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# Accounting for CDC and Financial Benchmarking for Improved Financial Performance

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Aged & Community  
Services NSW & ACT

# Workshop Outline



- Overview of industry sector trends
- Benchmark basics
- Differentiating factors
- Selecting targets for improvement
- Interpreting the numbers
- Budgets and forecasts
- Changes in focus as a result of reforms



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Industry update

# Setting the scene

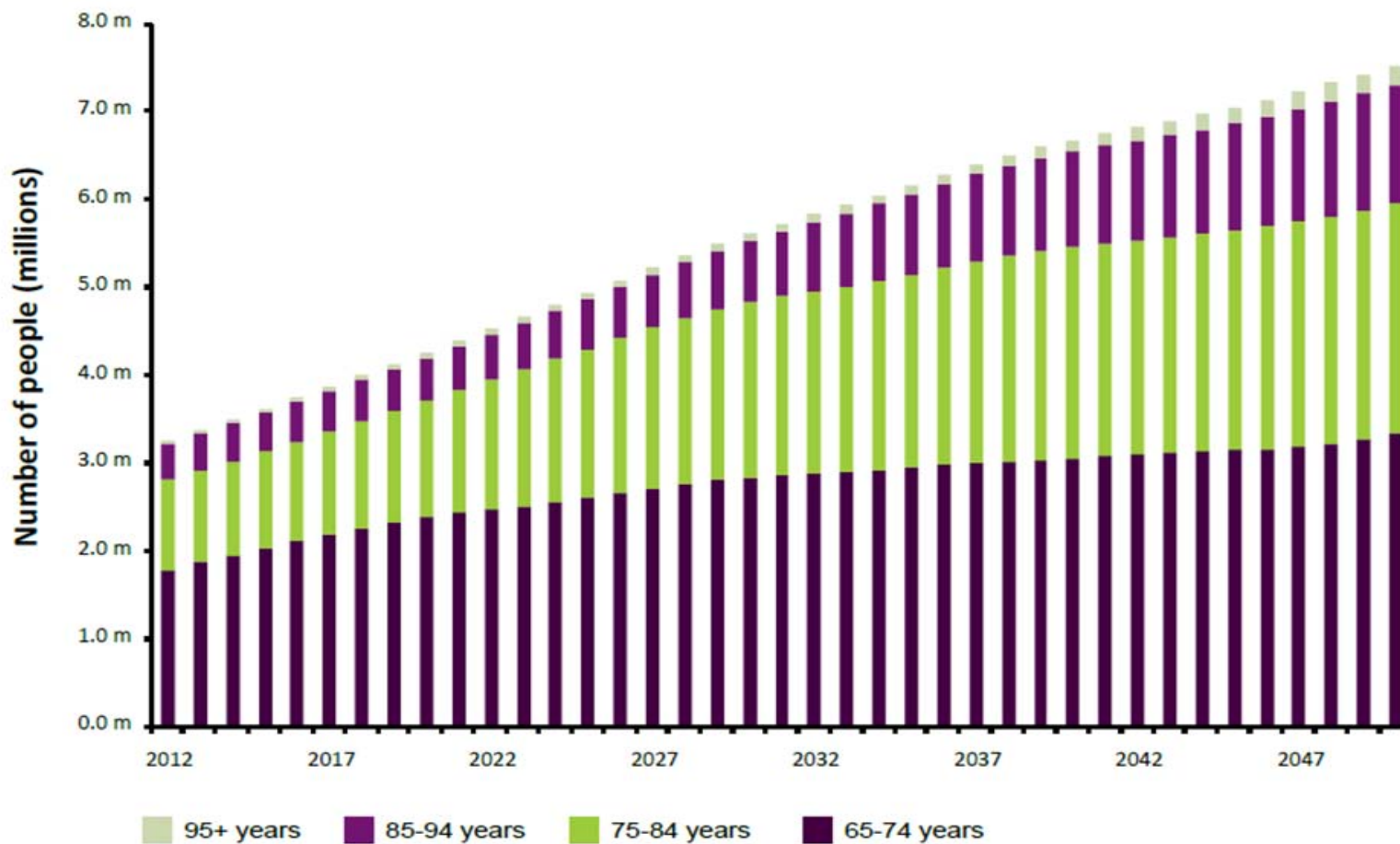


- △ Ageing population
- △ Changing needs and expectations of those entering care
- △ Increased emphasis on home care
- △ Government reforms including
  - △ Greater emphasis on user pays
  - △ Increased levels of wealth



# Ageing population

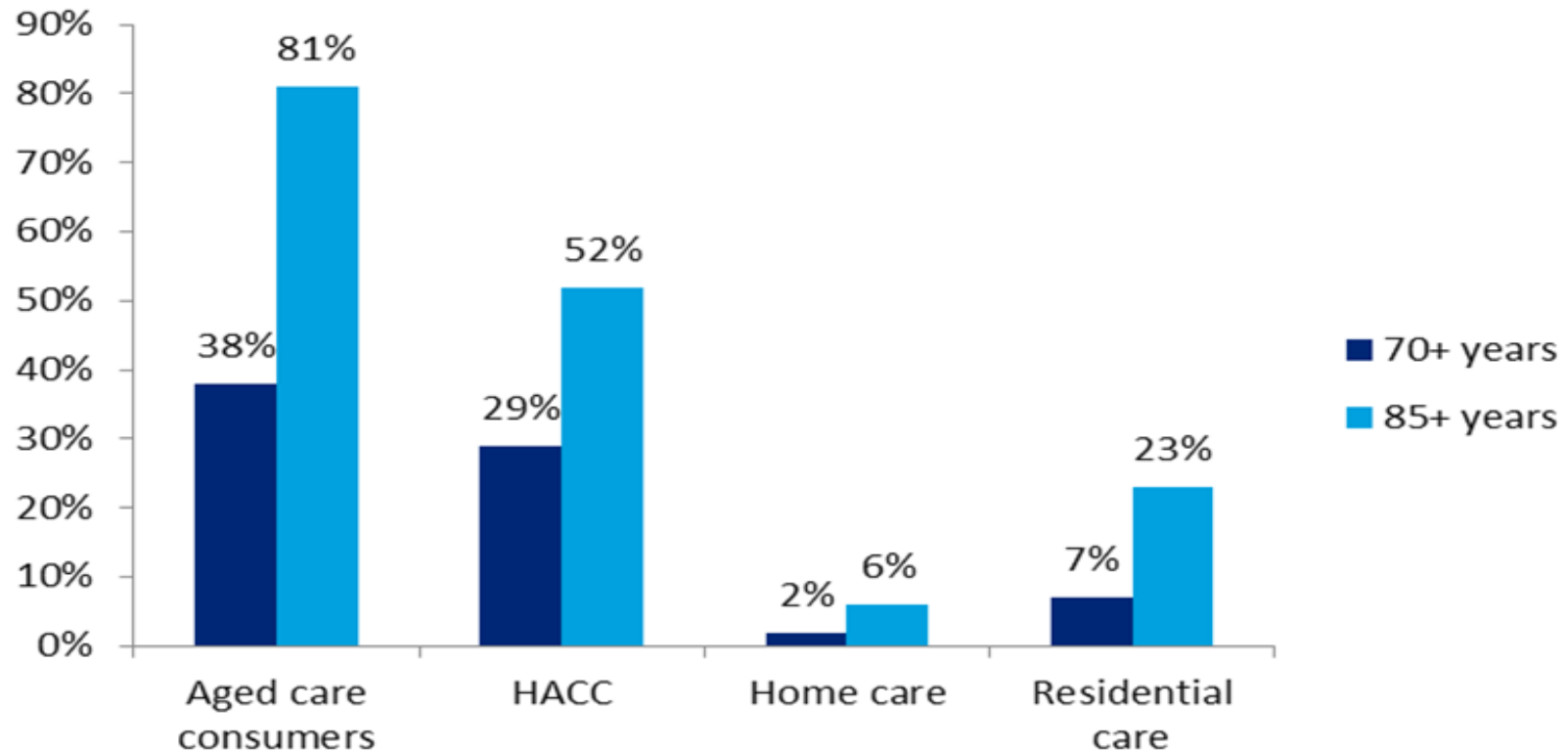
## Number of people aged 65 years and over, by age group, 2012 to 2050



# The aged care system



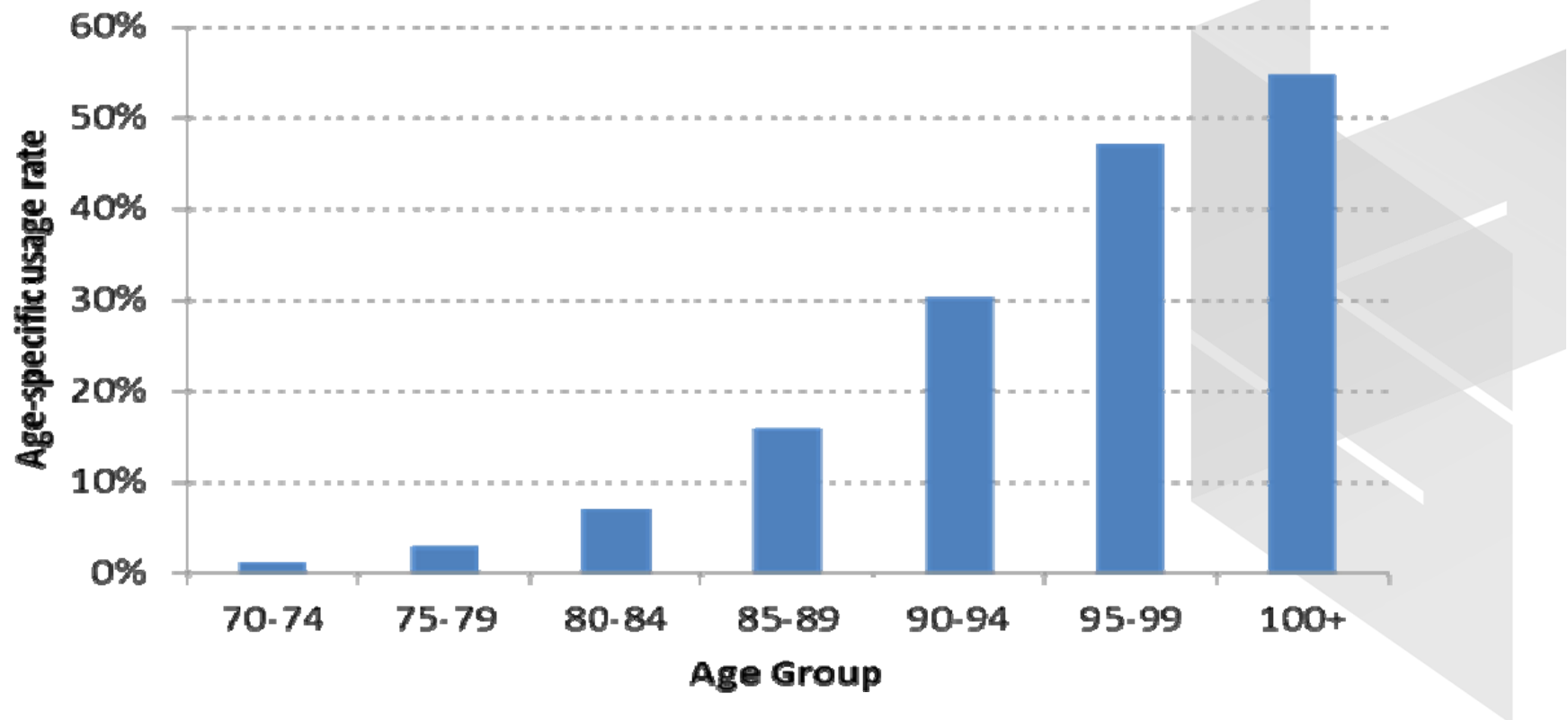
## Proportion of people 70+ and 85+ accessing aged care at 30 June 2014



