

APRIL 2023

LONG TERM CARE HOMES FINANCIAL ASSESSMENT REPORT

A commissioned assessment prepared by Abacus Ltd. for the Bermuda Health Council. This report examines Bermuda's long-term care costs and financial operations to guide future financing recommendations.

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FINANCIAL ASSESSMENT OF LONG-TERM CARE HOMES PROJECT

Gaining a deeper understanding of the cost and the financial monitoring and reporting operations of long-term care to develop data driven advice on reform for financial operations and ultimately long term care financing in Bermuda.

This report was prepared by Lennox Cumberbatch, Director of Accounting Services at Abacus Ltd, who led the assessment. Mr. Cumberbatch worked in collaboration with Ja-Mae Smith, Programme Manager, Long-Term Care and Fiona Douglas, Project Manager, Long-Term Care at the Bermuda Health Council (Health Council)

The Abacus assessment team is grateful for the support provided by its project partners, the Health Council's Long-Term Care team. Warm thanks to the Long-Term Care home administrators and management who fully cooperated in this process by providing relevant information and access to key personnel.

All comments, findings and recommendations expressed in this report are based on analysis of information provided by the administrators and management of the Long-Term Care homes. Our assessment consisted of making enquiries, primarily of people responsible for financial and accounting matters, applying analytical procedures and other assessment procedures. As our assessment is substantially less in scope than an audit, it does not enable us to obtain assurance on the accuracy and completeness of financial information provided by administrators and management of the Long-Term Care homes. Accordingly, we do not express an audit opinion on this information

EXECUTIVE SUMMARY

I. EVALUATION SCOPE

The project, financial assessment of long-term care homes in Bermuda, was designed within the framework of Health Council's management and regulation of Long-Term Care homes in Bermuda. It consisted of the assessment of a sample of ten (10) care homes. The final assessment of the project commissioned by the Health Council looked at the financial information and operations of the care homes and considered both anticipated and unanticipated key results and findings. The objectives of this project were: review the financial and accounting operations including structures and reporting of care homes and estimate the cost of care based on the sampled population.

II. METHODOLOGY

The assessment, carried out between October 2022 and April 2023 was structured around two (2) main criteria: level of financial operating and reporting structure and estimation of cost. Information was collected from financial reports requested from and provided by care homes. The assessment team contacted all care home administrators and conducted meetings with respondents. It should be noted that not all administrators offered full collaboration and there were some challenges in collecting all relevant information. The request for an initial meeting email addressed to all care homes received a response rate of 50%. Based on this outcome, we needed to amend some of the planned procedures. We cannot assess what impact this may have had on the results.

III. FINANCIAL REPORTING OPERATIONS AND STRUCTURE

Assessment of financial operations and reporting structures in place

- 60% of the respondent care homes have robust financial operations and reporting structures.
- 20% have moderate financial operations and reporting structures in place, and
- 20% have weak or no financial operations and reporting structures in place.

Of the homes with an overall assessment of moderate or weak, the greatest concern is that the value of robust financial operating and reporting structures is not fully understood and/or the cost of such is prohibitive to care home administrators.

Note that the above percentages are subject to change as homes implement and improve their financial systems. 30% of the sample population are or have been subjected to a statutory audit which offers an elevated level of assurance on their financial and accounting operations and information.

IV. ESTIMATION OF COST

Rising costs have been identified by 100% of the responding care home as the biggest challenge to the sustainability of long-term care in Bermuda. In particular, rising cost of goods and services needed for operations, payroll cost to maintain highly skilled care providers to meet the regulated requirements of care provider to resident ratios and capital expenditure costs to maintain adequate facilities to continually maintain a safe and healthy environment have been identified as a major roadblock to continuation of offer of a high level of care in Bermuda. This has been further compounded by overall

declining revenues and cash inflows due to challenges with collection of and non-payment of fees. 50% of the responding care homes have recorded a deficit of revenue over expenditure in the most recent full fiscal year. The remaining 50% recorded marginal surpluses. These continued deficits are not sustainable and can have a devastating impact on the going concern assumption and ultimately the overall provision and quality of long-term care in Bermuda.

