



Analysis of Mid-Year Economic and Fiscal Outlook Impact on the aged care sector

December 2018

On 17 December 2018 the Government provided its Mid-Year Economic and Fiscal Outlook update for the 2018/19 year. In making the announcement it also included several measures that impacts directly on the aged care sector.

Government Announcements in detail

The Government will provide \$454.9 million over four years from 2018-19 to support older Australians with improvements to residential and home care arrangements, including:

- \$287.3 million over three years from 2018-19 for 5,000 level 3 and 5,000 level 4 home care packages;
- \$56.4 million over four years from 2018-19 to assist people in home care by reducing the maximum basic daily fee that service providers can charge; and
- \$111.2 million over four years from 2018-19 to increase the residential care viability and homeless supplements by 30 per cent to support people in residential aged care in regional, rural and remote areas of Australia and those at risk of homelessness.

In addition, the Government will provide \$81.7 million over four years from 2018 19 to support older Australians through better quality of services, improved regulatory arrangements for aged care service providers, and new workforce arrangements for people employed in aged care, including:

- \$39.3 million over four years from 2018 19 to create an additional 300 Transition Care Places in Western Australia by 2020 21, to support up to 1,300 older people each year to return to their homes after a hospital stay;
- \$30.5 million in 2018 19 to introduce an accommodation management payment in the Continuity of Support program;
- \$15.6 million over four years from 2018 19 to the Department of Health, the Australian Aged Care Quality Agency and the Aged Care Quality and Safety Commission to improve regulatory arrangements and the quality of aged care services for people receiving Commonwealth funded home care and residential aged care, including expanded audit and compliance processes;
- \$4.0 million in capital funding in 2018 19 to contribute to the expansion of facilities at Clare Holland House in Canberra to improve the provision of palliative care services;
- \$3.9 million over three years from 2018 19 to contribute to the expansion of the Strathalbyn Aged Care Facility to increase aged care services by an additional 12 beds; and
- \$0.6 million in 2018 19 to support implementation with aged care providers of workforce improvements recommended in the Aged Care Workforce Taskforce report, A matter of care – Australia’s aged care workforce strategy.

The cost of this measure will be partially met from within the existing resources of the Department of Health.

Other health measures with an impact on residential aged care facilities included:

- Provision of \$98.0 million over four years from 2018 19 to increase the Medicare Benefits Schedule (MBS) fees for General Practitioners (GPs) attending a residential aged care facility to help ensure that GPs have appropriate incentives to provide care in aged care facilities;

The following is an extract from the foreword to the MYEFO papers:

The Government is continuing to invest in aged care, with total spending expected to reach a record \$23.5 billion in 2021-22.

This includes supporting older Australians to access quality aged care services and improving regulatory settings in the sector. An additional \$287.3 million has been provided to bring forward by one year to 2018-19 the release of 5,000 level 3 and 5,000 level 4 home care packages to connect more older Australians with high-level home care support. The Government is also providing \$56.4 million to assist people in home care by reducing the maximum basic daily fee service providers can charge. In addition, the Government will provide \$111.2 million to increase the residential aged care viability and homeless supplements by 30 per cent to support people in residential aged care in regional, rural and remote areas of Australia and those at risk of homelessness.