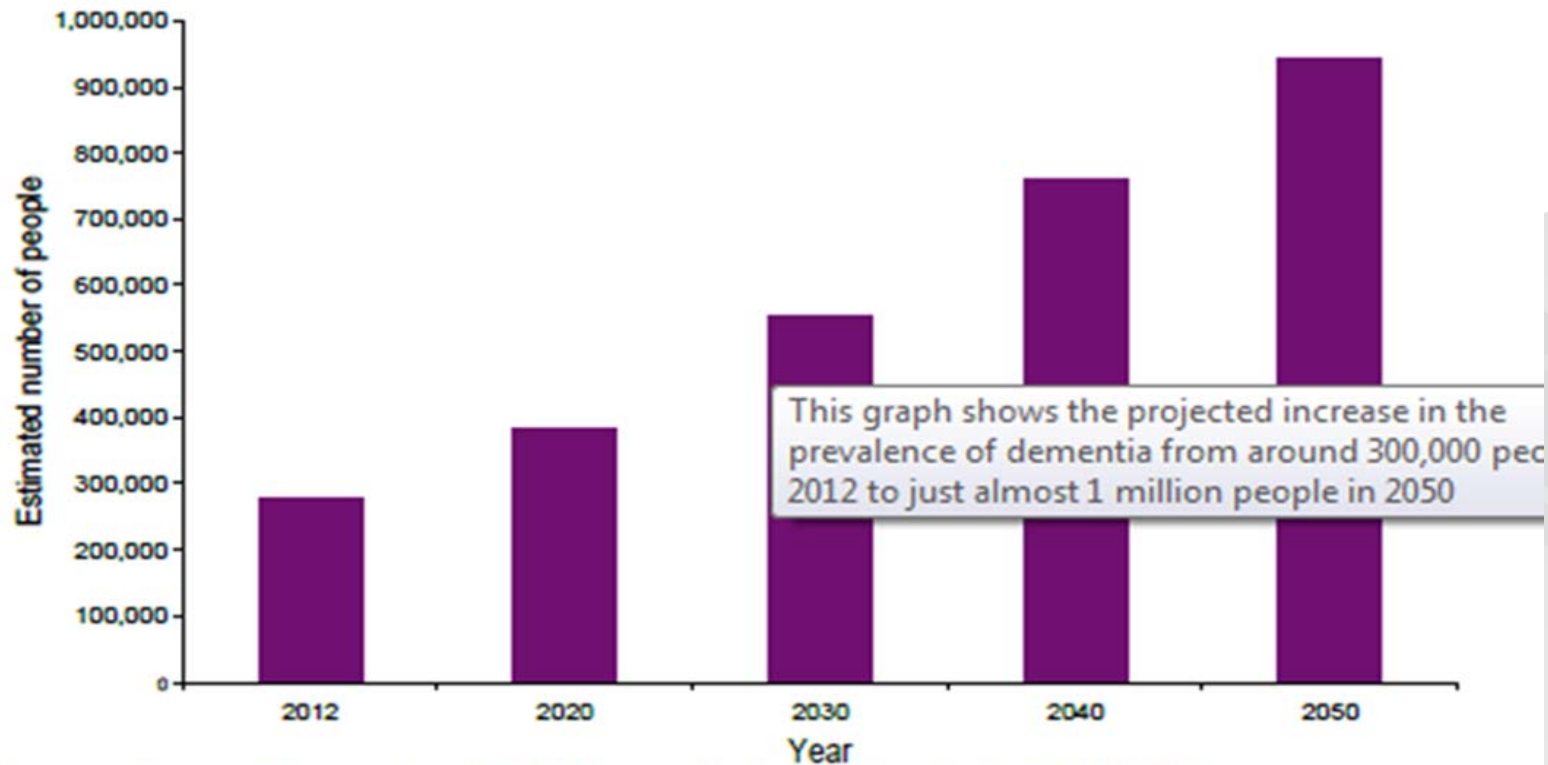
# Residential Aged Care



Proportion of each age group in residential aged care at 30 June 2014



# Increasing numbers with dementia



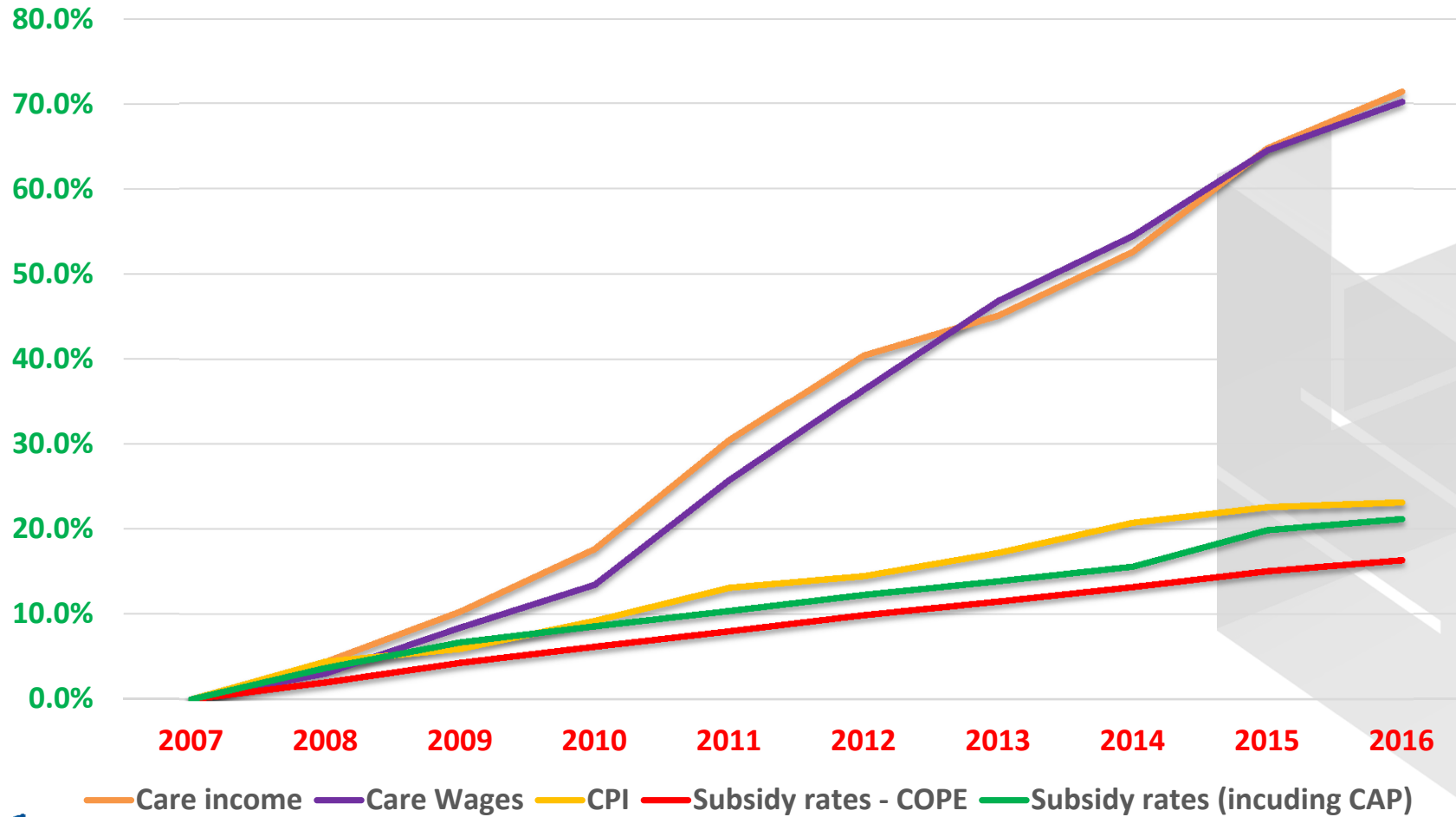
Source: Access Economics (2011), Dementia Across Australia: 2011-2050



# Changing Acuity and Funding



## Comparisons of Care Income and Wages and various indices



# Changing face of the consumer



## Residents & clients of recent times

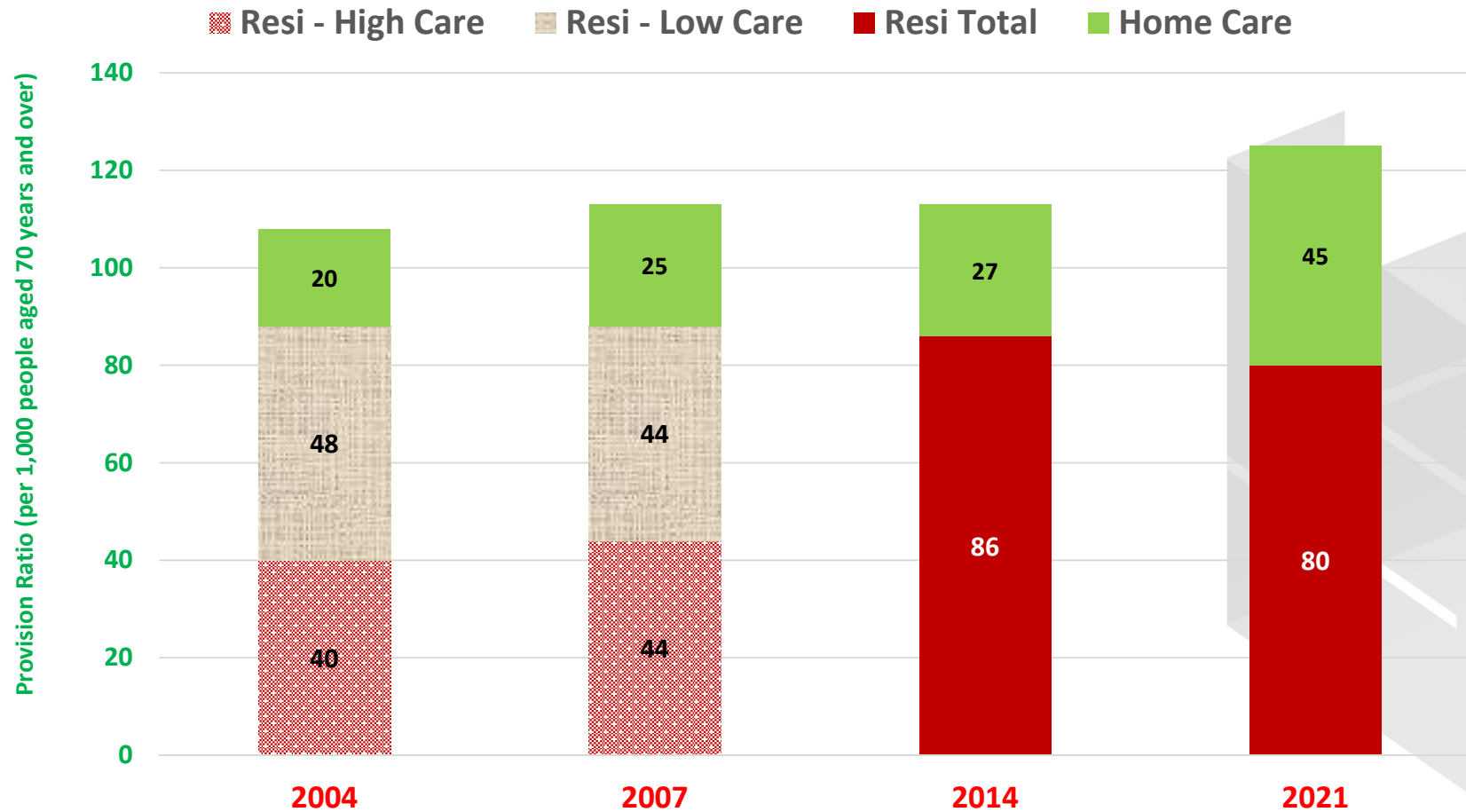
- Grateful to receive a bed or package
- War, depression or struggle mentality
- Low expectations & requirements
- Old world value sets eg thrift, honesty
- Doctors, specialists, nurses and allied health professionals seen as "having authority"
- Generally unquestioning, "government pays"
- Limited number with tertiary qualifications
- Not as asset rich as baby boomers

