

MEDIA RELEASE

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FINANCIAL HEALTH OF AGED CARE SECTOR IN DECLINE

The future viability of Australia's aged care sector is in doubt as average profits sink below five per cent and return on assets decreases to less than two per cent.

Heath Shonhan, director of leading national accounting association Bentleys, revealed these figures in Adelaide today in a preview of results from the 2009 Bentleys National Aged Care Financial Survey.

Now in its 15th year, the survey is widely considered the major benchmarking tool for the sector's operational performance, highlighting the key national issues and opportunities facing the sector.

These results are the first since the onset of the financial crisis, taking into account the 2008/2009 financial year performance of more than 100 service providers.

"Of key concern is the significant decrease in net profit margin down to 4.46 per cent," said Mr Shonhan.

"In reality this means those organisations that look after our seniors are now far less viable than others within health-related industries.

"For example, vets achieve much better margins, so those who look after our pets are more financially viable than those who care for our elderly."

Return on assets is also of concern as it has reduced to 1.99 per cent.

"It seems the ability of this capital-intensive sector to provide sufficient returns for investors is questionable," said Mr Shonhan.

"Lack of investment will mean the sector will struggle to encourage capital injection and meet growing demand for services."

According to Mr Shonhan, transformations are also apparent in the sector's liquidity and gearing.

"On a positive note, liquidity in the sector is improving, with 27.5 per cent of assets now held as current as opposed to 20.5 per cent in the 2006 survey," said Mr Shonhan.

"This means that providers are in a better position to pay debts as and when they fall due compared to three years ago.

"This could reflect the impact of initiatives developed over the past couple of years to improve efficiencies in the sector, such as the Australian Government's introduction of Liquidity Management Strategy (LMS) regulations in 2006."

Gearing is also experiencing a major structural shift, with accommodation bonds increasing to 27.12 per cent of total financing of the aged care sector and debt decreasing to 18.56 per cent.

"The significant reduction of debt in the finance structure can likely be attributed in part to the general contraction of debt as part of the global financial crisis," said Mr Shonhan.

"It would be reasonable to expect that accommodation bonds as a percentage of funding will increase further however if demarcation between low care and high care is removed.

"To increase future viability, debate continues around the introduction of accommodation bonds for high care providers and movement towards more of a user pays system."

Mr Shonhan also suggested that the sector's continuing focus on e-Health and telehealth may provide some safeguards to its financial future.

"Increased research and capital investment in initiatives like electronic health records and self-diagnosis technology could help aged care providers to better leverage their capital and workforce."

Today's preview included a ratio analysis of financial performance across the industry, with full results of the 2009 Bentleys National Aged Care Financial Survey expected in March 2010.

About Bentleys

Bentleys is an association of independent accounting firms in Australia with specialist experience in the aged care and retirement village industries. Bentleys offers a broad range of services including business and corporate advisory, taxation solutions, corporate recovery strategies and aged care specific audit programs.

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