

Aged care survey 2008

Second Report January 2009



Welcome

Grant Thornton is pleased to present the second report on our 2008 Aged Care Survey. The first survey report was released in October 2008 and has generated an overwhelming response from the industry, media and the wider community. A copy of the first report can be found at www.grantthornton.com.au.

The Grant Thornton Aged Survey was conducted to analyse emerging trends in residential aged care. The first report examined the impact of policy models on service quality and consumer choice. This second report focuses in more detail on the financial performance of aged care providers and presents some of the key strategies employed by operators achieving top quartile results.

Research was undertaken using survey data from almost 700 residential care services and is the largest independent study of its kind. The information was analysed, collated and summarised by Grant Thornton's aged care team and extensive consultation has taken place with many of the providers that contributed to the survey. This process ensured maximum accuracy and consistency in the data reported. The survey results and recommendations have been presented throughout Australia and feedback from the industry has been used to initiate further data analysis.

The survey has been conducted at no cost to the industry or the Government and the information provided by aged care operators has been held in strict confidence. Analysis from the survey has been provided to Government and industry representatives in summary form to support decision making and reform initiatives.

The Grant Thornton team would like to express our appreciation to the many providers that contributed to this survey, particularly those that have offered their time to enable us to present successful business strategies in this publication. We would also like to thank Professor Warren Hogan for his tireless support for this important study.

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Grant Thornton Australia Ltd

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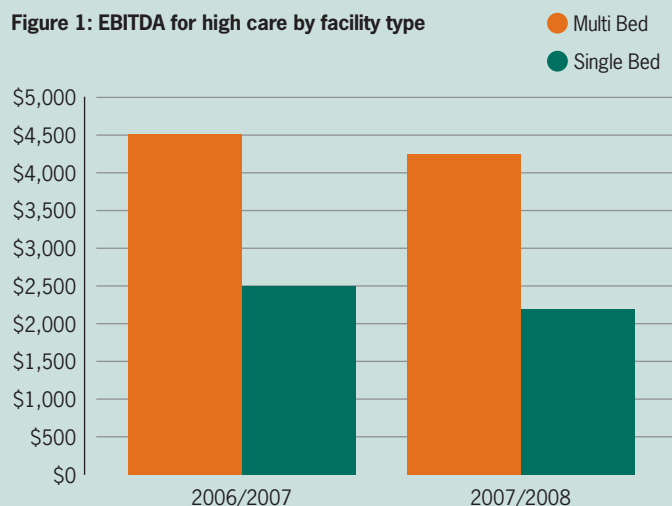
Background on the previous survey report

Our first report revealed that residential aged care providers throughout Australia are experiencing low and deteriorating financial returns at a time of unprecedented demand for high care services. The survey revealed that earnings achieved in dated, institutional facilities were almost double those achieved in the modern facilities that meet consumer demand for privacy, dignity and comprehensive care.

Adopting the same performance measures used in Professor Hogan's research in the *Review of Pricing Arrangements in Residential Aged Care 2004* (The Hogan Review), it was found that the average facility earnings before interest, taxation, depreciation and amortisation (EBITDA) in 2008 was just \$2,934 per bed per annum.

Figure 1 illustrates that modern high care facilities with single bedrooms reported an average EBITDA of \$2,191 compared to \$4,233 achieved in older facilities with shared rooms, representing a return on investment of around 1.1% for modern services. This has resulted in a dramatic slow down in new residential care developments at a time of heightened consumer expectations for modern, high quality accommodation. Consequently, a large proportion of Australia's aged care building stock is now dated.

Figure 1: EBITDA for high care by facility type



These findings confirm the conclusions presented in the recently published Productivity Commission Research Paper, *Trends in Aged Care Services: Some Implications, 2008*. Australia's aged care regulatory and funding arrangements are outdated and discourage investment in modern aged care infrastructure. The industry is over-regulated by Government and, unless addressed, Australia will be unable to meet the needs of its rapidly ageing population.

Since the release of the first report in October 2008, industry leaders throughout Australia have voiced their grave concerns regarding the state of the sector. There is a growing momentum for policy reform to promote investment in the standard of residential care services most demanded by elderly Australians.

To this end, the first report on the Grant Thornton Aged Care Survey recommended:

1. Initiating a process for the deregulation of the industry as recommended in the Hogan Report and Productivity Commission Paper;
2. Undertaking research into the cost of delivering care to achieve a stronger correlation between subsidy allocation and indexation; and
3. Improving the process through which industry information is presented and analysed.

This second report provides more detailed information behind the key financial indicators and explores some of the strategies employed by providers to maximise revenues and manage costs.

Detailed analysis of survey results

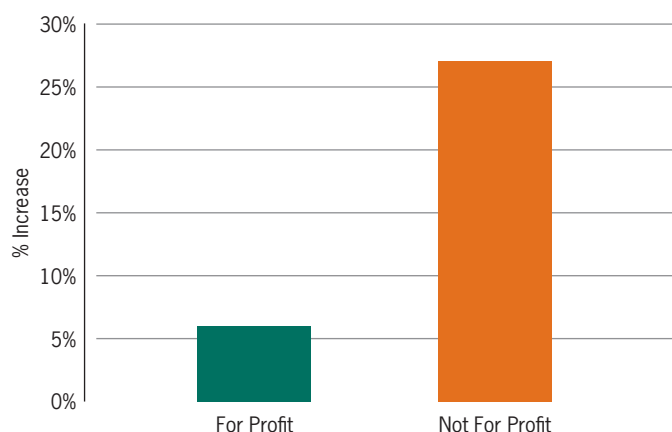
Consistent with the principles adopted in the Hogan Review 2004, our first survey report focussed on EBITDA as the primary benchmark of financial performance. EBITDA is one of the most commonly used measures of operational performance and enables the analysis of provider results in a sector-neutral way, reducing the influence of differential tax or financing arrangements between the For-Profit and Not-for-Profit sectors.