## Residents & clients tomorrow

- Attuned to choice, options and decision making processes
- Low or no brand loyalty
- High expectations and needs
- Multi-cultural focus and acceptance
- World views, world travel
- Rights and responsibilities oriented
- Independent, self managing people
- Accumulating wealth/investments versus increasingly disadvantaged
- Increasing number of people with tertiary qualifications, careers etc

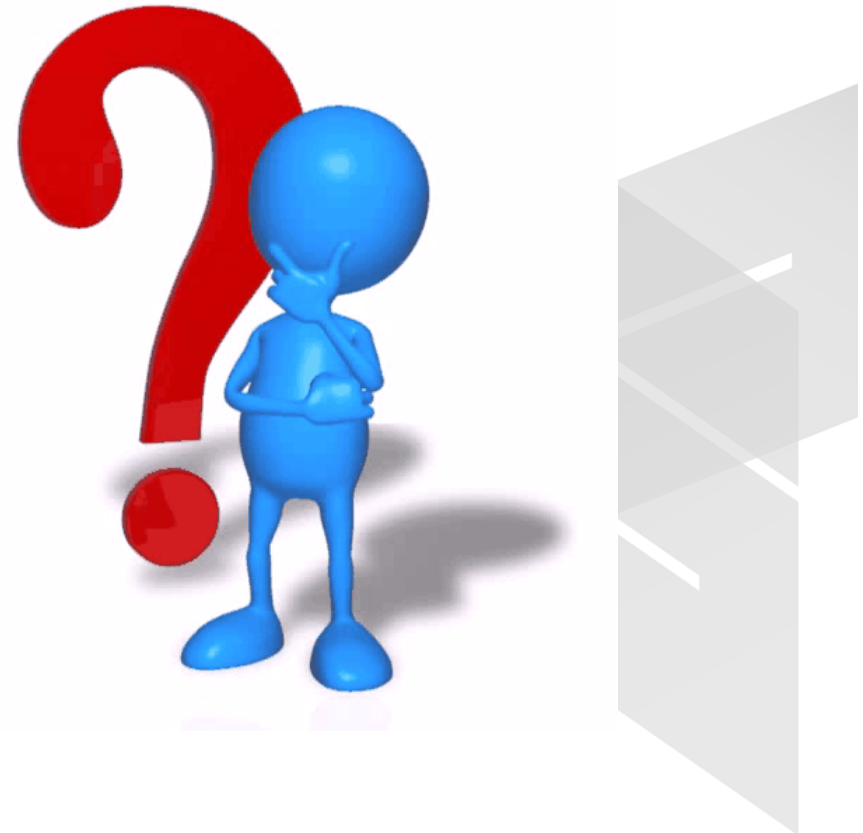
# Increasing emphasis on home care

## Increase in Provisional Ratio to 2021/22



# Where are we now?

- ⇒ We are in a time of significant change
- ⇒ Many challenges ahead
- ⇒ We are at a point in time where innovators will prosper
- ⇒ Technology is emerging and will assist in transition process
- ⇒ A time of high investment
- ⇒ A time of growing consumer choice



# What are the current trends?



- ↪ ILUs being targeted for care services
- ↪ Continued shift to high care needs and shorter resident stays
- ↪ Optional services in residential care
- ↪ New staffing models (including using home care as the central provider of care to other business units)

# What are the current trends?



- ↳ Alternate models of care
- ↳ Providing more choice to consumers through accommodation styles, care models and service levels
- ↳ More competition from private providers and larger not-for-profit providers

# What are the current trends?



- More competition in home care market likely from outside traditional players
- Further consolidation in market is likely
- Formation of partnerships and alliances will continue
- Integration of traditional business units (ILUs, Residential Care, Home Care)



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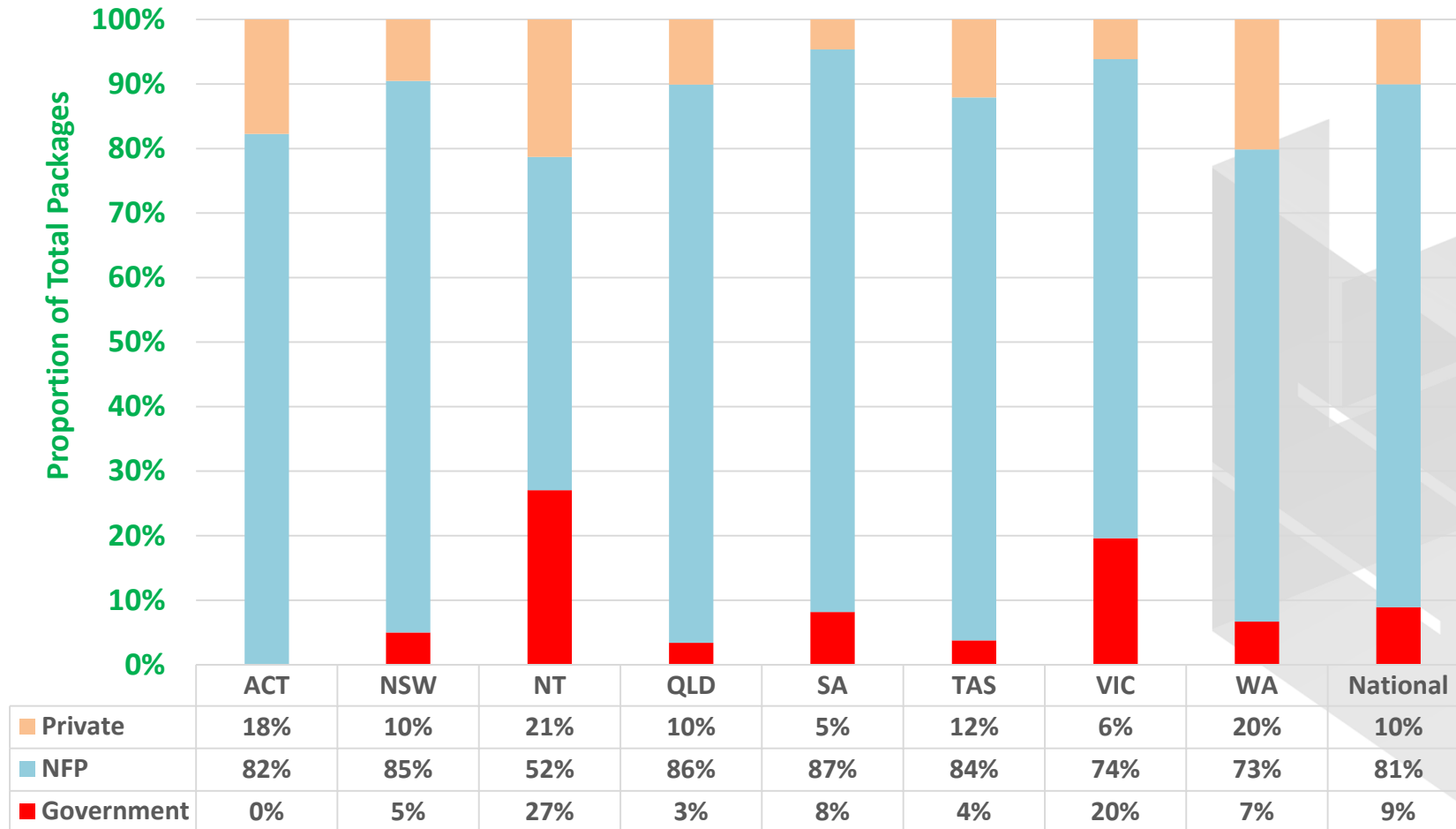
# Financial Trends



