

AGED CARE IN THE TIME OF CORONAVIRUS: BOARD CONSIDERATIONS



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According to the Greek myth of Sisyphus, no sooner does the beleaguered king, cursed by Zeus, roll a boulder up the mountain, than it careers back to the bottom, only for him to have to start all over again.

Our previous white paper on the aged care sector – [The Aches and Pains of Aged Care](#) – focused on the impact of the Royal Commission on the costs of operation in aged care against a background of volatile revenues. For not-for-profit boards in the aged care sector, the emergence of the Coronavirus must seem like another Sisyphean task.

How should aged care Boards prioritise their response?

As the response to COVID-19 unfolds, the Boards of aged care facilities have a particular vulnerability and need to focus their attention on critical care issues and the protection of the client in the first instance. Revisiting and ensuring that critical care processes are securely in place should be the number one priority.

Ensuring that effective governance processes are in place, and aligned with client outcomes, underpins this review.

What should Boards be looking for?

OPERATIONS

The Board must receive enough accurate data and related information for it to be assured that they have insight into both operational matters and client safety matters in line with the risk register.

STAFF

Staff matters are likely next on any Board agenda – it is acknowledged that staff in the sector are highly stressed and pressured especially with the added scrutiny of the Royal Commission. They are your key interface, and you want to ensure you have information on performance and compliance, as well as culture.

FINANCIAL

Financial matters may come further down the priority list, but should be acknowledged and placed on the Board agenda. A need to ensure liquidity to support refunds of Accommodation Bonds may be amplified if families are reluctant under current conditions to move their ageing relatives into aged care facilities – and vacancies may increase. This risk may be further heightened if, over the next few months, restrictions on house auctions and higher unemployment place pressure on home prices – this may make potential clients and their families reluctant to sell down family assets to fund Refundable Accommodation Deposits.

- **Liquidity**

From an investment perspective, it is important to keep in close contact with experienced advisers to the not-for-profit segment to maintain a clear perspective on liquidity, risk and return criteria in the financial markets. These advisers will also have practical commentary on how the government's recent package of support for the NFP and small enterprise market will work ([An update on COVID-19 for NFPs](#)).

- **Working Capital**

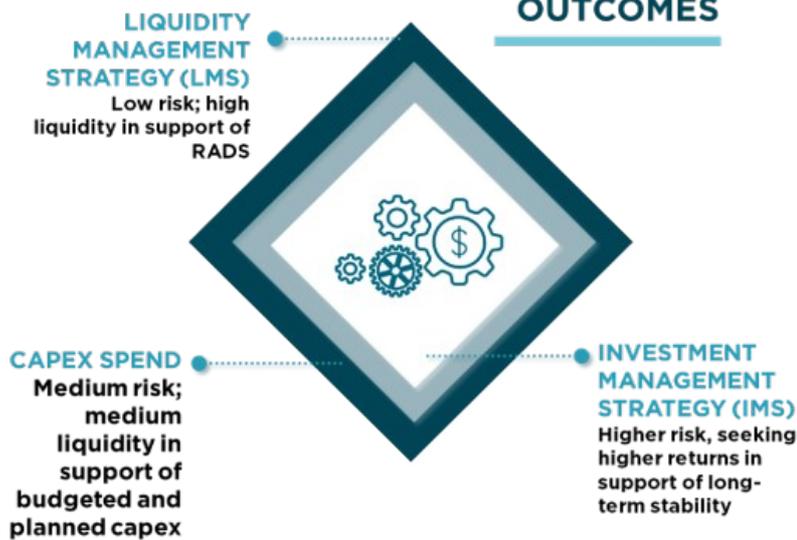
On a micro and operational level, it will be important to keep in touch with parts of your supply chain, especially if financial stress caused by credit availability impacts terms of payment. Cashflow is most important, so you must model income and expenses, cash flows and balance sheet impact under several different scenarios.

- **Capital expenditure**

Substantial aged care operators will also have in place capital expenditure plans for the next few years – there is a constant balance between the need for liquidity, the need for future capital expenditure, and the capacity to invest in financial assets to overcome low interest rate returns. Under these rapidly changing conditions, it is an opportune time to review forecasts of usage, capacity and duration of residency, in order to fine-tune or re-forecast capital expenditure.

The Board would be remiss if it did not consider potentially wholesale changes to its medium and long-term plans.

OPTIMISING FINANCIAL OUTCOMES



Source: Perpetual, March 2020

Consolidation

Beyond that, and in a more strategic sense, Boards should constantly review information, threats and opportunities in the aged care sector for merger, consolidation or acquisition – the significant additional stresses of the clinical and related financial issues arising during this crisis are likely to change the appetite of single facility and small multi-facility operators.

Information flow to the Board from management in this regard is critical across all segments of the aged care industry, no less so in the not-for-profit arena. The extent, duration and intensity of this crisis is unknowable; preparing the ground for a worst-case scenario, while hoping for the best, is critical.

“An effective board sets strategic priorities that align organisational activities to organisational mission or purpose. These priorities will depend on the organisation’s setting, size, age and nature of the aged care services on offer. They will include clinical care (if clinical care is provided), financial sustainability, workforce policies and regulatory compliance, and may include merger and acquisition planning, specialist provider resourcing and information and communication technology.”

Board Governance in the Aged Care Sector, Australian Institute of Company Directors, 2020

More information

If you would like to discuss your organisation’s governance and investment needs contact Scott Hawker, Perpetual’s National Manager for Not-for-Profit Endowments on email: scott.hawker@perpetual.com.au or phone 02 9229 9319.

If your Board needs support in modelling the impact of COVID-19 or in understanding how to access stimulus package benefits, please contact Fordham Bookkeeping Service on 03 9611 6667 or email Rachna D’mello rdmello@fordhamgroup.com.au

► FURTHER READING - COVID-19

Visit our COVID-19 Insights Hub for economic and market updates to keep you informed as the situation evolves.

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