

# Fifth Report on the Funding & Financing of the Aged Care Sector | July 2017

**1 September 2017**

## Introduction

On Friday 25 August, Minister Wyatt released the Aged Care Funding Authority's (ACFA) [\*Fifth report on the Funding and Financing of the Aged Care Sector\*](#) (the report). The financial report examines the developments, issues and challenges affecting the industry, and provides a range of statistics and analyses the provision of aged in Australia from data collected for the 2015-16 year.

This member bulletin provides a summary the findings of the report as they relate to public sector providers across Australia, and where possible comments on the impact of the reforms to date on in Victorian public sector providers of aged care.

## Public Sector Aged Care

### Residential Aged Care

The report indicates that nationally, the public sector makes up 10 per cent of the residential aged care providers and 4.6 per cent of operational places.

While the report does not include a state-by-state analysis of the current composition of residential aged care by provider type, 2014-15 figures indicate that the majority of public sector residential aged care facilities were located in Victoria.

In Victoria, the public sector comprises 24 per cent of residential aged care providers and 11 per cent of operational places. Public sector residential aged care services are delivered across approximately 180 facilities, the majority of which (162, or 89 per cent) are located in regional and rural areas.<sup>1</sup>

### Home Care

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<sup>1</sup> DHS 2016, List of Public Sector Residential Accommodation Services, Department of Health and Human Services, June 2016, available at: <http://www2.health.vic.gov.au/ageing-and-aged-care/residential-aged-care/public-sector-residential-aged-care>

Nationally the public sector makes up 8 per cent of service outlets and nearly 8 per cent of places. While the report does not include a state-by-state analysis of the current composition of home care by provider type, 2014-15 figures indicated that the majority of public sector home care facilities were located in Victoria. In Victoria public sector providers make up 16 per cent of service outlets and almost 18 per cent of operational places.<sup>2</sup>

### **Commonwealth Home Support Program (CHSP)**

Nationally, CHSP services are predominantly provided by not-for-profit organisations (77 per cent), followed by public sector providers (18 per cent) and for-profit providers (5 per cent).

In Victoria, 2010-11 data indicates that public health services (including registered community health services) provided 45 per cent of Home and Community Care – now CHSP – funded services and represented 28 per cent of funded HACC/CHSP organisations. Of the 132 Victorian public health and community health services that provided HACC/CHSP services, 99 (or 75 per cent) are in rural and regional areas.<sup>3</sup>

### **Financial Performance**

#### **Residential aged care**

The report considers that the financial performance of residential care providers was strong, building on strong performance in 2014-15. Figures indicate that:

- 69 per cent of residential providers achieved a new profit compared with 68 per cent in 2014-15
- Average earnings before interest, taxes, depreciation and amortisation (EBITDA) per resident per annum increased from \$10,222 in 2014-15 to \$11,134 in 2015-16, an increase of 8.9 per cent

While these results support that the financial performance of residential care providers has improved broadly across the industry, public sector providers of residential aged care continue to report the poorest returns when compared to for-profit and not-for-profit providers and are under considerable financial pressure. Table 1 below provides a comparison of financial ratios by provider type.

<sup>2</sup> AIHW 2016, Residential aged care and Home Care 2014-15 supplementary data, available at: <http://www.aihw.gov.au/aged-care/residential-and-home-care-2014-15/data/>.

<sup>3</sup> State Government of Victoria 2014, Who gets HACC 2010-11, A Statistical Overview of the Home and Community Care Program in Victoria in 2010-11, available at: <https://www2.health.vic.gov.au/about/publications/policiesandguidelines/Who%20Gets%20HACC%202010-11>.

**Table 1 | Financial ratios by provider type, 2015-16**

	Public Sector	For Profit	Not for Profit	Total Sector
<b>EBITDA per resident per annum</b>	- \$12	\$13,908	\$10,182	\$11,134
<b>Net Profit Before Tax Margin</b>	- 11 per cent	9.1 per cent	5.6 per cent	6.2 per cent

Furthermore, since the release of ACFA's fourth report on funding and financing of the aged care sector is 2016, the financial performance of public sector providers has continued to deteriorate. Table 2 provides a comparison of the public sector's financial ratios 2015-16 and 2014-15 figures.

**Table 2 | Public sector financial ratios comparison, 2014-15 and 2015-16**

	2014-15	2015-16
<b>EBITDA per resident per annum</b>	\$341	- \$12
<b>Net Profit Before Tax Margin</b>	- 7.1 per cent	- 11 per cent

The significant differences in the financial performance of public sector providers when compared to for-profit and not-for-profit providers are likely due to the influence of:

- the location in which care is delivered: public sector providers of residential aged care are disproportionately represented in regional and rural areas (89 per cent of facilities)<sup>4</sup>
- facility size: on average in public sector providers of residential aged care operate 30 bed facilities and are unable to operate with sufficient economies of scale as a consequence of lower demand<sup>5</sup>
- higher workforce and labour costs associated with rural service delivery, as well as legislated nurse-to-resident ratios and the nurse-led, clinically focused workforce in public sector aged care
- delivering care and support to a greater proportion of supported residents (52.8 per cent) and those with complex care needs.