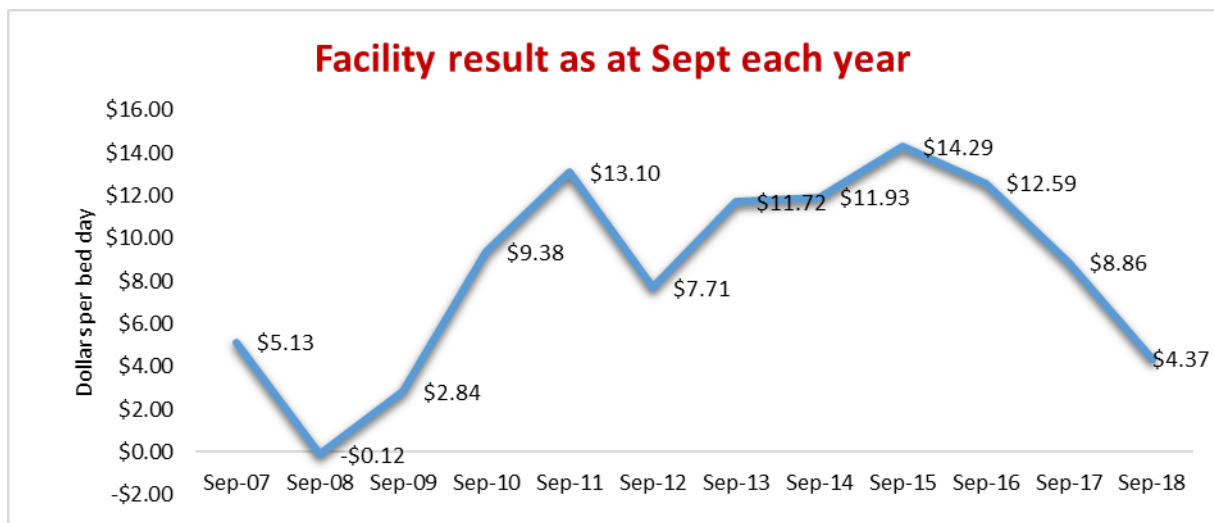
The Government has established a Royal Commission into Aged Care Quality and Safety to examine the quality and safety of care provided to senior Australians in residential and home-based aged care and to young Australians with disabilities living in aged care. The Government will provide \$104.3 million over four years from 2018-19 for the Royal Commission and \$17.2 million over two years from 2018-19 to the Department of Health, the Australian Aged Care Quality Agency and the Australian Aged Care Quality and Safety Commission to support activities associated with the Royal Commission.

Commentary and Economic Context of the Announcements

The various measures announced yesterday, while welcomed, are unlikely to improve the financial situation that many aged care providers currently find themselves in. The latest StewartBrown Financial Performance Survey for the September 2018 quarter shows that many aged care providers are continuing to struggle financially.

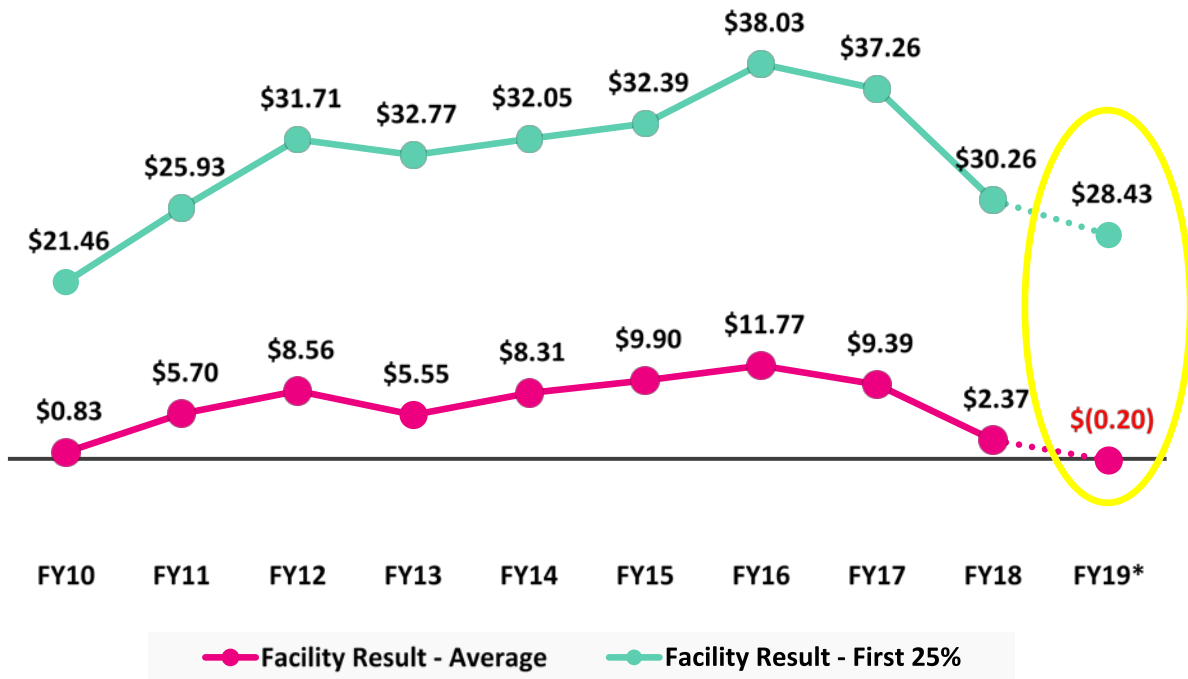
Residential Care

While there have been modest traditional seasonal uplifts in the results of residential aged care providers, the September 2018 results are still well below those for the same period in the previous financial year. Except for the increase in the viability supplement there was no increase in funding for the residential aged care facilities in the announcements today.