# Home Care Ownership



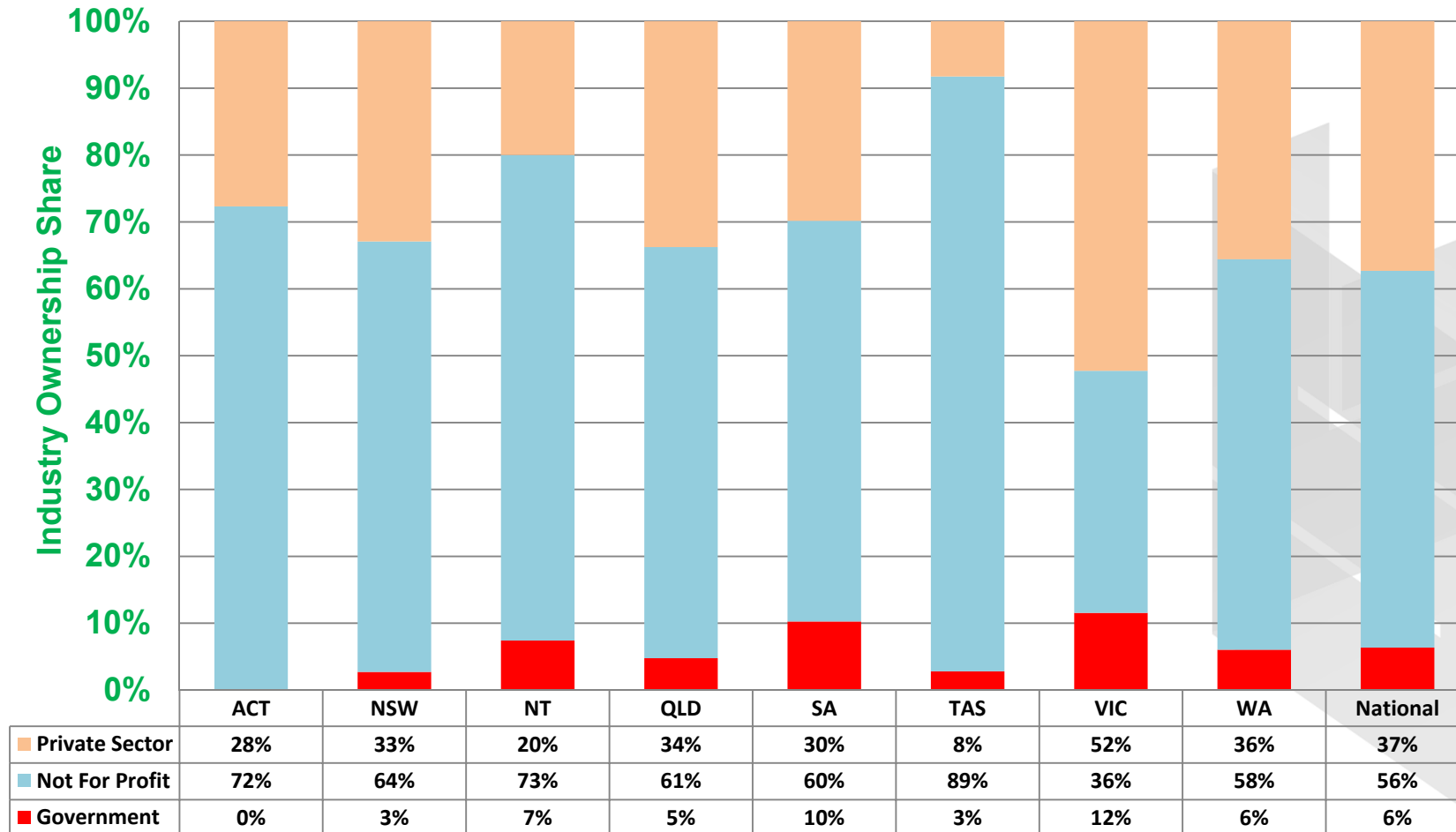
## Home Care - Ownership By State



# Residential Care Ownership



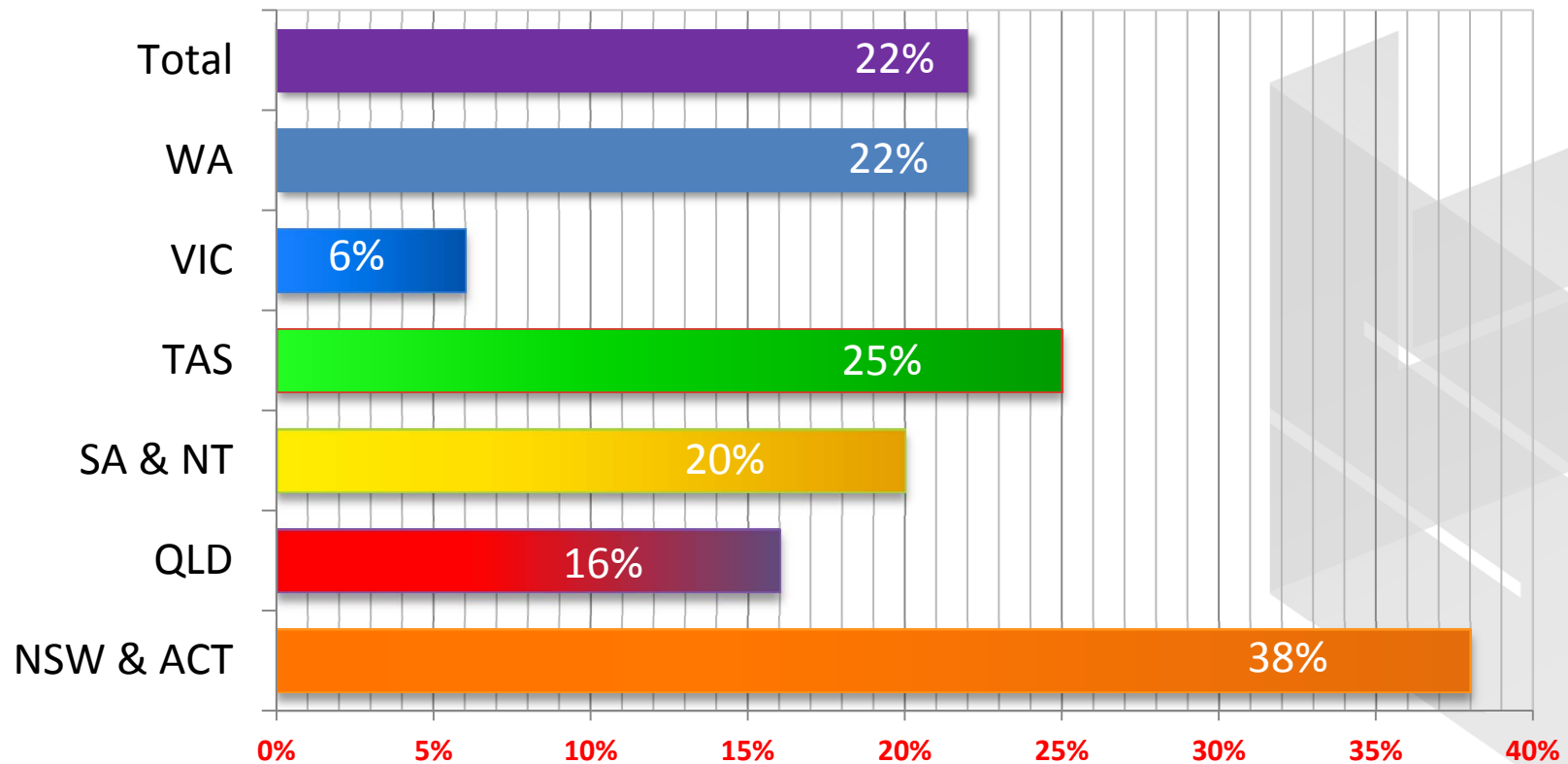
## Ownership of Residential Aged Care By State



# Home Care Participants - State Distribution



**StewartBrown** Survey Distribution of residential aged care facilities by State - Proportion of total facilities in each State



# Home Care - Profitability



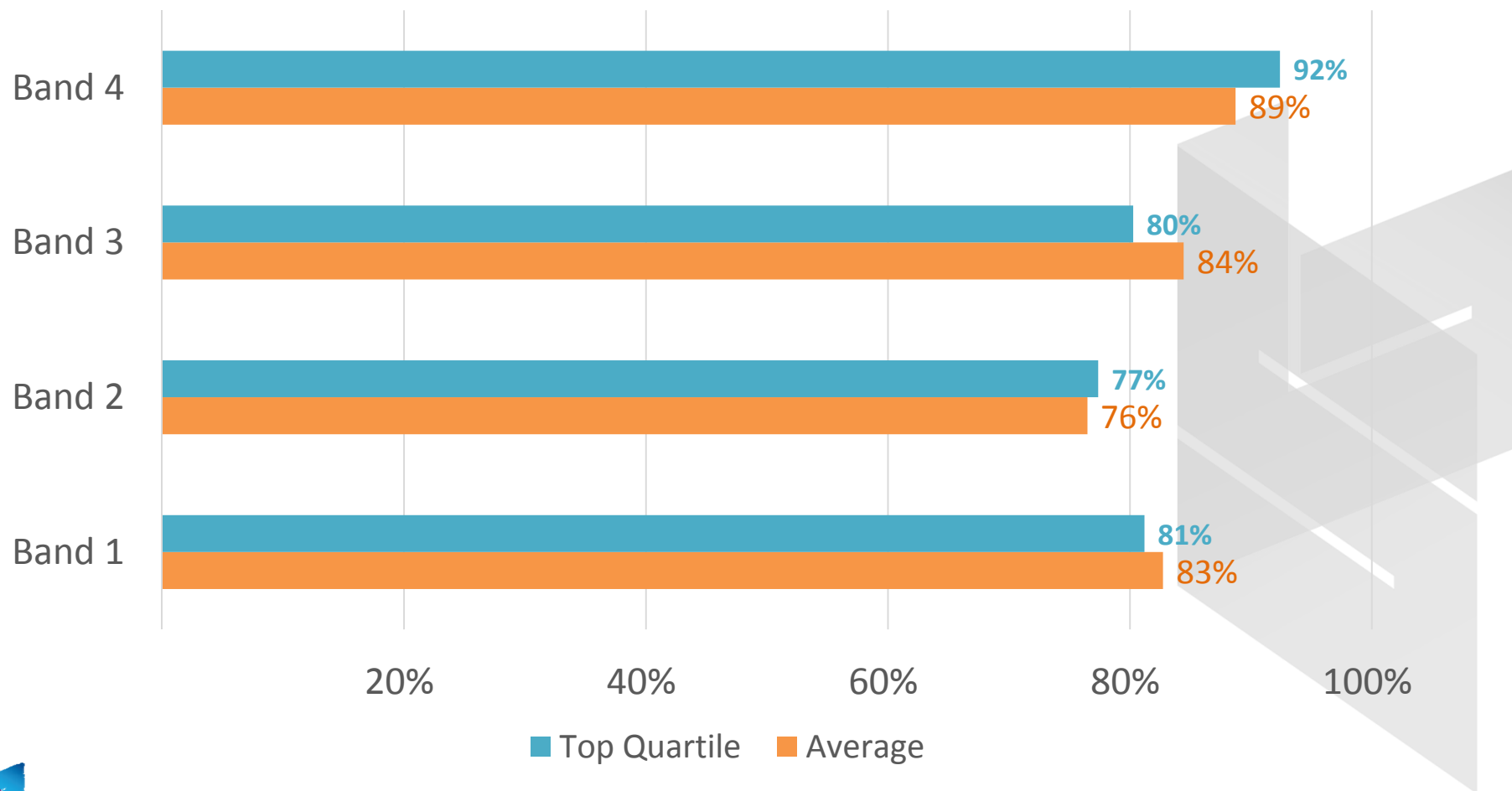
## Survey Results by Band (EBIT)