V. CONCLUSION

We are satisfied that our methodology was appropriately designed and executed to give the best results given our access to relevant people and information. It is also our hope that future projects have an increased level of collaboration from all stakeholders to maximize the accuracy of results and value added from such assessments. This includes improving the knowledge of care home administrators on the critical importance of sound financial operations and reporting. As it is a requirement of the [Residential Care homes and Nursing Home Act 1999](#) for care home to maintain proper records of accounting and to prepare annual financial reports, it is critical that some education and assistance be offered to all homes on how to implement and maintain adherence to this. This will also ensure that financial information is always available for analysis to support decision making by major stakeholders such as government and donors to long term care. The long-term care sector, like many other sectors, is faced with the challenge of rising costs and negatively impacted cashflows. Most of the responding care homes have identified that they are unlikely to generate sufficient cashflows to allow them to meet their obligations as they fall due over the next 1-3 years. The information we have gathered from this assessment can now be used to conduct further analysis and produce projections for guidance in regard to the future of long-term care in Bermuda.

BACKGROUND

The project, financial assessment of long-term care homes in Bermuda, was designed within the framework of the Health Council's management and regulation of long-term care homes in Bermuda. In 2014 and 2017 financial data was collected and basic initial modelling was prepared to estimate the approximate cost of care for long term care services on Island. These data sets were compiled and analyzed using financial information from government departments databases. This data offered great value. However, inherent limitations of the data included: it did not capture financial information on operational costs in the private or charitable homes, nor did it capture charitable donations, private grants/subsidy, private insurance or out of pocket ability to pay.

The Health Council, in its efforts to capture more current and complete information, has commissioned this project to gain a deeper understanding of the cost of and the financial monitoring and reporting operations of long-term care. This information will be used to develop data driven advice on reform for financial operations and ultimately long-term care financing in Bermuda.

The scope of the assessment is to collect information regarding the financial operations and reporting of long-term care homes and on the cost of providing long term care in Bermuda. Placing the focus on using a sample of long-term care homes to include privately operated, charitable and government operated homes, the aim is to gain information fully representative of the industry in Bermuda.

The information compiled, results and findings, and recommendations are expected to aid the Health Council in reforming the industry as well as advocating for the needs of and decision making in regard to long term care homes and their regulation.

METHODOLOGY/ACTIVITIES/LIMITATIONS

Methods for information and data collection were:

- I. Collection of primary data: this was done through two actions: (1) a set of direct interviews with long-term care home administrators and (2) analysis of financial and other information submitted by long-term care homes. The interviews included the care home administrators and accounting staff, or service providers involved in the financial reporting of the home. We did not perform an audit of the financial information submitted and therefore cannot offer an opinion on the completeness and accuracy of such information.
- II. Collection of secondary data: credible and confirmed data are always the basis for any assessment exercise. Besides the large amount of data existing at the Health Council, this was done through research of other sources including websites available that can help understanding of the long-term care sector.

A representative sample of 10 care homes that included private, charities and government funded homes was selected. 50% of those selected responded to our request for an initial meeting and were interviewed. The remaining responses were received after multiple follow-ups by both our team and the Long-Term Care team at Health Council. We received full or partial financial information from 80% of the sample population. It should be noted that not all care home administrators offered full collaboration and we had a few difficulties in contacting them and obtaining sufficient information for a complete analysis.

FINDINGS

I. Financial Record Keeping and Reporting

A total of 80% of the homes assessed appear to be maintaining accounting systems to keep track of accounting records and generate financial reports. These homes currently use QuickBooks as their accounting software, and it is either maintained internally or by an Accounting Services provider. We did not access the databases. However, based on the information supplied by each entity and their management's assertions, it appears that these systems are being adequately maintained.

We have identified that in 40% of cases there is no formal reporting structure leading to delayed accounting and reporting. We identified one home which does not currently maintain any financial records. Specific reasons for this consist of lack of time and skill set to complete this task and the lack of finances to outsource the function.

It should also be noted that the Residential Care homes and Nursing Home Act 1999, section 19 requires that suitable accounting and financial procedures are in place to demonstrate financial viability and to ensure there is effective and efficient management of the home.