However, EBITDA, does not measure the net return to the provider, taking into account the cost of borrowings (interest) and provision for replacement of the buildings and equipment (depreciation). These concepts become more critical as greater numbers of providers borrow to finance the construction of their facilities.

Previous research undertaken by Grant Thornton indicates that debt levels in the Not-for-Profit sector are the highest in Australia's history. Given the very low returns generated by modern aged care facilities, the capacity to service borrowings becomes more challenging.

The survey results illustrate that the impact of increased borrowings has had a significant influence on the financial performance of the industry, particularly in the Not-for-Profit sector. Figure 2 illustrates the increased interest costs reported during the two survey years.

Figure 2: Increase in financing costs from 2007 to 2008



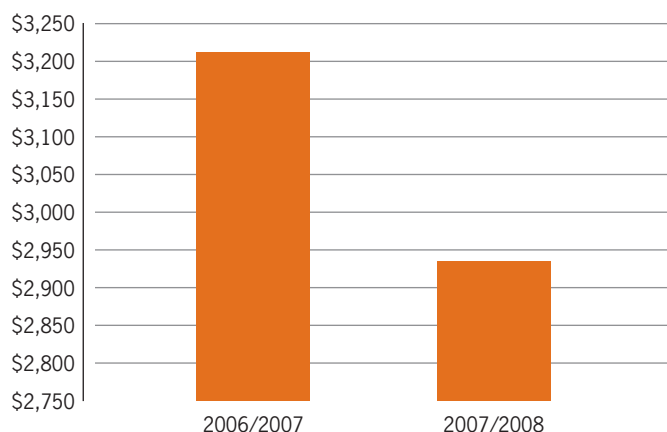
Our first report also highlighted the substantial increases in land and construction costs. The need to provide for the eventual redevelopment of the facility is paramount in achieving a sustainable service model. The appropriate recognition of depreciation on buildings and equipment provides for this.

For these reasons, both EBITDA and net profit/losses will be analysed in this section. All references to EBITDA in this report exclude extra service facilities (these are reviewed separately in the next section and government-owned services). The performance results for facilities that were not yet fully operational at the relevant reporting period have also been excluded.

Survey findings – EBITDA measures Performance by sector and care type

Figure 3 illustrates the EBITDA analysis as presented in our first survey report for all facilities in the For-Profit and Not-for-Profit sectors. Average EBITDA in 2008 of \$2,934 per resident per annum declined by around 9% compared with the 2007 result of \$3,211.

Figure 3: EBITDA per bed per annum – all services

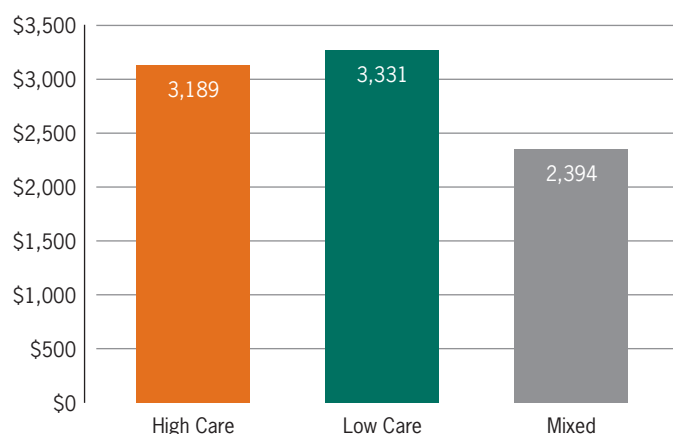


Whilst the 2008 For-Profit average EBITDA of \$3,454 per resident per annum was higher than the \$2,688 reported by Not-for-Profit providers, our experience indicates that Not-for-Profit operators have become increasingly competitive in recent years. The lean financial returns and growing dependence on external borrowings has necessitated a more commercial approach by Not-for-Profit operators.

Another significant trend presented in the survey was in the performance comparison between service types. Adopting the measure used in the Hogan Review, facilities with 70% or more high care residents were classified as “high care facilities”. Those with 70% or more low care residents were classified as “low care facilities” and the remainder were classified as “mixed care facilities”.

Figure 4 reveals that, on an EBITDA basis, the difference in the performance between high care and low care has decreased compared to our previous studies, where low care services had strongly outperformed high care facilities. A more detailed analysis of quartile performance reveals that low care averages have been reduced by services with deteriorating occupancy levels.

Figure 4: EBITDA by service type



Many older low care services are not designed or staffed to enable residents to “age in place” and often refer clients with more acute care needs to high care facilities. Increasingly, consumers are expecting to be able to remain in the same facility throughout their lives and this has softened demand for many facilities that cannot provide this service. Deteriorating occupancy levels can have a crippling impact on financial performance because staff rosters cannot be easily adjusted to accommodate temporary room vacancies.

Recently released government statistics indicate that occupancy levels are dropping in a number of key regions and the new Aged Care Funding Instrument (ACFI) is already having a significant affect on low care facilities. ACFI is intended to redistribute funding from low to high care residents and the combined impact of this and falling occupancy in low care specific facilities will be significant.

