The Highs and Lows of Residential Care
A Look at the Results of the Just Released 2006 National Aged Care Survey

The 2006 National Residential Aged Care Survey undertaken by Bentleys MRI and James Underwood & Associates is currently being released. The survey had 354 Australian services participate, or 12% of the sector.

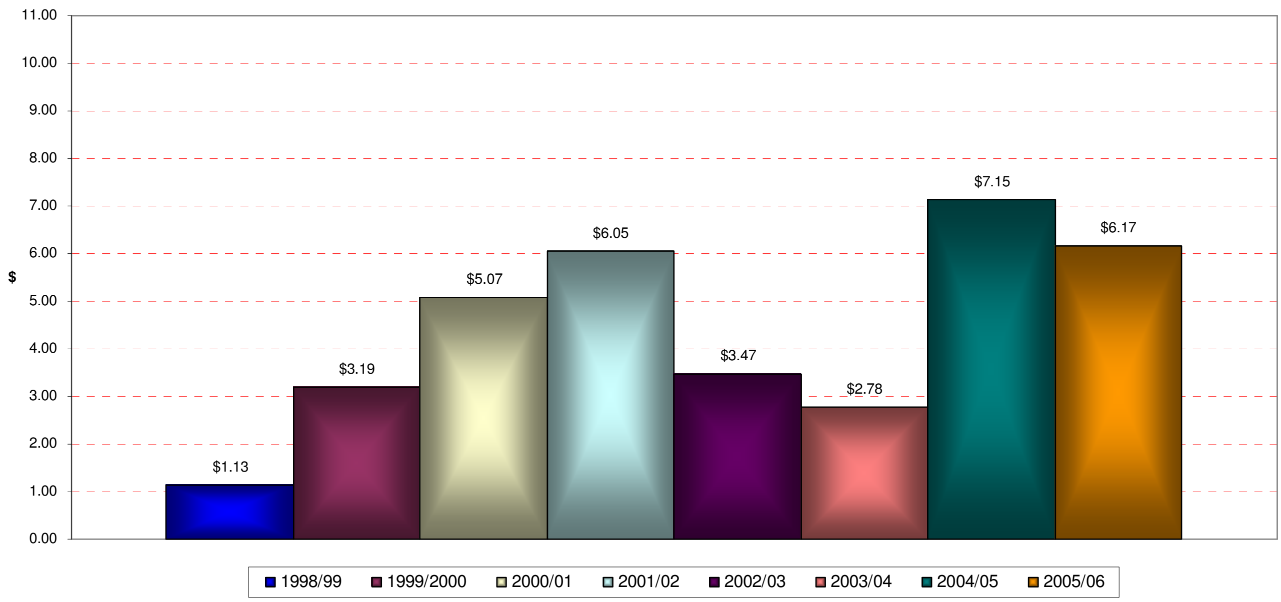
The key findings include a fall in average returns in High Care (nursing homes) and a rise in returns for Low Care (hostels).

These movements continue a long and worrying divergence in the residential care sector – a poorer level of return in High Care and better returns in Low Care. Why does this happen?

High Care

The average surplus on operations before "other costs" (i.e. before the cost of building depreciation, interest and/or rent) fell from $7.15 per resident per day (prpd) in 2005 to $6.17 prpd in 2006. This figure could also be referred to as the EBITDA if the depreciation on plant and equipment of a little over $2.00 prpd was added back in.

Movement in High Care "EBITDA"
($ per resident per day)



The fall in returns was **not** within the private-for-profit sector – this sector recorded increased "EBITDA". The fall was because of a significant drop in the average return in the voluntary sector services.