II. Cash Management

Overall cash management appears to be good at most homes under the current challenges. Most homes have experienced declining cash balances over the last 3 fiscal years. Not all homes have processes in place to generate cashflow forecast to assist in the management of cash. The main challenge faced by the homes that currently produce and analyze cashflows, is that the current level of revenues and expenditures will result in continued negative cashflows within the next 1-3 years. As a result, they will be exposed to the potential for further negative cash flow impacts arising from the inability to realize its forecast outcomes or from unforeseen capital or other expenses more than those forecast.

It was also identified that there are some instances where administrators have been using personal finances to support the operation of their homes. Therefore, all costs may not be fully captured and reported in the financial reports.

III. Accounts Receivables Management

Consistent collectability issues appear to be the challenge of most homes assessed. 90% of homes assessed stated that they have either written off old receivables, created a provision for doubtful debts or are considering it. This is largely an issue with collecting the portion of resident fees payable by the residents or their families. These amounts are over and above what is paid directly to homes by Financial Assistance or other government agencies. Many residents and their families are unable to or have made little effort to settle the remainder of fees owed. In some cases, home administrators have sought to mitigate this issue by initially agreeing to modified contracts where fees are adjusted to what is deemed affordable by residents and families. The overall result of this commendable offer is lower revenues. The inability to collect monies owed has in all cases impacted on each home's cashflow and its ability to pay its own bills in a timely manner. Ultimately this has negatively impacted the ability to provide the appropriate level of care.

