Beyond the mixed messages

James Underwood explains why the move away from shared bedrooms is causing pain in residential aged care for high care service providers.


James Underwood

In the current climate, we are being bombarded with headlines like: 'The residential aged care sector is falling apart'; 'High Care services (nursing homes) face rapidly escalating losses'; and 'Annual funding indexation is far behind real increases in costs'. At the same time, we are seeing more aged care places being built than ever before and the sector is poised to see an astounding 8966 new places released in the 2008 Aged Care Approvals Round (ACAR) process.

So why the mixed messages?

We have reviewed the results of the recently-released 2007 Bentleys MRI/James Underwood & Associates National Survey to see why there appear to be two sides to every financial story in residential aged care.

SECTOR OVERVIEW

The average EBITDA (earnings before interest, taxes, depreciation and amortisation) is up very slightly in low care and in merged services (facilities where both a high care and a low care service are run as a single entity). Returns before capital costs are also holding up well in high care, with the EBITDA increasing from $3084 per place per annum in 2006, to $3869 per place in 2007 (see graph below).

However, returns after the capital costs of depreciation, interest and/or rent are taken into account are all down from 2006 levels. High care facilities have fared worse than low care and merged services in this area, falling from an average annual loss of $22 per place in 2006 to an average loss of $759 per place in 2007.

THE SINGLE-ROOM PHENOMENON

In the 2007 survey, we recorded the number of each different type of room – single, double or four-place ward – in all participating services. We then calculated the average number of residents per room across each of the three groups – high care, low care and merged services. For example, if half the rooms in a group are single and half are double, then there would be an average of one-and-a-half residents per room.

In recent years, the Bentleys MRI/JU&A surveys have shown a remarkable fall in the average numbers of residents accommodated per bedroom in high care (see the table below).

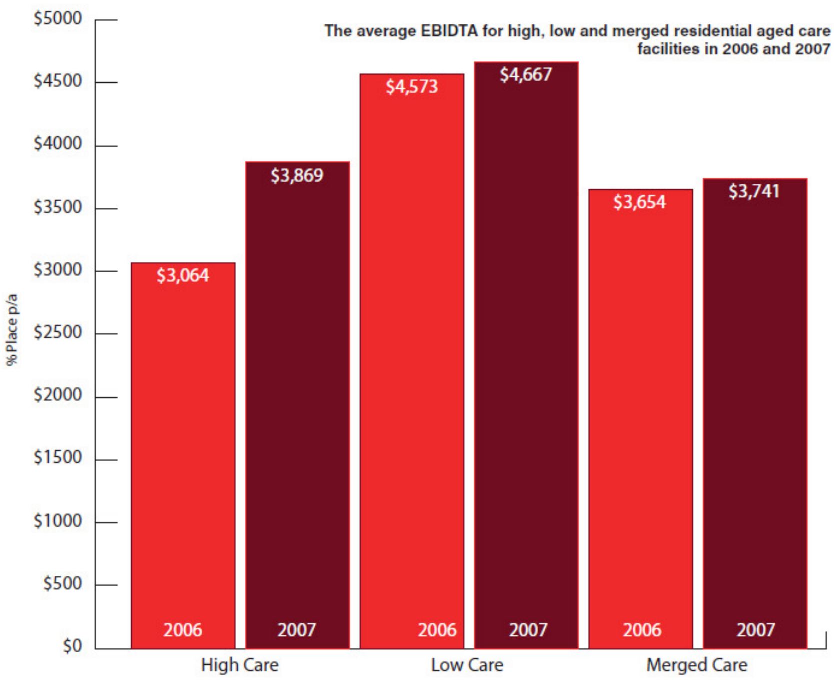
2002	1.8 residents per room
2003	1.8 residents per room
2004	1.6 residents per room
2005	1.6 residents per room
2006	1.4 residents per room
2007	1.3 residents per room

This reduction is because the Commonwealth Government has mandated that all new services have to meet a maximum average target of one-and-a-half residents per room – and most have chosen to use only single rooms. In addition, many of the older multiple-bed ward services are being rebuilt and these also must meet the new requirements.

Single-room high care services in the not-for-profit sector show an average EBITDA of only $1050 per place per annum. Services with an average of more than one resident per room show an annual EBITDA of $2,440 per place. This is a substantial difference, but it should be noted that both rates of return are well below any commercial return on a facility that may have cost $150,000 per place to build.

In the 2007 survey, only the private, for-profit sector shows returns in high care that might justify building new services or rebuilding old ones, with an average EBITDA of $11,380 per place per annum.

The cost of building these new, mainly single room services has led to massive growth in the amount of depreciation and capital outlay detailed in the survey, which is why the returns after capital costs are falling. This is also happening with low care and merged services, but they can meet much of their capital outlay requirements through accommodation bond. Most high care services show little or no holdings in accommodation bonds.



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WHAT ABOUT THE FUTURE

There has been a huge change in the high care/low care mix in residential aged care in recent years. In the 2004 and 2005 ACARs, only 41 per cent of all new places sought by providers were high care but almost 68 per cent of all new places approved in the 2007 ACAR were high care. In fact, in Victoria over 80 per cent of all approved places last year were high care!

If large parts of the not-for-profit sector continue to lose money on the operation of new, single-room high care services – and single-room high care services form the bulk of new residential aged care places being built today – then some serious changes in funding models may be needed for the near future. ■

James Underwood is the Director of James Underwood & Associates.