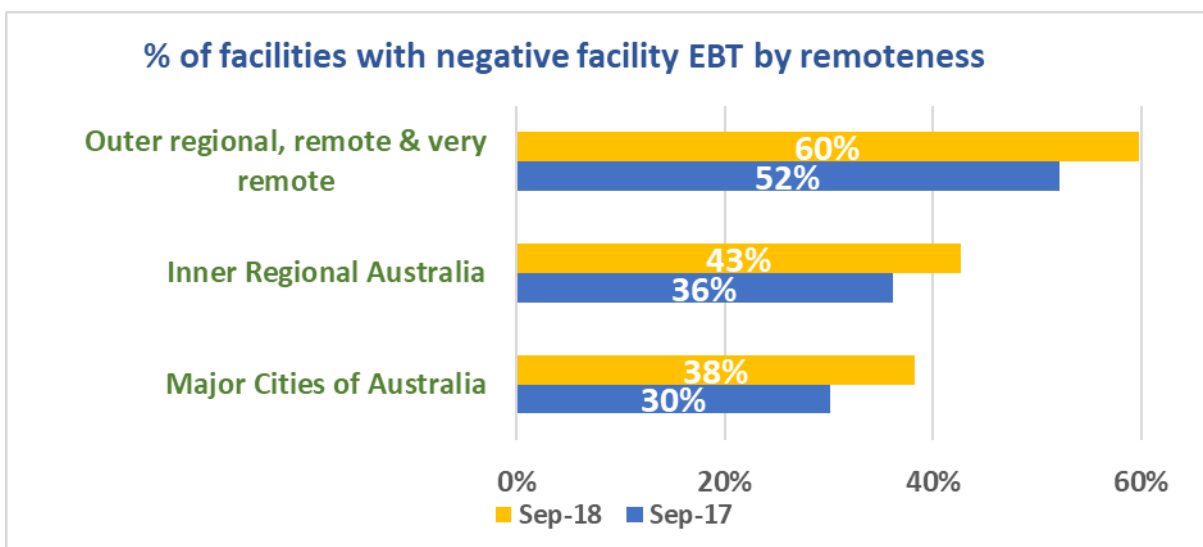


As part of our analysis of the June 2018 survey results and the settings that we were observing for the current 2019 financial year, we forecast what we believed would be the average results for residential aged care facilities and the results are shown in the graph below. While the increase in the viability supplement should improve the results of a relatively small number of providers, we do not see these forecasts changing significantly as a result of measures announced yesterday.

Forecast Facility Result (EBT) \$pbd



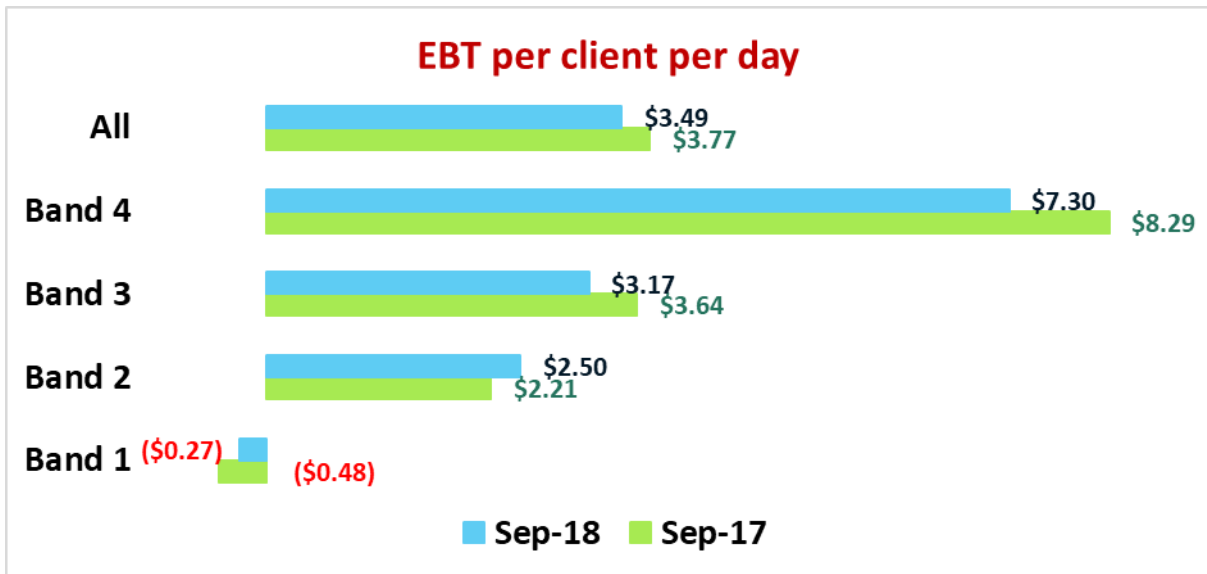
For those facilities that do qualify for a viability supplement, they will see them increase by 30% as a result of announcements made yesterday. This will be welcomed and as shown in the graph below is desperately needed by those facilities operating in rural and remote areas.