### **Aged Care Funding Instrument (ACFI)**

<sup>4</sup> ACFA 2016, Financial Issues Affecting Rural and Remote Aged Care Providers, Department of Health, February 2016, available at: <https://agedcare.health.gov.au/aged-care-reform/aged-care-financing-authority/issues-affecting-the-financial-performance-of-rural-and-remote-providers-both-residential-and-home-care-providers>.

<sup>5</sup> Ibid

The report notes that changes to the ACFI to date are being reflected in marginally reduced financial results as at March 2017, and that results may decline further as the full effect of the changes and indexation pauses take effect.

The report does not include the period since 1 July 2016 when the progressive implementation of the ACFI changes and indexation pauses commenced.

### **Trends in Accommodation Payments**

Accommodation payments are a key source of income for residential aged care facilities and the legislation that governs consumer fee amounts and types, as well as payment options, has undergone significant change since 1 July 2014.

At 30 June 2016, lump sum accommodation deposits held by providers totalled approximately \$21.9 billion compared to \$15.6 billion when the reforms to accommodation payments began on 1 July 2014.

The ACFA analysis of consumer method of payment by ownership type revealed:

- no consistent trend in preferred payment type was identified in public sector services
- not-for-profit providers recorded a decrease in the proportion of residents choosing a refundable accommodation deposit (RAD) from 42 per cent in 2014-15 to 36 per cent in 2015-16, with a proportionate increase in those choosing a daily accommodation payment (DAP) or combination
- for-profit providers recorded a slight increase in the proportion of residents choosing a RAD from 46 per cent in 2014-15 to 48 per cent in 2015-16.

The ACFA analysis of published maximum prices also revealed differences across provider type and remoteness location:

- the average maximum price published for facilities in major cities (\$423,000) are higher than those in regional and remote areas (\$341,000 and \$292,000 respectively)
- public sector facilities also have a lower average published price (\$329,000) than for-profit and not-for-profit facilities (\$421,000 and \$389,000 respectively)

### **Home care**

There has been an unexpected overall decline in the financial performance of the home care industry. Average EBITDA per package in 2015-16 was \$2,086 compared with \$2,235 in 2014-15, a decline of 7 per cent compared with an increase of 13 per cent between 2013-14 and 2014-15. Average NPBT per packaged also declined by 7 per cent in 2015-16, from \$2,081 in 2014-15 to \$1,949.

Despite a slight decrease in reported profits compared with 2014-15, figures indicate that 75 per cent of home care providers generated a net profit, compared with 72 per cent in 2014-15.

Public sector providers outperformed not-for-profit providers in 2015-16, and more than doubled their EBITDA to \$2,122 per package compared with \$1,052 in 2014-15. The comparison of financial ratios by provider type for 2015-16 is presented in Table 3.

**Table 3 | Financial ratios by provider type, 2015-16**

	Public sector	For Profit	Not for Profit	Total Sector
<b>Average EBITDA per package</b>	\$2,122	\$4,837	\$1,824	\$2,086
<b>Average NPBT per package</b>	\$1,992	\$4,720	\$1,685	\$1,949

### **Commonwealth Home Support Program (CHSP)**

In 2015-16, the Commonwealth provided funding of \$1.45 billion for the CHSP. An additional \$147.5 million was spent on My Aged Care and the Regional Assessment Service to support the implementation of CHSP.

In Victoria, the Commonwealth also contributed \$501 million to the joint Commonwealth-state funded HACC programs.

The vast majority of public sector providers across Australia (85 per cent) received less than \$1 million grants provided through CHSP, with approximately 12 per cent of public sector providers receiving grants of \$1-10 million with the remaining 2.5 per cent of providers receiving grants of \$10-50 million.

### **Workforce**

Australia's aged care sector is under pressure to meet the growing demand for aged care while at the same time facing significant workforce challenges. The 2016 National Aged Care Workforce Census and Survey revealed that there are over 366,000 paid workers and an additional 68,000 volunteers in the aged care industry. Table 4 provides an overview of the paid and unpaid workforce figures across residential and home care in Australia.

**Table 4 | Paid vs. unpaid workforce figures across aged care, 2014-15**

	<b>Residential</b>	<b>Home Care</b>	<b>Total</b>
<b>Paid workforce</b>	235,764	130,263	<b>366,027</b>
<b>Unpaid workforce</b>	44,879	23,537	<b>68,416</b>
<b>Total</b>	<b>280,643</b>	<b>153,800</b>	

Note: only 76 per cent of residential aged care providers completed the survey

The report does not provide a workforce analysis and comparison across provider types however more information is available in the report regarding the profile of the workforce, job satisfaction, recruitment challenges and challenges for workers.

### **Conclusion**

The report highlights some important financial results for the public sector of the reform agenda to date.

To support public sector providers better understand the implications of the reforms, the VHA developed a member's only impact analysis on the Victorian public aged sector and recommendations in a separate resource released in early 2017, *Making the most of a changing aged care environment* – this resource is available [here](#).

The VHA has been working closely with public sector providers of residential aged care to support them through the transition and embed the reforms to date into practice.

With further significant changes flagged for the sector, the VHA will continue to advocate on behalf of Victorian public sector providers to ensure their ongoing viability and sustainability.

### **For more information, contact:**

Ali Georgalas  
Project and Policy Advisor  
[ali.georgalas@vha.org.au](mailto:ali.georgalas@vha.org.au)  
03 9094 7777