Another emerging trend has been the level of mixed care services represented in the sample. Almost one third of the services in the survey were classified as mixed care facilities. There are three primary influences that have increased the number of mixed care facilities:

1. Most recently redeveloped low care facilities have been built to accommodate “ageing in place” and this has resulted in a gradual increase in the number of high care residents in these facilities;
2. To meet the consumer expectation described above, many facilities that were originally designed as low care facilities are now accommodating residents as their care needs increase, rather than referring them to high care services; and
3. Many redeveloped high care services (with pre 1997 licenses) are favouring the admission of low care residents to attract accommodation bonds and offset some of the capital costs.

These trends reflect an improvement in service flexibility which meets a fundamental desire of consumers to remain in the same facility regardless of their changing care needs. This represents a positive outcome from government policy and a commitment by the industry to meet consumer demand; however, it does provide additional challenges for providers.

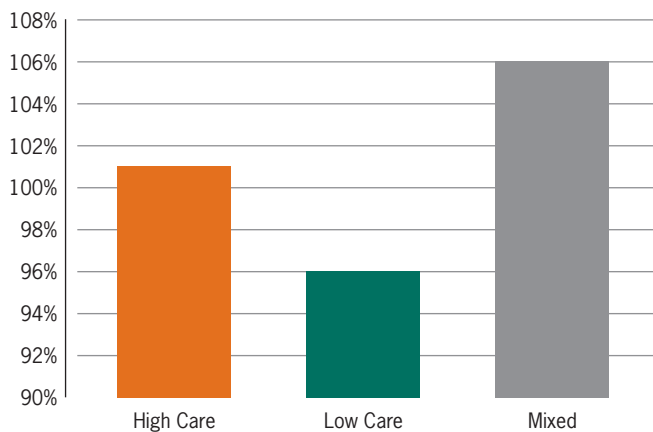
The need to support residents with vastly differing care needs makes it more difficult to develop efficient rosters for care staff. Typically, residents requiring greater levels of care are located disparately throughout the facility and this can present a logistical challenge for clinical staff. Some operators attempt to concentrate high care residents in one area of the facility and this may require the relocation of residents (with their consent) as their care needs change. Both situations tend to generate increased operating costs and this is reflected in the lower mixed care EBITDA results.

Wage costs

Residential care is a labour intensive business and the effective and efficient management of human resources is crucial in the current environment. The survey results revealed that wage costs represented 72% of total costs reported by survey participants.

The trends described above are best illustrated in the analysis of wage costs as a proportion of government subsidies. In particular, Figure 5 illustrates the challenges associated with delivering ageing in place services in a mixed care environment.

Figure 5: Wage costs as a proportion of government subsidies – service types



Modern high care facilities are designed to provide premium accommodation, privacy and flexibility in care, whilst most shared-room, institutional facilities were built for maximum efficiency. This means that the wage costs per resident tend to be less in facilities with shared rooms. As current funding arrangements do not make provision for the increased costs associated with the operation of modern facilities, net earnings for older facilities tend to be much higher. Figure 6 provides a comparison of the analysis of wage costs as a proportion of government subsidies for single bed and multi bed services. Figure 7 provides a similar analysis, but with regard to care service types by quartile.

Figure 6: Wage costs as a proportion of government subsidies – facility design

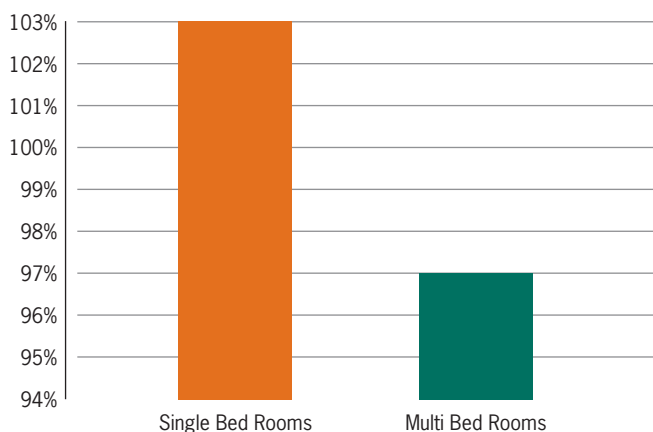
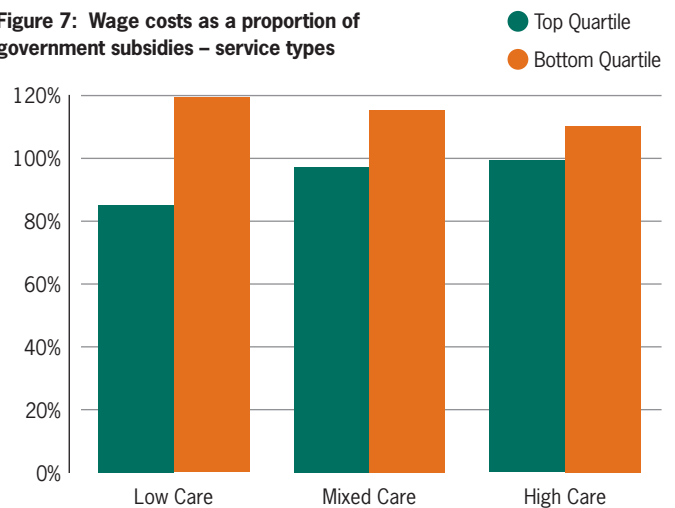