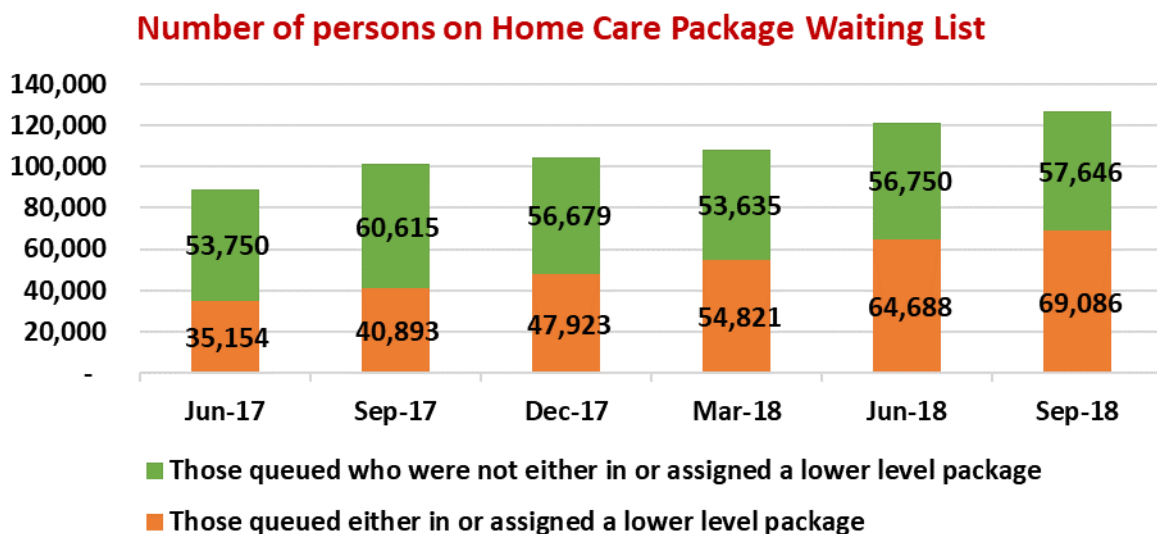
Home Care

With respect to home care providers, the announcements of additional packages will be welcomed. The increase in the number of high care packages should improve the financial performance of providers who will provide the services to these packages as margins are generally higher for high care packages. This measure should also help to alleviate the waiting lists for high care packages in the community.

The September Survey has seen a general decline in financial returns for providers compared to the same quarter in 2017.



The announcements of an additional 10,000 high care packages from Calendar year 2019 is aimed at addressing the increasing waiting lists for those packages as shown in the graph below.



The measure to reduce the fee for low care packages (topped-up to the provider by the government) is interesting. We are yet to see the detail of how this measure is to be applied but it may have been better if it was accompanied by an announcement that the daily fee, even at the reduced level, was a compulsory charge, in the same way that it is in residential care and as recommended in the Tune

recommendations. At present there is very little consistency in how providers are charging clients, if at all and this is affecting the viability of providers and, in some cases, their ability to compete against those that do not charge this fee at all.

It may also make it more difficult for providers to charge the higher fee when they transition someone from a low care package to a high care package. We do not know, based on the information released, whether this will affect clients that have been assessed for a high care package but are currently allocated a low care package. On the positive side, this measure might encourage more people to transfer from CHSP services to the low care home care packages.