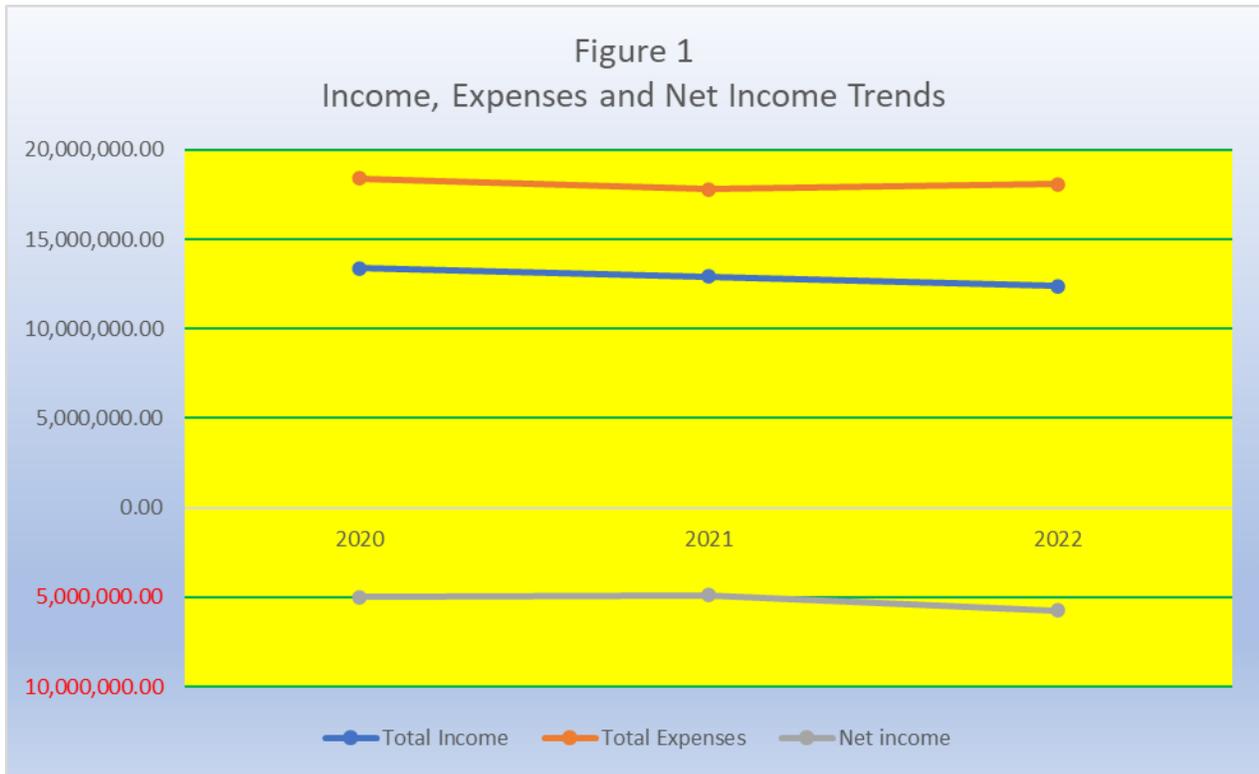
IV. Payroll Liabilities

A total of 80% of homes have arrears of specific payroll liabilities which consist of payroll tax, pension, medical insurance and social insurance. We specifically noted social insurance as being the main obligation in arrears. We have assessed that this is mainly due to cashflow management challenges. However, in all cases administrators have stated that payment plans have been agreed with service providers of health insurance and government departments to settle the arrears. It should be noted that deduction of monies from employees' pay and not paying it over to respective agencies may be non-compliant with government legislation and can have legal ramifications for homes if not addressed.

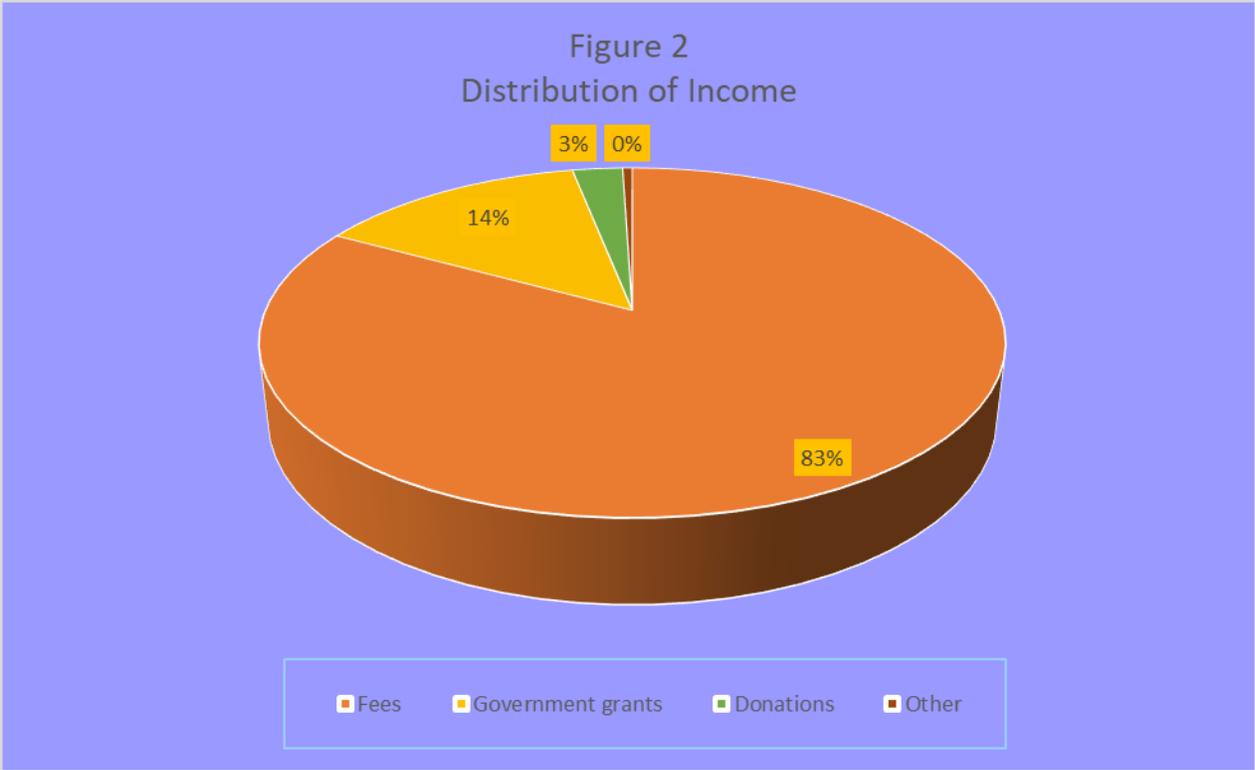
V. Revenues

Lack of funding has been identified as a pain point of most homes assessed. It has been consistently stated by administrators that homes are not receiving the level of funding for both operating and capital expenditures to allow for the appropriate level of care to residents. Total Revenues for the homes assessed for the most recent completed fiscal years amounted to \$12.37M. This represents information available from 40% of homes in the sector. Over the most recent three full fiscal years, total income for this sample