Figure 7: Wage costs as a proportion of government subsidies – service types



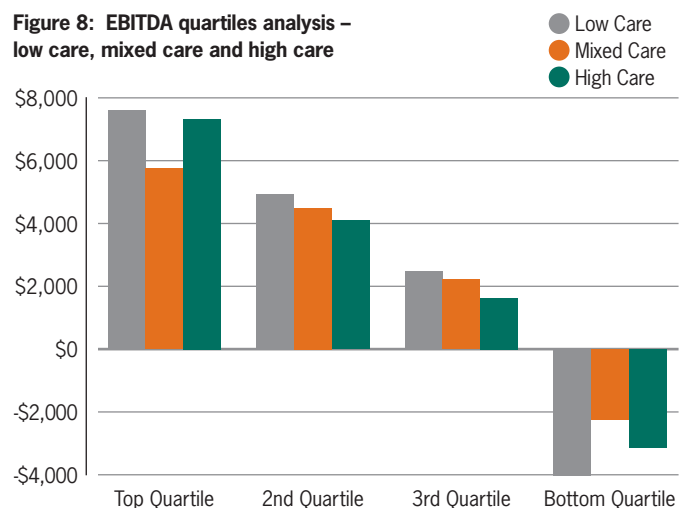
Analysis of quartile performance

The Hogan Review focused on quartile performance as a means of distinguishing facility characteristics that provided stronger financial returns. Because of the current problems in the aged care regulatory regime, this analysis needs to be undertaken with great caution. As presented in our first report, a major influence on financial performance is the number of residents per room. Table 1 and Figure 8 provide an analysis of EBITDA performance by Quartile:

Table 1 – EBITDA quartiles – low care, mixed care and high care

Facility Type	Top Quartile	2nd Quartile	3rd Quartile	Bottom Quartile
High Care	\$7,247	\$4,054	\$1,608	(\$3,107)
Low Care	\$7,513	\$4,886	\$2,460	(\$3,988)
Mixed Care	\$5,681	\$4,441	\$2,196	(\$2,209)

Figure 8: EBITDA quartiles analysis – low care, mixed care and high care



One of the focuses of the Grant Thornton Aged Care Survey has been on ordinary high care services. With the continued evolution of community care and the redistribution of subsidies toward high care residents under ACFI, future demand for residential care in Australia will trend increasingly toward high care facilities. Viability in this area is particularly critical

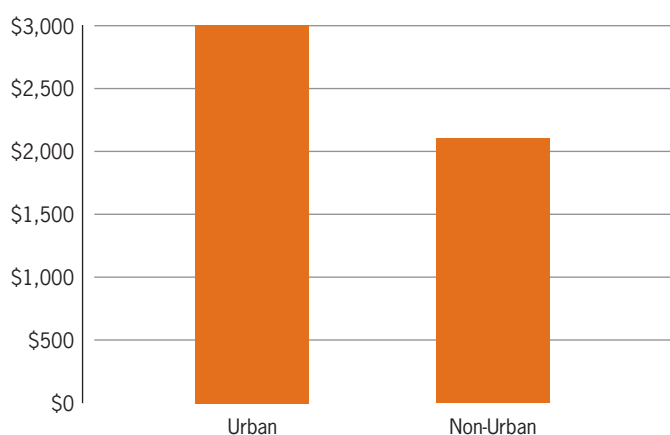
given increasing consumer expectations (as outlined in our first survey report).

Whilst the analysis of quartile performance of high care facilities provides useful benchmarks, it is important to note that the majority of those services in the top quartile are older, shared room services whilst the bottom quartile is dominated by modern single bed facilities. Although shared room facilities represent just 38% of all high care services in the survey, they represent 55% of those appearing in the highest performance quartile and only one third of the facilities in the top quartile were built in the last decade.

Performance by Region

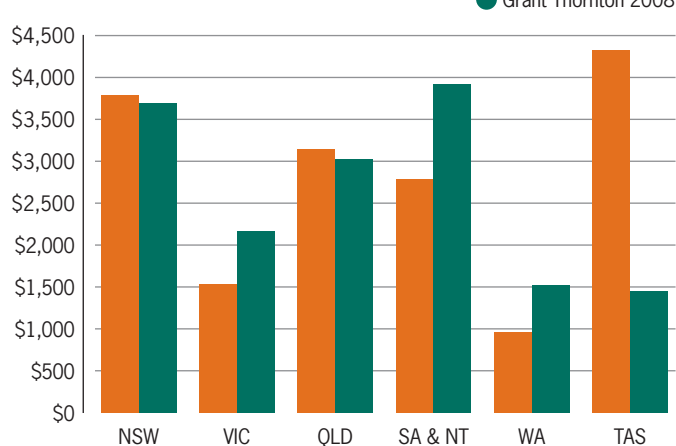
Research previously undertaken by Grant Thornton highlighted the significant variance in financial performance between urban and non-urban facilities. The survey found that the 2008 average EBITDA for non-urban services of \$2,096 was approximately 30% below urban averages of \$2,998.

Figure 9: EBITDA for urban and non-urban facilities – 2008



Performance analysis by state/territory presented results in 2008 that were proportionately consistent with the Hogan Review (which was based on 2002/2003 financial results). Figure 10 presents the EBITDA performance by state/territory.