# Home Care - Occupancy



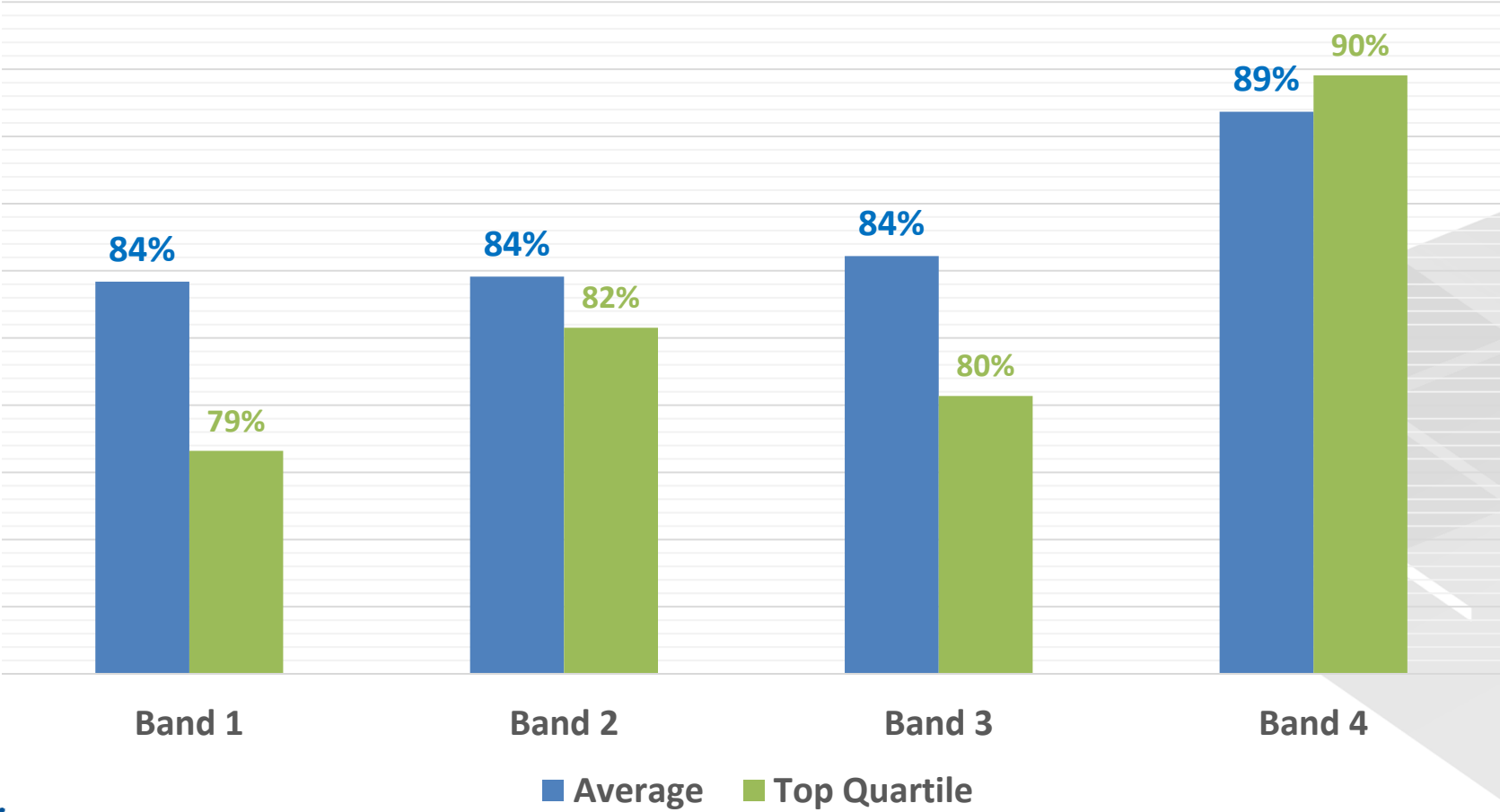
## Package Utilisation



# Home Care - Unspent Funds



## Revenue Utilisation



# Home Care - Margins



## Margins on Direct Service Income



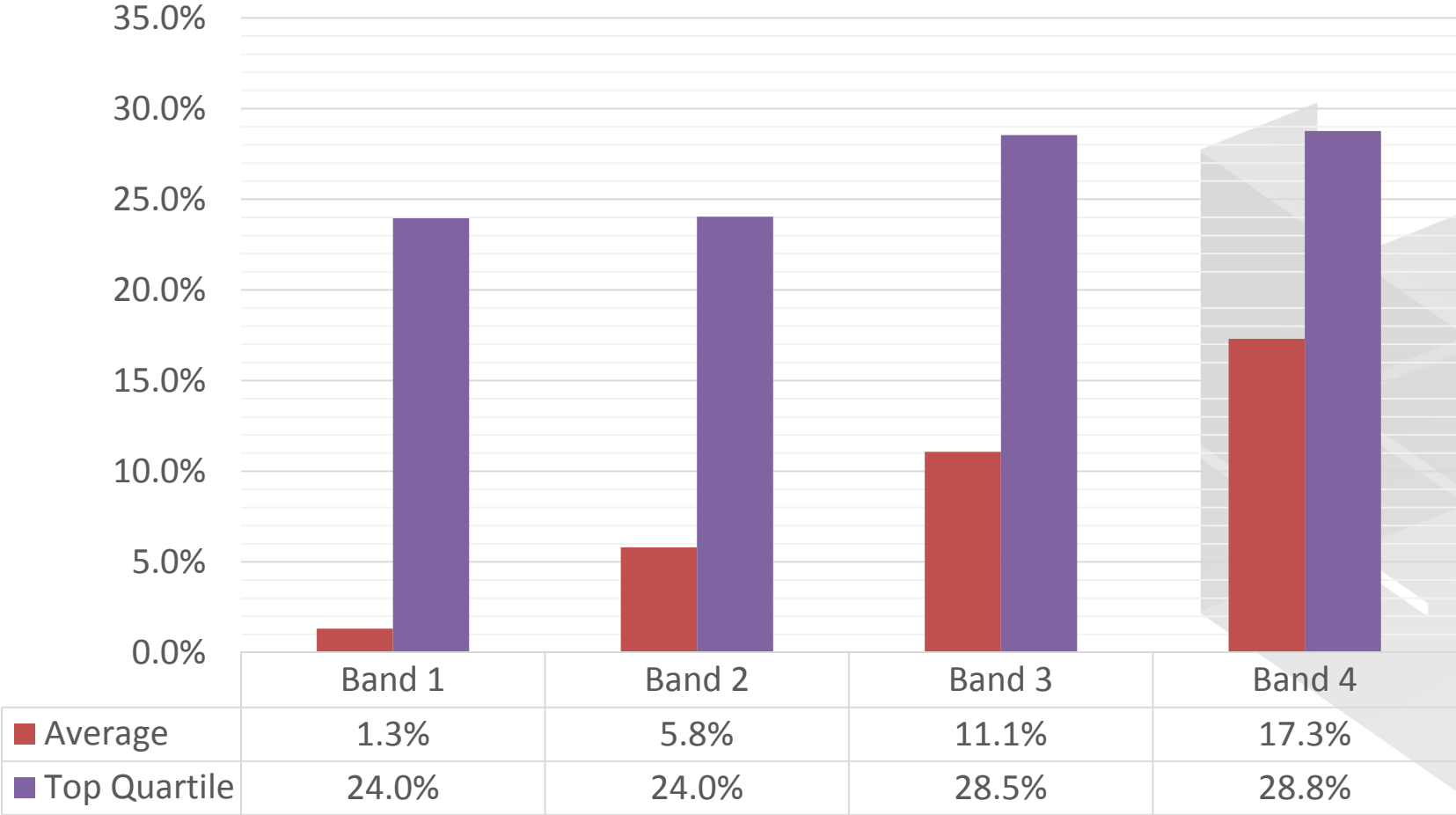
(10.0%)

	Band 1	Band 2	Band 3	Band 4
■ Average	(3.3%)	25.4%	16.2%	36.7%
■ Top Quartile	5.5%	31.7%	22.9%	54.0%

# Overall Margin



## EBIT as % of Revenue

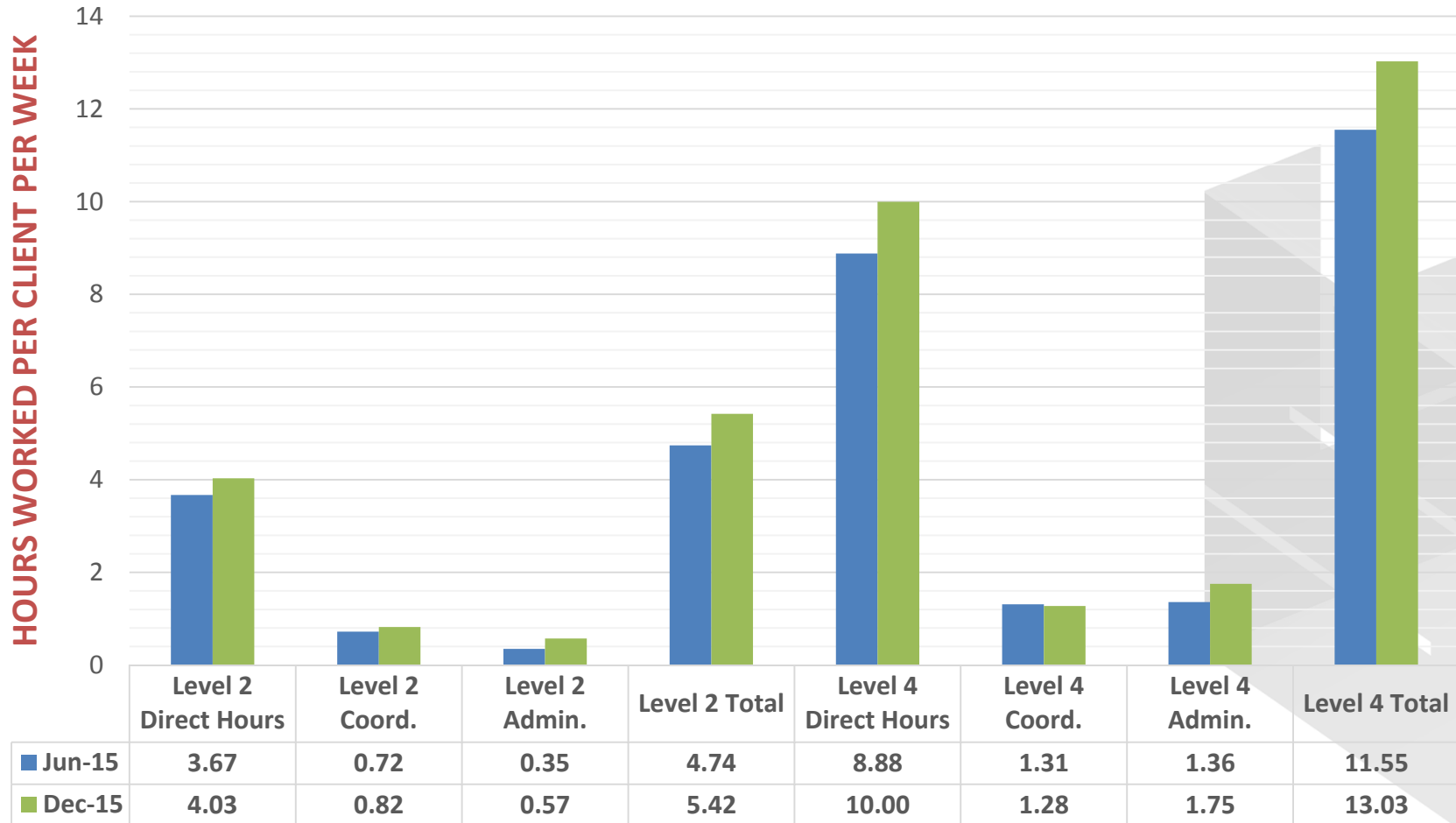




# Are clients receiving more hours?



## Wage Hours per client per week





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# Accounting For CDC in Home Care Some Lessons

# Why the back-office upheaval?



△ Has required service providers to implement business model reforms to adapt to changes in funding arrangements

- Reporting is now required at a client or package level
- Prices for individual services have to be itemised on the client statement
- Payroll and rostering systems ideally should be linked to client management systems
- Income recognition timing has now changed
- Individual client budget and care plans

# Getting it Right



# The Basics



- ➔ Develop an appropriate business model for delivering CDC
  - ➔ What services do the clients want?
  - ➔ What services are to be provided directly?
  - ➔ What services are to be brokered?
  - ➔ How will clients be charged?
  - ➔ How will overheads be recovered
- ➔ The underlying systems must be aligned with the overall business model

# Setting a Selling Price

Method 1 – Establish  
your competitor's  
pricing structures and  
then charge the same  
or less

**FAIL**



# Setting a Selling Price



## Method 2 - Base price on Cost to Deliver Service

- ✓ Establish the costs of providing a service
- ✓ Set an appropriate margin
- ✓ Assess price against competition
- ✓ If uncompetitive - look at ways of reducing costs
- ✓ Explore alternative methods of service delivery (brokerage)

PASS A+

# Building a Cost Model



**Step 1** – Define the Activities of Service

**Step 2** – Establish the costs of providing a service

**Step 3** - Understand the relationship between each contributing cost and the activity of service including the variables associated with the activity of service



# Example of Activities of Service



<b>Personal care services</b>	Assistance with bathing, showering and personal hygiene; toileting; dressing and undressing; mobility; and transfer
<b>Leisure, interests and activities</b>	Encouragement to participate in social and community activities
<b>Activities of daily living</b>	Assistance with communication, fitting hearing aids, cleaning spectacles and assistance using the telephone
<b>Mobility and dexterity</b>	Provision of and assistance with mobility aids, bed rails, pressure relieving mattresses and other devices
<b>Management of skin integrity</b>	Providing bandages, dressings and skin emollients

# Examples of Activities of Service



<b>Nutrition, hydration, meal preparation and diet</b>	Assistance with preparing meals, eating and provision of enteral feeding formula and equipment.
<b>Continence management</b>	Assessment for and assistance with continence aids including pads, commode chairs, bedpans, catheter and urinary drainage appliances
<b>Support services</b>	Cleaning, gardening, laundry services, rehabilitative support, home modifications, transport and personal assistance, home safety assessments and medication management
<b>Clinical care</b>	Nursing, allied health and therapy services
<b>Access to other health and related services</b>	Referral to health practitioners or other service providers

