Aged Care Financing Authority | Annual Report on the Funding and Financing of the Aged Care Industry 2019 – ***A precis of statistics and observations by Brendan Moore, LASA GM Member Services.***

"The very wide variation in financial performance across the sector suggests there is scope for many providers to pursue greater efficiencies and improve their results."

The above quote taken from the final paragraph of the report is a timely reminder to the industry that while the focus is often on the Government, there is a lot that individual organisations can do to improve their performance and sustainability. While much of the report will not come as a surprise to people who have worked in and around the industry for a number of years, the following points are ones that resonated for me.

Overall, the ACFA report portrays an industry experiencing declining financial performance and results due to expenditure growth outstripping income growth, pricing and revenue is largely fixed by the Government, the major expense item of staffing is heavily influenced by the independent Fair Work Commission, thin capitalisation and high risk from extraordinary events, and low returns on assets and equity discouraging investment.

Regulation

Regulatory uncertainty is hindering capital investment, new market entrants, expansion of consumer choice through additional services, and capacity of the sector to meet the burgeoning demand in both quality and quantity of services. This is borne out by the data that shows that residential aged care has already declined below the target provision ratio set for 2022.

Residential Aged Care

It may come as a surprise, but 63% of providers of RAC are single site providers – still. This despite years of consolidation and decrease in the total number of providers. In an interesting chart, the Report shows that single site providers are actually performing better on EBITDA and NPBT than organisations with 2-6 homes.

A segment to watch is the Government delivered homes with the financial results of these services declining and being over-represented in the bottom quartile. It has to be questioned how much longer State and Local Government will 'tip in' funds to cover these losses – diverting them from other tax or ratepayer priorities. There have been noticeably more Local Governments making decisions in recent times to close their services and it is likely to continue.

Referencing the quote above, the take up of significant refurbishment remains low with upside potential for providers who do this. The Report estimates that a further 54,000 beds could benefit from an upgrade that will increase accommodation supplements and aide occupancy strategies.

The reported statistics on lengths of stay for residents continues to be at odds with what service providers anecdotally report.

Despite the advent of the NDIS and previous initiatives to place people under 65 in more age- and care-appropriate settings, the percentage of residents under 65 (3.1%) has not really changed at all in the past five years.

There is much commentary in the Report on ACFI and RUCS that is repeated elsewhere. Of note for providers is the reference from ACFA that external assessment of residents to gauge funding allocations is necessary and desirable. While many providers do not agree with this view, it is highly likely that this will be the outcome and providers will need to prepare for the change.

National Prioritisation System, Respite, Home Care and RAC

It is not a widely quoted statistic, but the ACFA report states that approximately 95,000 people on the National Prioritisation System have been approved for residential aged care (as well as home care), but would rather have no care or inadequate care through a lower level package or CHSP. This is a clear signal from consumers, backed up in many reports and Royal Commission hearings, about their preferred care options and choice of service type. This should concern both RAC providers and Government, while also sharpening their focus on a service type that sits between the two – respite. The recommendations of the ACFA Respite review are provided in this report and providers and policy makers should be re-visiting these. Echoing the opening quote, there are strategies in respite provision that providers can implement, independent of Government that will address occupancy issues, while helping to dispel the misperceptions of RAC in their prospective client group.

CHSP

How do you unscramble an omelette? This question comes to mind when reading the ACFA report and the repeated decisions by the Government to defer decisions on the CHSP. By 2022, when it is due to conclude, the CHSP will be supported by $3b in grant funding with an estimated client group of over 1.1m older Australians. This program will be incredibly challenging for the Government to 'unscramble' and progress with possible alternate options, including merging with the HCP service to create a single, unitary program of home-based support. Exacerbating this challenge is the current composition of providers of CHSP with ACFA reporting there being 845 providers with grants of less than $500,000 per annum.

HCP

ACFA flags the well-known facts about increasing competition from an increasing number of providers, declining financial results and returns, declining management and administration fees through public exposure and competition. Interestingly, consumers are pointed out as being the 'winners' in this, but ACFA does flag that there does need to be a sufficient volume of sustainable providers achieving reasonable returns. Without this market condition, consumers will not 'win' from a situation with no providers or poorly resourced providers unable to sustain their operations. ACFAs report is some months behind in its data and already we are seeing the exit from HCPs by some providers - either wilfully or by being inactive on MyAgedCare. Therefore, the industry may have reached 'peak provider numbers' in HCP as the market conditions are deterring new entrants in the same volumes as previously.

There has been considerable growth in the number of HCP providers and this has been well publicised. The ACFA report reveals that the growth is not entirely due to 'sole service start ups', albeit most of the growth is attributable to this group. It therefore indicates that diversification as a risk minimisation approach is being adopted by more providers. This includes retirement village operators who are not covered by the ACFA report. Providers' diversification focus may be on HCP as CHSP is effectively closed off to new entrants and RAC has high cost and compliance barriers to entry.

The HCP service now has total funding ($2.06b) approximating the CHSP service ($2.36b) with only 14% of the client numbers and 50% of the dollar value in client contributions. Further clouding this is that the pool of unspent funds now totals more than 25% of the total annual funding for HCP.

There must be questions about whether the current HCP model is the right model to scale-up to the levels of support in the home that older Australians want and need.

Royal Commission

The financial impact of the Royal Commission falls more recently than the ACFA report. It will be very interesting to see the next report to gauge the further deterioration in financial performance as a consequence of this one-off event that lasts for 18 months. Making predictions about the future is always risky, however, the direct and indirect financial cost to the industry will be considerable.