Figure 10: Financial performance by geographical location



Survey findings – net profit/loss measures

As discussed above, the first survey report focussed on EBITDA as the fundamental measure of economic performance. While this facilitates analysis of operating results in a sector-neutral way, it is also crucial that regard is given to the net returns achieved after provision for financing costs and asset replacement (depreciation).

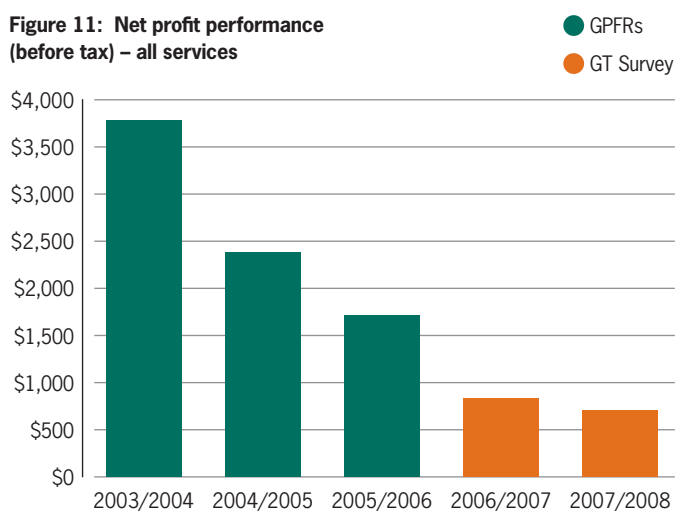
The first survey report examined building costs for some of the most recent residential care developments around Australia. The average construction cost of \$176,000 (excluding land) represents a substantial increase from the levels presented in the Hogan Review of approximately \$85,000. As described above, the rise in construction costs and greater consumer expectations have created an environment where industry borrowing has reached record highs.

Grant Thornton was commissioned by the Government to review the general purpose financial reports (GPFs) of Australian aged care providers. As discussed in our previous reports, GPFs provide very limited summary information regarding consolidated net profits/losses in residential care. The reliability of the information is also limited because of the differing approaches used by providers to segment their results in the GPFs. However, the analysis does provide useful trend data using a large sample of aged care providers.

Figure 11 illustrates the trends in net profit using results

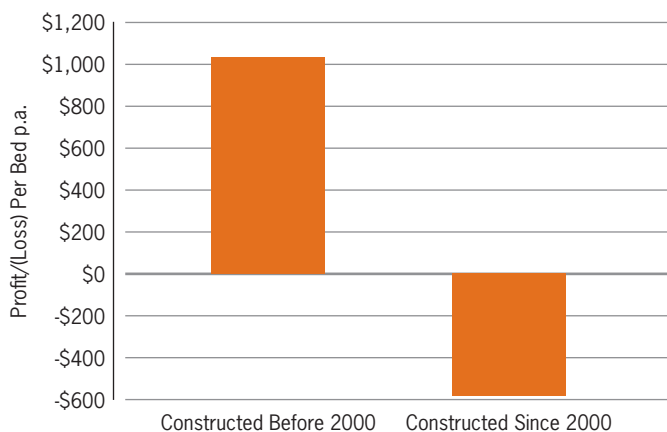
from the analysis of GPFRs from 2004 to 2006 and the Grant Thornton Survey results for 2007 and 2008.

Figure 11: Net profit performance (before tax) – all services



Further analysis of the 2008 average net profit indicates that the strongest performing facilities were those built before 2000. Figure 12 illustrates that residential care services built before 2000 achieved average net profits before tax of \$1,036 per bed per annum, whilst facilities built on or after 2000 reported an average net loss of \$584 per bed per annum.

Figure 12: Net profit/loss facilities built before and after 2000



As described earlier, this result reflects the significant increase in the costs of building and operating modern facilities to meet consumer demand, and the absence of appropriate funding mechanisms to encourage development.

These results demonstrate most clearly the challenges facing providers when undertaking new developments or redeveloping existing facilities. Over 18% of loss-making facilities built in the last 10 years reported deficits in excess of \$1 million and a small number reported losses around \$2 million for a single facility.



Strategies influencing financial performance

The Grant Thornton Aged Care Survey has demonstrated that the current funding and regulatory arrangements do not reward investment in modern aged care infrastructure and policy reform is urgently required. However, it is imperative that providers continue to explore initiatives to improve financial efficiency. This section looks at some of the primary influences on financial performance and presents some of the strategies employed by top performing providers to manage costs and maximise revenues. These strategies will be considered in more detail with case studies in future Grant Thornton publications.

Our team has interviewed providers that have achieved top quartile performance to discuss their strategies, policies and opinions. The top performers included small and large operators from both the For-Profit and Not-for-Profit sectors. Without exception, all operators were willing to contribute to this initiative.

The following strategies reflect the feedback provided by the top performing providers in the Grant Thornton Survey as well as those observed by the Grant Thornton team in our consulting work with providers throughout Australia.

It should be noted that the effectiveness of the strategies described below will depend upon the particular circumstances and will not be suitable for all providers. Operators may wish to contact Grant Thornton should they be considering the adoption of these initiatives.

Development/service strategies

Portfolio scale

Our discussions on development and service strategies were principally directed at larger operators. The majority of top performers believed that scale efficiencies were achieved where the provider operated over 1,000 beds within the portfolio. This scale was considered necessary to enable investment in shared specialist resources and improves purchasing power with suppliers. Respondents indicated that economies of scale increased as the organisation grew beyond 1,000 beds and that opportunities for diversification became more attainable.

