 2009 financial year.

Table 20 Extracts from Stewart, Brown & Co aged care financial survey for the 9 months ended 31 March 2010. All amounts shown are measured in Dollars Per Available Client Day.	***Extended Aged Care at Home Packages***		
	9 Months Ended 31 March 2010 $	***Year Ended 30 June 2009 $***	***Change $***
Income	**122.75**	**118.17**	**4.58**
Expenditure			
Client Care Costs			
Staff Costs (care staff & coordinators incl. W/comp)	71.63	72.42	0.79
Care travel costs (incl MV expenses)	3.06	2.18	(0.88)
Other care costs	11.31	10.46	(0.85)
	86.00	85.06	(0.94)
Client Care costs as % of income	*70.06%*	*71.97%*	
Other Costs			
Operating costs	4.31	4.12	(0.19)
Administration	17.87	17.56	(0.31)
Depreciation – non building	0.77	0.89	0.12
Total Expenditure	108.95	107.63	(1.32)
Net Operating Result	**$ 13.80**	**$ 10.54**	**3.26**
Result as % of income	*11.24%*	*8.92%*	
Average Staff Hours per available package per week			
Client care staff	12.28	12.87	*(0.59)*
Coordinators/Case Managers	2.18	3.69	*(1.51)*
Administration	0.84	1.21	*(0.37)*
Total	**15.30**	**17.77**	*(2.47)*

Illustration 39



EACH Dementia

Table 21 Extracts from Stewart, Brown & Co aged care financial survey for the 9 months ended 31 March 2010. All amounts shown are measured in Dollars Per Available Client Day.	***EACH Dementia Packages***		
	9 Months ended 31 March 2010 $	***Year ended 30 June 2009 $***	***Change***
Income	**129.32**	**128.87**	**0.45**
Expenditure			
Client Care Costs			
Staff Costs (care staff & coordinators incl. W/comp)	68.49	75.02	6.53
Care travel costs (incl MV expenses)	3.11	2.54	(0.57)
Other care costs	8.83	7.21	(1.62)
	80.43	84.77	4.34
Client Care costs as % of income	*62.19%*	*65.78%*	
Other Costs			
Operating costs	6.99	3.74	(3.25)
Administration	18.19	19.88	1.69
Depreciation – non building	0.67	0.60	(0.07)
Total Expenditure	106.28	108.99	2.71
Net Operating Result	**$ 23.04**	**$ 19.88**	**3.16**
Result as % of income	*17.82%*	*15.43%*	
Client care staff	15.28	13.78	*1.50*
Coordinators/Case Managers	2.62	3.03	*(0.41)*
Administration	1.52	1.20	*0.32*
Total	**19.43**	**18.01**	*1.42*

The amounts appearing in the table above are for 34 programs comprising 341 packages. There has been some movement in wage hours worked per client per week in this survey. There has been a reduction in hours of coordinators/case managers and an increase direct care hours and administration hours. This trend has been sustained to a degree from that reported in the September report. In the past two surveys the increase in the care staff hours had been more than offset by reductions in the other categories of staff. In the December survey there was an overall reduction in staff hours of 0.96 hours per client per week since June 2009. In contrast, this survey is showing that there has been an overall increase in wages of 1.42 hours per week since June 2009. This has also translated into significant increases in the direct care wages cost of $6.53 per available client day for that same period.

On an EBITDA basis, the results represent a return of $8,654 per package per annum. This is more than double the EBITDA of an average High Care or Low Care facility in this survey – without the initial infrastructure costs of a residential facility.

Illustration 40