## Categorising Costs



**Direct cost** – can be accurately attributable to a service or cost centre with little effort

**Indirect cost** – cannot be accurately attributable to an individual service – typically apportioned between services or cost centres

**Fixed costs** – little variation in level of cost according to volume of activity

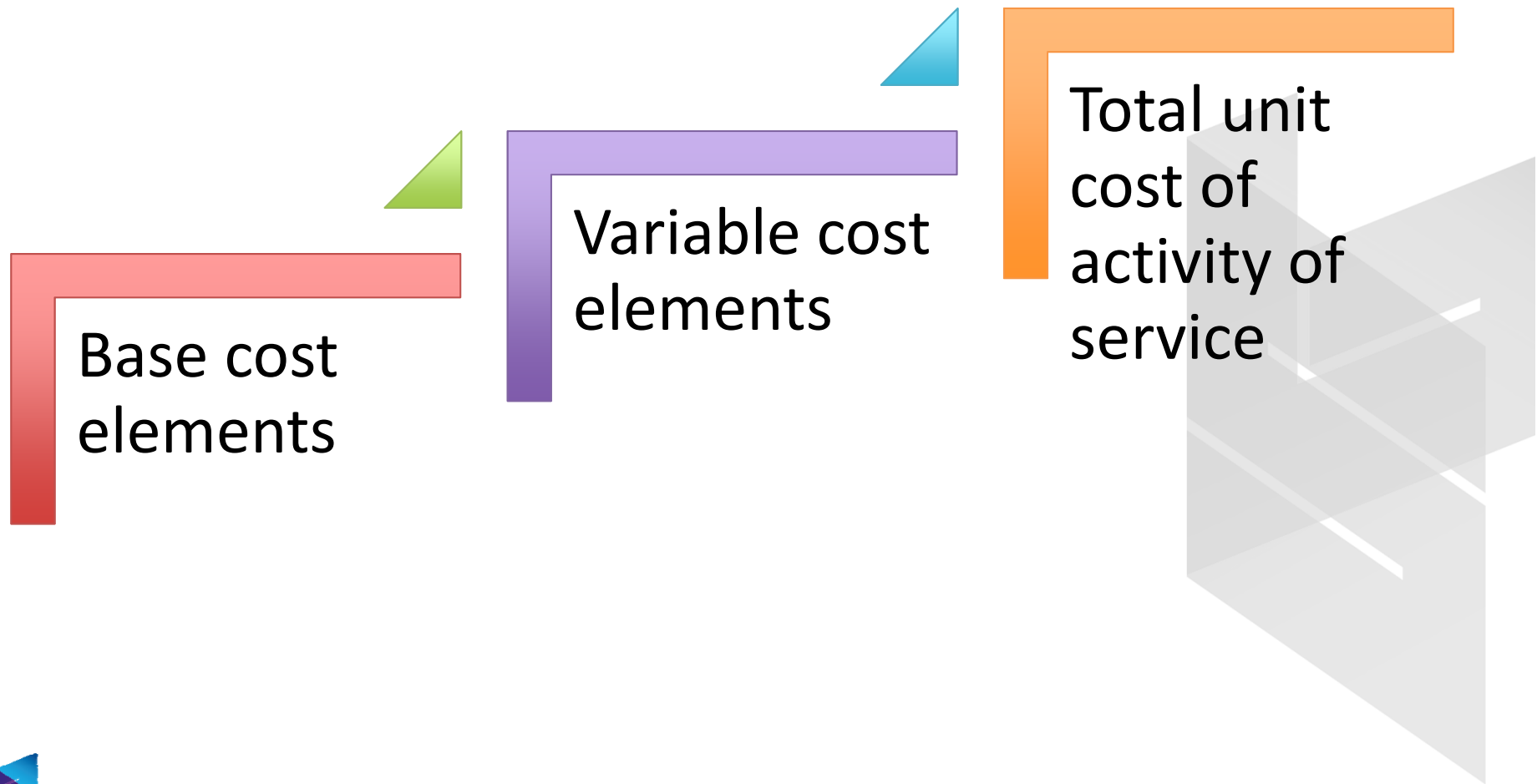
**Variable costs** – respond directly and proportionately to changes in activity levels

## Implications of Indirect/Fixed costs



- These costs are generally apportioned in some way
- Must establish an appropriate method of recovering these costs
- Ability to recover these costs will be affected by movements in utilisation and changes in margins

# Building blocks of Unit Costs



## A Quick Recap



- ✓ Defined activities of service
- ✓ Identified cost elements
- ✓ Established unit costs and selling price of each activity of service
- ✓ Determined method of recovering coordination and case management
- ✓ Determined method of recovery of administration costs

# Income Recognition



- 👉 When funding is received (from government of client) it represents an advanced commitment on the performance of the services
- 👉 The provider initially has an unfulfilled obligation to deliver the related service to the individual consumer
- 👉 The provider will recognise a liability in the form of deferred revenue representing the unspent funds

# Income Recognition



- 👉 Revenue is subsequently recognised when the services are delivered to the client in the manner specified in the home care agreement
- 👉 At this point the provider has satisfied their obligations
- 👉 Any unspent funds will continue to be recognised as a liability until the point that the obligations of the provider are satisfied



# Income Recognition



## 👉 Now

- 👉 Upon departing a package, unspent funds will be recognised as income as long as it is clear that the provider has no further obligations to the client

## 👉 Post 27 February 2017

- 👉 Any unspent funds accumulated since 1 July 2015 will need to be either sent to new provider if the consumer decides to move to another provider; OR
- 👉 Returned to the consumer and government in the proportion that contributions were made to the package

# Returning unspent funds



- ✓ Provider is responsible for calculation of apportionment
- ✓ Provider can charge a one-off administration fee against the unspent funds but this amount will need to be disclosed in the care agreement when the consumer is enrolled in a package
- ✓ Implications
  - ☞ Systems will need to be able apportion the unspent funds between government and consumer
  - ☞ Imperative that unspent funds are minimised over the course of the package

# Systems



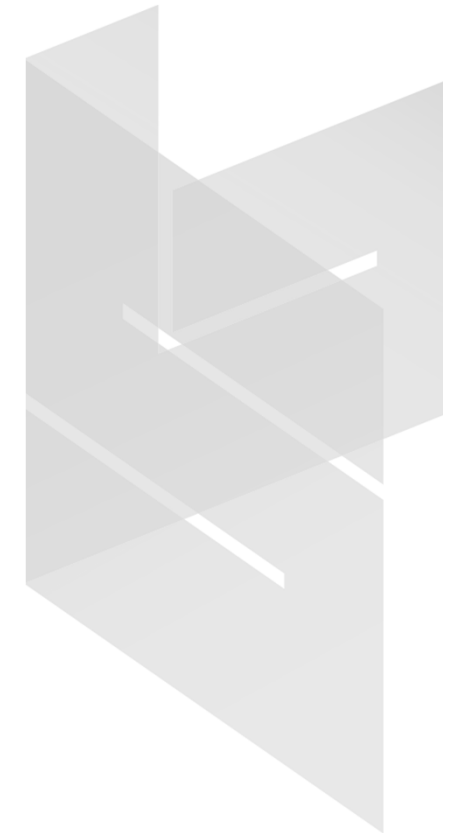
- ➔ Providers must invest in systems to survive
- ➔ Must drive efficiency, reduce admin burden and duplication of data
- ➔ There are a number of specialist software packages (However there needs to be integration with existing systems)
- ➔ For many smaller providers a band aid approach using spreadsheets is common practice
- ➔ Which system is to be used for certain tasks?
  - ➔ Payments to creditors
  - ➔ Time and attendance
  - ➔ Client billing

# Monitoring Performance



Performance should be monitored at various levels

- ✓ Organisation
- ✓ Program
- ✓ Package
- ✓ Activity



# Organisation or Program Level

	MONTH			
	Actual	Budget	Variance	
<b>Key Indicators</b>				
No. of Packages/ Outputs	1,000	1,000		
Total Package Days/ Output Hours Achieved	800	900	(100)	
	89%	90%	11%	
Client Care : Revenue	84%	70%		
Other Client Care : Revenue	30%	18%		
Operating Costs : Revenue	5%	4%		
Admin Costs : Revenue	36%	27%		
Operating Result : Revenue	-25%	-1%		
	<b>Client Day</b>	<b>Actual</b>	<b>Budget</b>	<b>Variance</b>
	\$	\$	\$	\$
<b>OPERATING</b>				
<b>Income</b>				
Income from clients	800	1,000	(200)	
Government funding	10,000	10,000	-	
Other Income	50		50	
<b>Total operating income</b>	-	10,850	11,000	(150)
<b>Expenditure</b>				
<b>Client Care</b>				
Total Wages Direct	4,850	5,200	350	
Total Non-Direct Wages	1,000	500	(500)	
Total Other Client Care	3,250	2,000	(1,250)	
<b>Client care expenditure</b>	-	9,100	7,700	(1,400)
<b>Operating Costs - Non Client</b>				
Catering	40	30	(10)	
Cleaning (non client service)	50	50	-	
Property & Maintenance	150	200	50	
Utilities	200	125	(75)	
Office equipment maintenance	10	10	-	
Other operating costs	77	42	(35)	
<b>Operating costs</b>	-	527	457	(70)
<b>Administration &amp; Management Costs</b>				
Labour costs	1,200	520	(680)	
Other Administration & Support	515	405	(110)	
Depreciation non-building	270	270	-	
Recharge - functional support	1,200	1,000	(200)	
Recharge - corporate	750	750	-	
<b>Administration costs</b>	-	3,935	2,945	(990)
<b>Total expenditure</b>	-	13,562	11,102	(2,460)
<b>TOTAL RESULT</b>	\$ -	\$ (2,712)	\$ (102)	\$ (2,610)
Funding Variance				
Utilisation Variance	(2,000)	(1,000)	(1,000)	
<b>FINANCIAL PERFORMANCE</b>		(4,712)	(1,102)	(3,610)
		-43.4%	-10.0%	
Output Realisation Rate	80.0%	90.0%		
Equivalent Funding Realisation Value	8,000	9,000	1,000	

# Package Level



There should be procedures in place to monitor packages for

- ✓ Unspent funds
- ✓ Revenue collection
- ✓ Client satisfaction

These are largely going to be the responsibility of the Case Manager or Care Coordinator

# Activity Level



- ➔ It is important to understand which activities are profitable and which activities are not profitable
- ➔ This can only be achieved by monitoring performance at an activity level
  - ➔ Are costs being recovered?
  - ➔ Are there room for efficiency gains?
  - ➔ Should brokering service be considered?

# Monitoring Costs



- If we were manufacturing widgets we would monitor actual costs against standard costs and the system would collect the necessary information to do so
- Why would the costs of providing a service be any different?