of homes has gradually declined from \$13.38M in 2020 to \$12.27M in 2022 (see figure 1). Specific causes have been declining revenues from resident fees due to the impact of Covid 19 and a decline in the amount of individual and corporate donations received by the non-profit homes which has been an issue for the entire charitable sector in Bermuda. Based on the sample, government grants have remained relatively at the same level over the period.



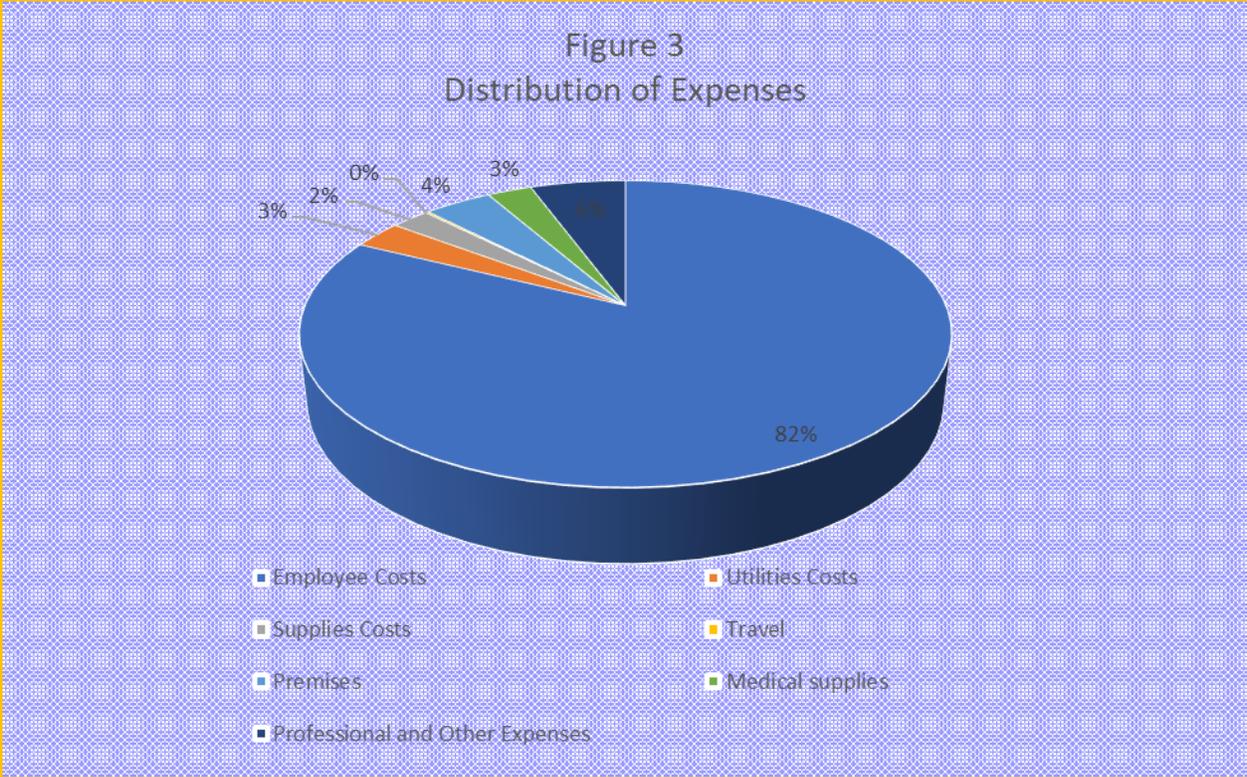
The distribution of revenue has remained consistent with resident fees making up 83%, government grants 14%, and donations 3% (see figure 2). It should be noted that only 38% of the homes for which information was available received Government grants. Most of the administrators interviewed queried how they can receive more support from the Government in the form of grants.