The survey results indicated that scale did not have a major impact in the EBITDA reported by the Not-for-Profit sector. However, the For-Profit sector, the strongest returns were recorded by larger portfolio groups and single facility owner/operators. Figure 13 presents this trend.

Figure 13: EBITDA results – portfolio scale – for profit



The results are consistent with our experiences in the industry. Owner/operators of single services tend to become highly attuned to the impact of their decisions on financial performance. There is also a tendency to “underprice” the value of their own services and many family owned aged care businesses do not always record commercial salaries in their financial reports.

Most of the top performing large operators employed specialists with clinical, HR and finance backgrounds as a priority. Some also had dedicated education and training specialists.

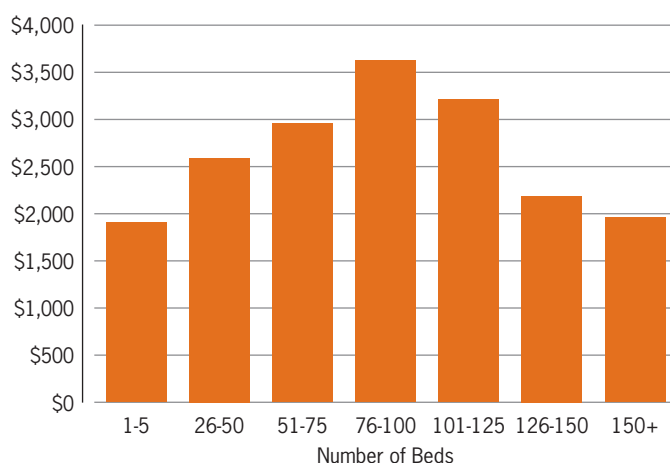
The very large operators have created regions within their portfolio and delegate responsibility within manageable units. Regional sizes around 400-500 beds were most common, although this was influenced by the geographical spread of the facilities.

Facility size

The most recent residential care developments ranged from 90 to 120 beds. The consensus view was that facilities greater than 120 beds became difficult to manage for a single facility manager. Most operators designed their services in 30 bed multiples (15 beds for dementia units) based on staff rosters. Almost all new developments had single beds (some had double rooms that could later be converted to singles to meet consumer demand).

Both the Hogan Review and the Grant Thornton survey results supported these views, indicating that the highest performing services were in the 76-100 bed range.

Figure 14: EBITDA results – facility size – all facilities



Top quartile operators outlined their strategies to minimise capital costs on new developments. The lowest costs were quoted by operators who have standard design models and long term relationship with a builder. The following construction and fit-out costs (excluding land) were cited:

New South Wales	\$165,000 per bed
Adelaide	\$170,000 per bed
Queensland	\$185,000 per bed
Victoria	\$145,000 per bed
Western Australia	\$164,000 per bed
Tasmania	\$138,000 per bed

Development/redevelopment plans

All of the operators interviewed prepared comprehensive development/redevelopment plans. Most used long range operating projections in addition to capital projections.

Thorough market research and community consultation was undertaken in the majority of cases for new developments and regular, formal reporting to the executive team and Board was common to all top performers interviewed.

Grant Thornton strongly recommends the involvement of care managers in facility design. Development programs run solely by architects may lead to the construction of dysfunctional facilities that are difficult to staff and not conducive to the efficiently delivery of appropriate care services. All top performers interviewed sought input from care/clinical staff as key stakeholders in their new developments.

Service diversification

The co-location of retirement villages and residential care services was seen as major advantage. Approximately 73% of respondents to the survey found that bond levels were increased, village units values were enhanced and cost sharing contributed to better financial performance when co-located. Operators of residential facilities are also increasingly seeking partnerships with retirement village developers.

Our research confirms that access to care services is one of the most important considerations for consumers considering retirement living options and this distinction is particularly critical in Australia's (currently flat) property market. The benefits to consumers and operators may be enhanced through policy improvements directed toward greater integration between community care, residential care and retirement living.

Diversification in care services was also a commonly cited strategy for top performers. Many larger operators provided transitional acute care services within their aged care facilities and some had dedicated step-down facilities. Serviced apartment accommodation is becoming an increasingly popular feature of new developments, or improving utility in small/older units that have been difficult to market for independent living.

Discussions regarding Extra Services (ES) brought mixed results. Of the 56 extra services facilities participating in the survey, more than half reported a net loss in 2008 and the average EBITDA was \$2,537 per bed per annum, which is below the Non-ES average of \$2,934.

Our experience indicates that the successful implementation of extra services requires careful research into current and future strategies of local competitors as well as the demographics within the catchment area. Extra services can work very well, particularly in affluent areas where there is limited competition from modern non-ES services. However, several participants in the survey reported low occupancy in their ES facilities and many of our own clients have found it difficult to fill beds where prospective residents are able to access standard high care services in a non-ES facility.

Most of those interviewed believed that a sustainable model for ES facilities required accommodation and services of a significantly higher standard. Capital costs of over \$300,000 per bed were quoted for facilities currently being constructed.

Governance and resource management

Board composition

The majority of the top quartile Not-for-Profit providers had predominantly independent Board members and a formal board member induction process. Most For-Profit boards were made up of shareholders/owners and few had independent board members. Whilst larger organisations tended to have structured formal board meetings, smaller operators tended to meet informally. However, clear and timely communication with stakeholders was a common attribute of all the top performers.

Strategic planning

The use of strategic and operational plans was common to all providers interviewed. These varied from simple, informal plans produced by smaller operators to comprehensive business plans. The plans were regularly updated and, for the larger groups, the attainment of organisational objectives was part of the Boards' standard agenda.