It should be noted that there was no additional funding or other announcements in respect of CHSP.

StewartBrown Aged Care Executive Team



Stuart Hutcheon | Managing Partner

Stuart Hutcheon is the head of our Audit and Assurance Division, but also provides consulting services to a diverse client base. He has had considerable experience with both commercial and not-for-profit organisations. This experience covers all areas of professional services including auditing, management accounting, budgeting, salary packaging and FBT advice.

Prior to joining StewartBrown Stuart held positions in commerce and undertook various medium-term secondments in various financial accounting roles. He has been a partner since 2004. Stuart holds a Bachelor of Commerce and is a Chartered Accountant, Registered Company Auditor and Registered SMSF Auditor.



Grant Corderoy | Senior Partner

Grant is the head of our expanded Consulting division. He specialises in a range of services for his clients including undertaking complex accounting assignments, system reviews, management consulting, specialised audits and general business advice. He also has considerable experience in advising clients on the sale and purchases of businesses, business valuations and due diligence.

Grant has over 40 years' experience in the profession and was previously responsible for the Audit and Aged Care Division which he established in 1990. A partner in the firm since 1995, he has significant professional expertise within the not-for-profit sector and has a lengthy client list including many national aged care providers and community service providers.

Grant has tertiary business qualifications and is an Affiliate of Chartered Accountants Australia and New Zealand.



David Sinclair | Partner

David is a Partner with StewartBrown specialising in providing services and advice to the aged care and community services businesses with a focus on the not-for-profit sector. Until recently, David managed the StewartBrown Aged Care Financial Performance Survey. David has over 35 years in public practice including a number of secondments to commercial clients.

David now leads the internal audit team and jointly leads the consulting team in conjunction with Senior Partner Grant Corderoy. David holds a Bachelor of Economics, is a Chartered Accountant, an Associate Member of the Institute of Internal Auditors.

StewartBrown - Our Knowledge is Your Success

StewartBrown, Chartered Accountants, was established in 1939 and is one of the leading boutique accountancy firms in Australia combining a full range of professional services with varied corporate assignments. Our professional mission statement is “we deliver service beyond numbers”, which reflects the commitment to helping our extensive range of clients to achieve their financial goals.

We offer a depth of technical knowledge and varied professional experience, with many of our senior staff now having well over 10 years' of service with the firm, resulting in our clients benefitting from continuity and accountants who really understand their business.

What a boutique firm offers

Whilst StewartBrown provides a range of professional services, our “point of difference” is our ability to engage in assignments of a complex nature by providing a varied mix of experience and corporate skills. Examples of recent consulting assignments include:-

- Contract accounting
- Payroll processing and billing processing
- Financial modelling and unit costing analysis
- Strategic planning facilitation
- ITSC Project management
- Governance reviews
- Organisation restructures
- Risk management reviews
- Due diligence
- Work-flow building design
- FBT and GST reviews
- Detailed forecasting modelling
- Audit and assurance services

Complementing our consulting services is our dynamic Audit and Internal Audit divisions. StewartBrown adopts a risk-based audit approach which is performed strictly in accordance with Australian Auditing Standards. Our engagements involve a detailed analysis of the client’s business and systems of internal control to ensure we fully understand how the client operates and identify areas that pose the greatest risk of being materially misstated in the financial statements.

Our detailed testing procedures are then tailored to meet the risks identified and also ensure an efficient and effective audit is performed.

Our internal audit team uses the latest techniques and leverages our risk-based approach on our extensive knowledge of the aged care, disability and community services sectors.

What we offer our audit and internal audit clients are a mix of experience and knowledge well beyond that of most other firms. Our audit staff all have regular exposure to consulting and secondment assignments which significantly enhances the “value add” we bring to our audit clients.

Specialty in the aged care, community and disability sectors

StewartBrown is widely regarded as being a leading specialist within the aged care, community and disability sectors. Our client base includes many large national providers in addition to independent stand-alone providers, faith-based and community providers, culturally specific providers, as well as government and statutory bodies.

Our commitment to these important social sectors each year involve 30+ plus speaking engagements at Conferences, sector briefings, workshops, department briefings, organisation presentations and community consultations.

Integrity + Quality + Clarity

These terms which appear on our logo are more than aspirations, they appear for a very important reason they encapsulate the professional standards that we strive to continually maintain and ensure best practice.

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