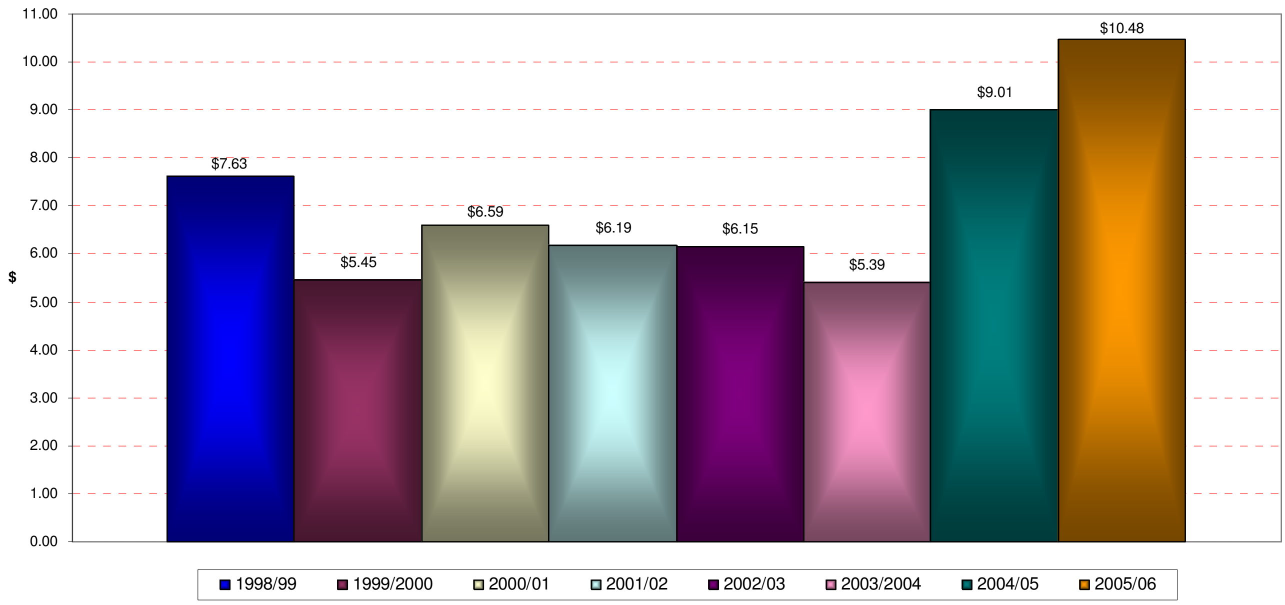
The worst returns are in the **rural** High Care services (26% of all High Care participants) in the **smaller** High Care services (29% of all High Care services were 40 places or smaller). However, the proportion of all High Care services that are small is dropping as more consolidation, amalgamation and expansion occurs in the sector. (In the 1995/96 survey, a decade ago, 38% of High Care services were 40 places or smaller, compared to just 29% now).

So, what is the **key** reason for poor and falling returns in High Care? The reason is the huge difference in operational viability between the multiple-bed, "ward-type" services and the new single-room services. The average "EBITDA" of services with two or more residents per room was $17.26 prpd or $6,300 per place per year higher than the average return in single-room services. The average single-room High Care service made just $1.32 prpd or $480 p.a. **before** any capital costs of interest on debt, rent or building depreciation.

LOW CARE

Some 96% of all Low Care respondents are voluntary-sector services. (Until 1991, the private sector was legislatively excluded from Low Care.) The average "EBITDA" of voluntary sector Low Care services is $10.22 prpd or $3,730 p.a. This is nine times higher than the return in voluntary sector High Care services.

MOVEMENT IN LOW CARE "EBITDA"
($ PER RESIDENT PER DAY)



Despite "ageing in place", two thirds of the 166 hostels in the survey have most of their residents in Low Care RCS (dependency) categories. Of those third that have mostly High Care residents, only one has an RCS profile similar to a High Care service (and it makes a large loss). The rest have much less average frailty than a standard High Care service. Regardless of the high level of frailty of the one-third of Low Care services with mainly High Care residents, the staffing is characterized by lower levels of registered and enrolled nurses and higher use of the lower-paid personal care and hostel care attendants than High Care services.

MERGED SERVICES

A third group of services is reviewed in the Survey. These are "merged services" where the High Care and the Low Care services on the one site are not accounted for separately and often have only one "government approval number". The average frailty of residents in these services is between the High Care and Low Care averages.

Merged services make up 21% of the survey respondents. The average "EBITDA" of these services is $7.63 prpd and is between the High Care and the Low Care averages.

CONCLUSIONS

For many reasons – including the strong growth in home care services – the proportion of residential aged care residents who are **High Care** grows each year.

Most of the new High Care services that are being built have 100% single rooms, usually with private ensuites.

Each year's financial survey adds to the evidence that single-room High Care services cannot be operated viably under current "standard" High Care income arrangements. Changes – being significant, workable changes acceptable to all stakeholders – are needed to sustain and expand provision of single-room High Care services.

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