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# Benchmark Basics

# Why benchmark?



- ✓ To compare your financial performance with other organisations and facilities to achieve best practice
- ✓ To improve operating performance
- ✓ To review and monitor cost centres and financial ratios
- ✓ Manage financial performance accountability
- ✓ Prioritise improvement opportunities

## General methodology - Internal process



- Select the object of the benchmarking
- Identify benchmark reference points
- Collect and organise data internally
- Identify the competitive gap by comparing against external data
- Set future performance targets
- Develop action plans
- Take action
- Monitor progress



# Benchmark methodology



- Need to ensure a consistent data set
  - Standardised set of definitions for each item being benchmarked
  - Consistent chart of accounts
- Data collection
  - Timely, accurate and abnormal variations identified
- Data set
  - Statistical size large enough to be relevant
  - Revenue and expense to be broken down by category
- Common denominator used
  - Dollars per bed day / client day
  - Hours per resident per day / client day
- Trends
  - Benchmarking should be regular and shown over different financial periods

# Drivers of success – Differentiating factors



- Major influences
  - ✓ Competency of management
  - ✓ Accuracy, timeliness and availability of information
  - ✓ Ability to set measurable goals and monitor performance against goals
- Other influences
  - ✓ Geographic location
  - ✓ Volume of service delivery
  - ✓ Location of service
  - ✓ Nature of organisation

# Comparing data

## ☑ Data needs to be:

- Accurate
- Timely
- Free of abnormal variations

## ☑ Data set should have a statistical size large enough to be representative

# Comparing data

- How do we compare different organisations with different characteristics?
  
- Use a common denominator
  - Dollars per client per day
  - Dollars per package per annum
  - Hours per client per day



# Comparing data

## ➤ What is the benchmark?

- Single organisation?
- Group of organisations (average)
- Cherry pick by line item?
- How high do you aim?





# Identifying the gap



- 👉 It is important to be able to ascertain why one organisation is different to another
- 👉 What is the cost or income differential attributable to that difference
- 👉 Identify areas for improvement



# How to use benchmark data

- Financial Management
  - ✓ Incorporate in monthly management reporting
  - ✓ Investigate and analyse variances to benchmark
  - ✓ Assist in budget and forecasting process
- Key Performance indicators
  - ✓ Board - compare financial performance with other organisations
  - ✓ Ensure targets are aligned with short, medium and long-term strategic objectives
  - ✓ Management accountability
  - ✓ Ensure targets are attainable

# How to use benchmark data



- Team Focus
  - ✓ Benchmark results should be disseminated within appropriate levels within the organisation
  - ✓ Accountability for performance compared to benchmark
  - ✓ Collective responsibility
  - ✓ Prioritise specific areas to focus on

# Achieving targets



- ☑ Put strategies in place to improve performance in areas identified as having gaps to benchmarks
  - Prioritise areas of focus
  
- ☑ Implement those action plans
  - There needs to be a collective responsibility for taking action



# Monitor progress



- Benchmarking should be a continuous process
- Incorporate benchmarks into monthly management reports
- Managers are accountable for attaining financial targets
- Provide management with the necessary tools to assist

# Analysing the Data



- ✓ Income - service delivery
- ✓ Income - administration recoupment
- ✓ Care costs
- ✓ Domestic services
- ✓ Other services
- ✓ EBITDA
- ✓ Wages as a percentage of care income
- ✓ Per client day
- ✓ Percentage



# Data dissection

- Revenue and expense allocations
- Grouped by revenue bands
- Within bands:
  - Survey average
  - Average of 2<sup>nd</sup> 25%
  - Average of top 50%
  - 25<sup>th</sup> percentile
  - Median
- Filtering the data:
  - Size
  - Geography
  - State
  - City, Rural and remote
  - Brokerage



# Benchmarks



- ✓ When we refer to a **Benchmark** this is the **average** of the **top 25%** of Bands sorted by *result*
- ✓ We sort data in various ways but generally we sort them into **Bands** based on their care income



# Budget v forecast



- ➔ Budgets are generally out of date before the year starts
- ➔ A great deal of effort is put into establishing them
- ➔ A great deal of effort is spent explaining variances
- ➔ Forecasts are looking at what is happening now and are more forward looking
- ➔ Use targets and KPIs to monitor performance



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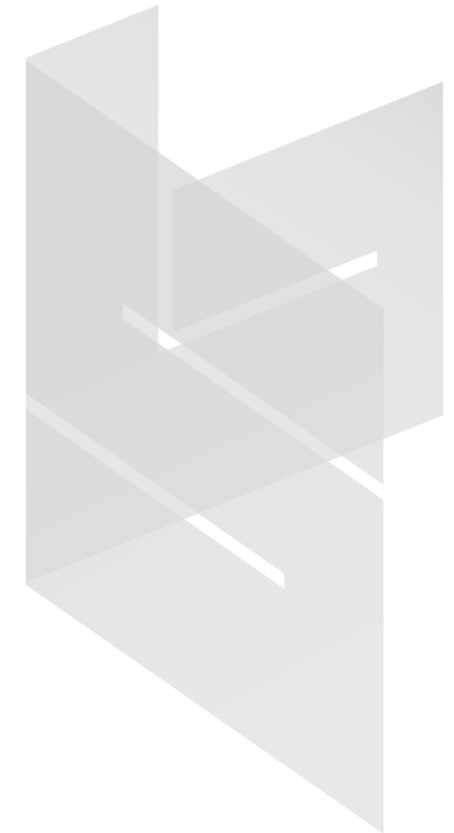
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# Reforms and a New Focus

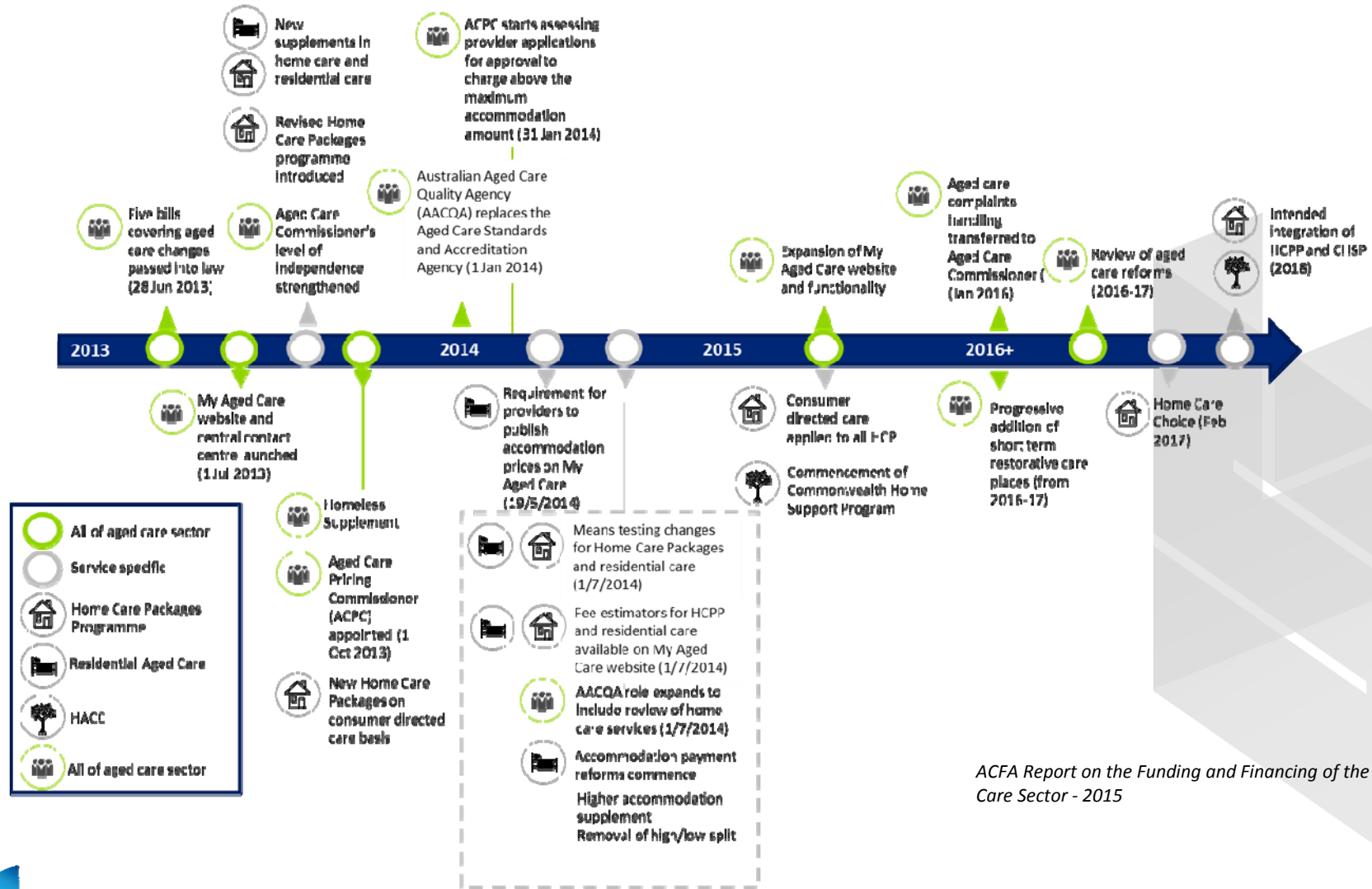
# Reforms - Short Term



- Financing reforms
- Consumer choice
- Sustainability
- Aged care review
- ???



# Timeline of aged care reforms



ACFA Report on the Funding and Financing of the Aged Care Sector - 2015

# Aged Care Roadmap



- ? How do consumers prepare and engage with their aged care?
- ? How are eligibility and care needs assessed?
- ? How are consumers with different care needs assessed?
- ? How do we make dementia care core business throughout the system?

# Aged Care Roadmap




- ? What care is available?
- ? Who provides care?
- ? Who pays?
- ? How will the informal and formal workforce be supported?
- ? How will quality be achieved?

# The Aged Care Roadmap



## Year 2016 to 2017

- Review of aged care reforms to include a review of the means test arrangements, accommodation pricing and bond guarantee scheme
- Review of ACFI

A yellow and white road sign with the text '2016-17' in black. The sign is positioned on the left side of a road that stretches into the distance, flanked by green and yellow fields. The background of the slide is a blue sky above the road.

2016-  
17

# The Aged Care Roadmap



## Year 2016 to 2017

- Review of aged care reforms.
- Means test arrangements, accommodation pricing and bond guarantee scheme
- Review of ACFI

## Year 2018

- Integration of CHSP and HCP
- New legislative framework to support care at home changes

2016-  
17

2016  
to  
2018



# The Aged Care Roadmap



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### Year 2018 to 2021

- New regime of registered providers
- New financial products to assist consumers in their choices
- Replacement or reform of Bond Guarantee scheme
- Integrate fee arrangements for HCP and CHSP



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- Means test all income and assets
- Re-calibrate consumer contributions based on ability to pay
- Safety net to ensure access for those with low means
- Align subsidies for care and support across home care and residential care