Management reporting

Perhaps the most significant characteristic common to most top performing operators was their highly developed financial and operational reporting frameworks. Because of the tight margins involved in residential care, the most successful operators are those who are able to quickly and accurately determine the financial impact of their decisions. While many small operators do not have highly sophisticated information systems, most are attuned to the key cost and revenue drivers and ensure that these are monitored carefully.

For larger operators, more formalised financial and operational reporting becomes critical. Head office management is unable to directly oversee all aspects of the business and strong performers ensure that they receive timely, accurate information regarding the performance of their sites. The establishment of a sound reporting framework requires the assessment of the most relevant information in the circumstance and the relative cost of collecting, collating and reporting.

Internal and external benchmarking was conducted by the majority of the operators interviewed and most involved facility managers in the development of performance goals and budgets. Small operators developed budgets with representatives from their care and administration team and all had mechanisms for operational staff to provide feedback on the actual results achieved.

Internal audit

All of the larger operators had a dedicated risk management/internal audit function (both in-house and external) and some of the smaller providers had accessed external support. While most internal audit activity was focussed on compliance matters, most of Grant Thornton's clients request that we extend our scope to address revenue maximisation, roster management and cost efficiency processes.



Human resource management

The commentary above describes the significance of wage costs on the financial performance of residential aged care providers. Most respondents to the survey cited wage increases as the most significant contributor to declining profitability.

Our consultation with providers in the top quartile confirmed that both large and small operators were committed to the establishment of efficient, sustainable staffing structures while delivering quality care services. The following represents some of the strategies employed to achieve that goal.

Head office administration

For large organisations, an effective head office function contributes to the improved delivery of services at the facility level and the efficient use of provider resources at all levels. Some of Grant Thornton's restructuring work in the industry has been necessary because these objectives have not always been at the forefront of decision making when head office staff have been recruited.

Top performing providers emphasised the need to maintain a lean head office structure and ensure that senior management do not become "office bound". The provider reporting the highest EBITDA in the survey places a high priority on direct contact with facility staff. Head office personnel spend a significant amount of time visiting facilities and facility managers meet monthly at head office. Similar approaches were taken by other top performing operators in both the Not-for-Profit and For-Profit sectors. Regional networks were also used to manage logistical constraints to direct contact with sites.

Performance reviews for head office staff were linked to outcomes at the service level and head office cost allocations were reported and carefully monitored by corporate management as well as the facility managers. Careful consideration was given to the appointment of new staff in growing organisations to ensure that each position improved service delivery in a financially sustainable manner. This avoids the problems associated with engaging permanent staff for short term projects/issues.

The role of facility managers

The large and small operators with the best returns had all invested heavily in the recruitment, development and retention of facility managers. As the principle representative of the business at the client service and operational level, this role is critical to the operational and financial success of the business.

Those interviewed expressed mixed views as to whether the facility manager should have a care/clinical background. While some felt that it was difficult to recruit nursing managers with strong operational and financial management expertise, others believed that these skills could be developed over time with appropriate professional development support. These operators argued that the costs of such an investment would outweigh the cost of separate management and clinical resources within the same site. With either approach, top performers considered that recruiting and retaining experienced and qualified facility managers was paramount.

Many operators have developed incentive packages for their facility managers to promote strong care and financial outcomes, and to entice experienced professionals to take up the role. While we have seen positive and negative results from bonus packages, the majority of larger providers did not support the strategy of providing financial incentives based on performance. Three main concerns were cited:

- 1) It was difficult to develop benchmarks on which to base incentives or measure their relative “worth” in terms of future bonuses. Some gave examples of problems caused when poorly balanced incentive programs had brought financial and operations objectives into conflict;
- 2) The differing environments in which facilities operate make it difficult to achieve equitable performance bonuses for all facility managers within a group; and
- 3) Groups that had found that an incentive program was not effective in their circumstances found it difficult to retract the system because of staff expectations.

Most of the operators interviewed favoured a more flexible process for attracting and developing managers based on the personal expectations of the individual. While some would be incentivised by higher-than-average pay, others were motivated by career advancement opportunities or providing flexibility in their working arrangements. The key is to understand the priorities of the employee and to develop a career path that encourages positive performance and ensures that their contribution is valued.

Performance appraisal and career development

Strong performers demonstrated a preference for regular staff performance reviews. Managers and senior executives were usually reviewed on six-monthly basis and their performance was linked to the organisation’s strategic plan. Facility managers generally conducted interviews of staff formally on an annual basis and throughout the year during team building exercises and through continual job feedback.

Many of the longest serving senior managers in the industry have worked their way up through the ranks. It is therefore vital that there are mechanisms to recognise and encourage talented employees at all levels and many top performers had developed programs to facilitate advancement of staff through:

- Internal management education and training programs;
- Subsidised programs for external education, both management and clinically based;
- Promoting internal advancement for temporary (“acting” roles) and permanent position vacancies (including the rotation of staff to other facilities within the network); and
- Developing tailored performance appraisal programs to monitor and support career advancement.

These processes were often supported by more global measurement processes involving staff surveys and regional feedback workshops for larger organisations.

Top performers also argued that the investment in staff social events and team building was invaluable. Most had established communication networks and newsletters to ensure that staff at all levels were kept abreast of developments within the organisation.