# The Aged Care Roadmap



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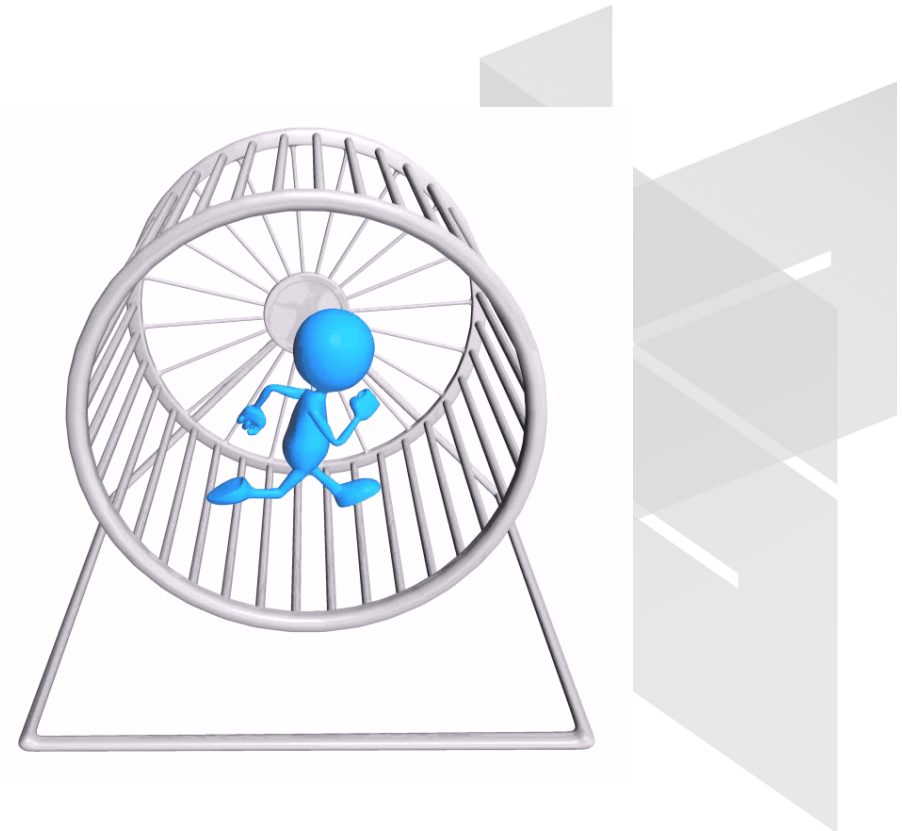
### Final destination

- Mutual recognition of providers in different systems based on scope of practice
- Consumers will be responsible for their accommodation and everyday living costs
- Government will not regulate prices for accommodation and everyday living costs
- Providers will publish their prices for care and support (residential or in the home)



# Are we there yet?

- ➔ The short answer is no
- ➔ There is a long way to go
- ➔ Many providers are spinning their wheels
- ➔ Lessons from CDC in home care need to be applied to residential care



## Recap - In 7 to 9 years



- ➔ More consumer choice in residential care
- ➔ Providers will need to publish prices for care and everyday living services (residential and home care)
- ➔ Single funding instrument based on assessed needs (across home care and residential care)
- ➔ Likely to be an independent assessor
- ➔ Market likely to be deregulated from a pricing point of view

# Reforms to come



## Known Reforms

- 👉 Deregulation in Home Care Program (HCP)  
February 2017
- 👉 Aged Care five year review (2016/17)
- 👉 Integration of Commonwealth Home Support Program (CHSP) July 2018
- 👉 Unspent funds to be returned to government (subsidy portion) and client (contribution portion)

# Reforms to come



## Probable Reforms

- ➡ New funding instrument (continuum across aged care)
- ➡ Independent assessment of funding instrument
- ➡ Deregulation of residential care places
- ➡ Consumer directed care in residential care
- ➡ Furtherance of user-pay through expansion of optional services



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# Responding to Reforms



# The New Aged Provider



- ✓ Will be market/consumer driven
- ✓ Will need to be flexible and adapt to a changing market
- ✓ Will need to target its consumers
- ✓ Will need to be efficient
- ✓ Capital should be put to work
- ✓ Will need to have a greater business focus
- ✓ Will need to make a profit

# Marketing



- ➔ Establish what your market is
- ➔ Find out what your customers want
- ➔ Establish a point of difference
- ➔ Promote your brand
- ➔ Establish what the best marketing strategy is for your business based on your target market
- ➔ Provide the services that your customers want

# Think outside the square



Aged & Community  
Services NSW & ACT

- Be innovative
- Be courageous
- Look at different ways to gain economies of scale
- Establish what your core business is and then do that well
- Organically grow your business based on the reputation gained



# Understand your costs

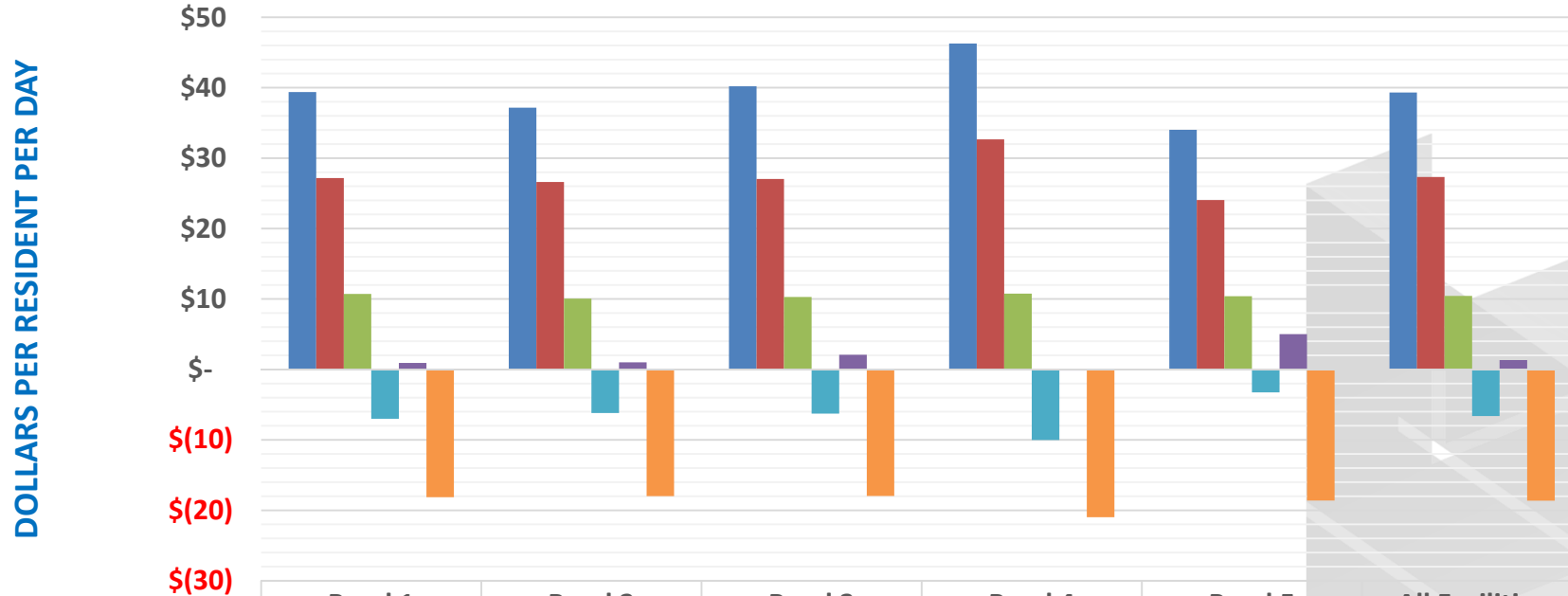


- ➔ Needs to be at a granular level
- ➔ Will assist in monitoring performance
- ➔ Assists in keeping people accountable
- ➔ Will be necessary to set selling prices
- ➔ Benchmark

# Residential Care - The Performance Gap



## Average Care Result - By Band



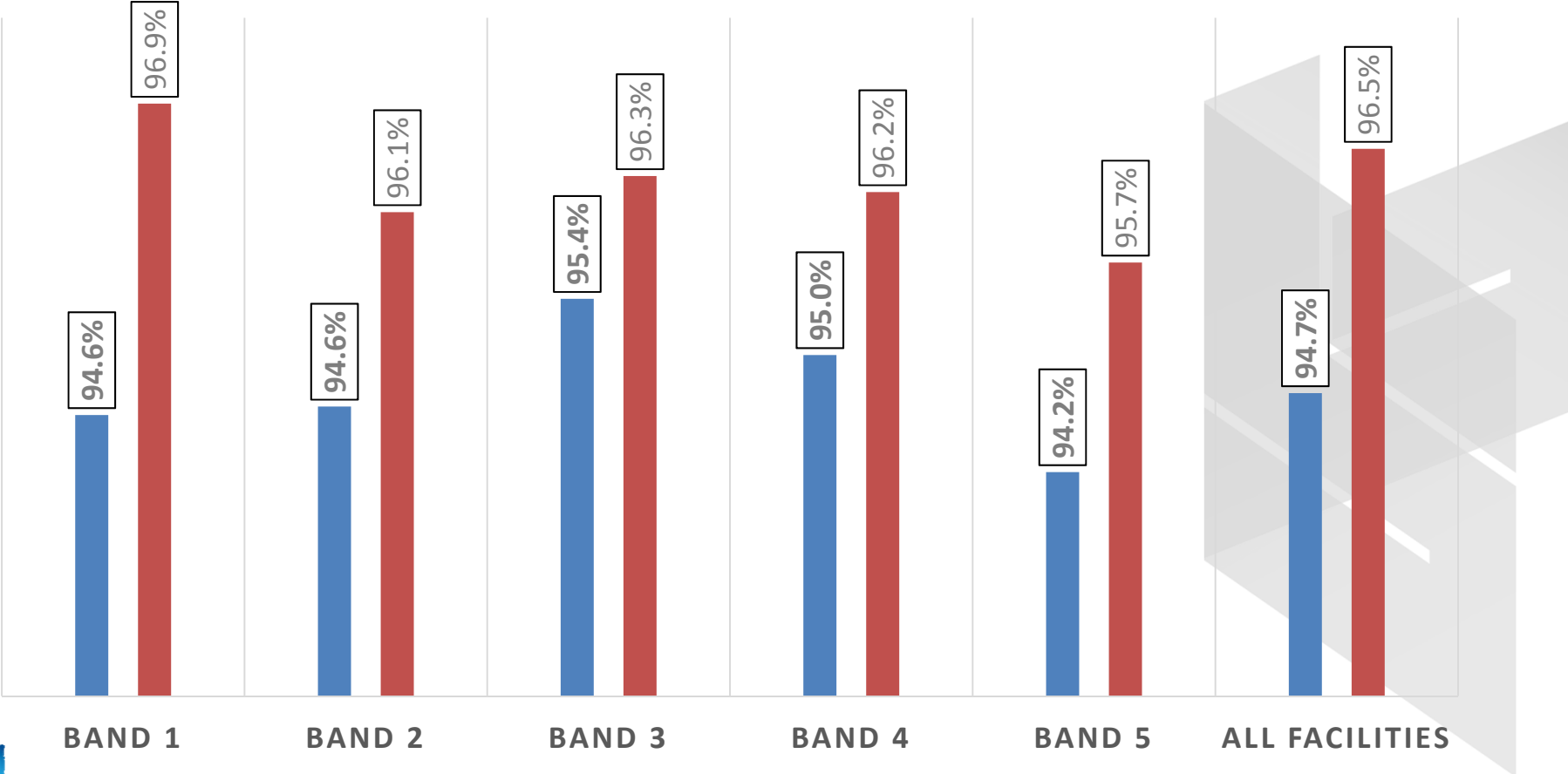
	Band 1	Band 2	Band 3	Band 4	Band 5	All Facilities
■ Top Quartile	39.38	37.17	40.20	46.27	34.02	39.31
■ Top 50%	27.18	26.61	27.04	32.67	24.05	27.33
■ Survey Average	10.73	10.05	10.29	10.76	10.39	10.43
■ Bottom 50%	(7.01)	(6.19)	(6.27)	(10.02)	(3.25)	(6.61)
■ Bottom 75%	0.93	1.00	2.09	(0.15)	5.01	1.33
■ Bottom Quartile	(18.14)	(17.99)	(17.97)	(20.98)	(18.61)	(18.63)

# Residential Care - Occupancy: Top quartile v the rest



## OCCUPANCY

■ Bottom 75% ■ Top 25%



# Sourcing additional income

## Government regulation

*Allows providers greater scope to increase income from accommodation and optional services*

## Accommodation income

## Optional Services

### Traditional Income sources



Highly regulated

Significant scope to test the market

As yet significantly under-utilised