Although there were few extraordinary strategies uncovered for the recruitment of staff, the initiatives developed by top performers to motivate and retain their existing staff were clearly reflected in lower staff turnover and comparatively low agency dependence levels.

Revenue maximisation and cost control

Grant Thornton’s future publications will focus on some of the key strategies used by our clients throughout Australia. The following is a brief summary of those recommended by operators in the top earning quartiles.

Bond management

Most of the top performers in the survey do not cap their bond levels. Rather they negotiate to secure the best outcome for both resident and the provider. This enables flexibility in establishing an appropriate bond level having regard to the individual resident's circumstances and priorities, and considering competitive pressures from other providers.

There were more divergent views on the most appropriate person to manage the negotiation process. Some argued that facility managers are often not experienced in financial negotiation and therefore centralised bond management at head office.

Others believed that the most critical time to negotiate the bond is when the resident/resident's family is viewing the facility – this is the point at which the value proposition can be best presented. These operators felt that the disconnect between viewing the facility and discussing financial matters with head office brought downward pressure on bond levels and discouraged other prospective residents from proceeding.

Again, the most appropriate approach depends upon the particular circumstances of the provider and the skills and motivations of the staff at the facility level. Any decision to move to a decentralised bond negotiation model must be complimented with appropriate management support to ensure that staff are comfortable with their roles and capable of ensuring the best outcome for the resident and the provider.

Roster management

Most large providers interviewed favoured a more centralised roster system, where authorisation was required for major changes in rosters based on resident needs. Head office would assess the financial implications of the change and consider whether the change in circumstances warranted a permanent change in staffing or whether restructuring would be preferable.

However, a number of large operators were introducing information technology and benchmarking to encourage greater flexibility within appropriate financial and service parameters. These operators argued that, appropriately instructed, staff at the facility level are better placed to assess their own resource requirements and head office is able to monitor human resource management less prescriptively.

Regardless of the preferred strategy, our experience confirms that employees at the more successful facilities are attuned to the impact of roster management on the financial performance of the organisation. Given the financial results being experienced in residential aged care, this relationship cannot be understated and its communication to all levels of staff is crucial.

Contract management

Our commentary above considers opportunities available to larger operators in achieving economies of scale. One of the most commonly raised issues in our interviews related to the outsourcing of catering, laundry, maintenance and cleaning.

Although there were mixed views regarding building maintenance, all larger operators interviewed believed that the “real” cost of catering and laundry was less when these services were carried out in-house. Although some considered that unit cleaning costs could be reduced through outsourcing, these savings were often lost through the use of non-routine, “spot” cleaning services.

Most of the operators interviewed had trialled outsourced services at some stage and many indicated that they had underestimated the full costs associated with outsourcing, particularly the resources required in contract management and the level of semi-variable costs that remained after the function was outsourced. Others argued that the process made the management team less involved in that aspect of the business and that total service standards deteriorated.

Conversely, a number of smaller operators believed that they were unable to achieve the purchasing power of the outsourcing companies and some had been able to negotiate very competitive contract prices for the outsourced service. Some of our larger aged care provider clients now provide outsourced services to smaller clients and these arrangements have generally been mutually beneficial.

For most large operators, however, the investment in developing strong internal service functionality is likely to enhance service delivery and improve financial sustainability.

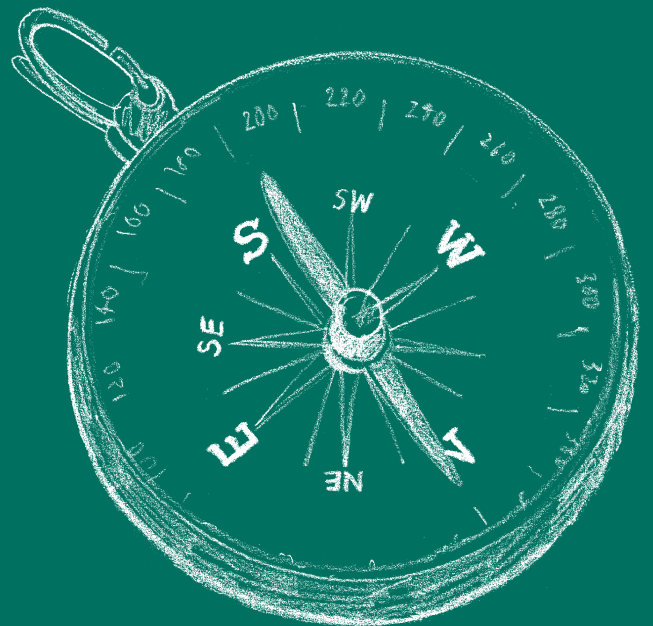


Conclusion

The ageing of our nation's population is a reality that is as exciting as it is challenging. Advancements in technology, medicine and care services have created an environment where Australians have more choice in their preferred lifestyles as they age.

The role of consumer choice will be a powerful instrument in the hands of future generations. However, the benefits of exercising this choice are unlikely to be realised while the industry remains so heavily regulated. There exists a window of opportunity to approach aged care policy reform in a structured, proactive fashion. In doing so, Australia will be able to accommodate the rising expectations and numbers of consumers whilst encouraging operators to upgrade and expand Australia's residential aged care services. This can be achieved at a lower long term cost to the taxpayer than is possible under the current systems.

The momentum for policy change in aged care has never been stronger. Grant Thornton will continue to work with policy makers and industry representatives to promote reform wherever possible. We will also continue to work with our clients in the sector to enhance viability and we hope that the strategies presented in this publication provide some assistance in this regard.



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