VI. Cost and Expenses

Controlling costs is a huge concern in the long-term care sector. Rising costs and expenses have been identified as the main pain point of the homes by administrators. Over the most recent three fiscal years, total expenses for the sample of homes for which information was available, have fluctuated from \$18.39M in 2020 to \$17.80M in 2021 to \$18.10M in 2022 (see figure 1). This represents an average of \$18M over those fiscal years.

Contributing factors include the rising cost of goods and services, higher employee costs, specifically wages and health insurance premiums, and the inflationary impact in Bermuda. Some administrators have stated that the cost of labor has increased due to excess demand over supply for qualified and experienced staff. As this cost accounts for on average 82% of total costs (see figure 3), it has had a significant impact on the operations of homes. Some homes have indicated that such costs are unsustainable and will impact the administration of care: *“Required pay rates are too high and I can’t afford qualified RNs. So, I must hire less costly care givers and work extra myself to ensure the level of care is maintained”* (Home Administrator). Other significant costs include professional fees 6%, maintenance of premises 4%, utilities 3%, medical supplies 3% and other supplies 2% (see figure 3). All of these are vulnerable to the inflationary rates in Bermuda.



Based on the available information we have estimated that the average annual cost of care per person is **\$92,000**. However, the following notes and assumptions should be taken into consideration:

- This represents data from 40% of the total Long-Term Care Home sector.
- The financial data used is for the last fiscal year for each of the homes in our sample.
- The financial data used has not been audited.
- Sample care homes are at different stages of the entities’ lifecycle and therefore financial data might be skewed by this.
- There is a wide range of total operating costs for all sample care homes. Additionally, the cost of care is impacted by the level of care needed by each resident. Deeper review and research is necessary to determine the root causes of some varied ranges.

VII. Financial Results and Budgeting

Based on the information available for the sample homes, overall deficits of revenues over expenditures of \$5.0M, \$4.9M and \$5.7M were reported for fiscal years 2020, 2021 and 2022 respectively (see figure 1). This is based on the total sum of reported revenue and expenditures for home over these periods. It should be noted that an average of 87% of these deficits are reported by the fully controlled and operated Government home included in the sample. However, this is still a reflection of the sector’s performance. Continued deficits for any entity are unsustainable over time unless corrective actions are taken. It has the impact of continued erosion of equity which may lead to insolvency and inability to meet financial obligations as they become due.

Of the homes assessed, 50% appear to have robust budgeting practices which support fiscal control. The other 50% do not have any formal budgeting processes.

RECOMMENDATIONS

I. Financial Record Keeping and Reporting

Keeping accurate and up-to-date records is vital to the successful operation of these homes. Without such information, it is unclear how this home can appropriately manage cash and ultimately the delivery of care. As the Health Council currently has the mandate to ensure all care homes are maintaining appropriate accounting systems and records to allow for proper financial reporting and an annual assessment of such in accordance with the [Residential Care homes and Nursing Home Act 1999](#) and [Code of Practice for Care Homes](#), we recommend a process be put in place for this requirement to be implemented and reinforced. This will include the following steps.

- The Health Council convene an accounting workshop to educate administrators on best practices to benefits of sound accounting and financial reporting.
- The Health Council assist these homes where needed in getting up to date with their accounting and financial reporting.
- Implementing a formal process where-by reviews and inspections of financial systems and records are executed consistently. We suggest this be tied to the renewal of the license to operate.
- The above should include a deeper strategic review with administrators to confirm financial viability and to ensure there is effective and efficient management of the home.
- Implementation of a requirement to submit financial reports within 6 months of year end to maintain license to operate care home.

II. Cashflow Management and Budgeting

The main finding in the areas of cashflow management and budgeting was the lack of these processes. We recommend that this topic be included in be included in the workshop mentioned in (I) above. We also recommend working with specific homes to put these processes in place.

III. Accounts Receivables Management

Based on information available to us, it appears highly unlikely that most old receivables will be collected. We recommend that each home conducts a comprehensive review of their receivables with the aim of writing off or setting up a provision for uncollectible amounts to ensure amounts included in the financial statements are accurately reflected. Going forward, our recommendation is for each home to consider the following best practices:

- Implementing an effective accounts receivable policy: This policy should be well-defined and include all the necessary details about how clients are expected to pay their invoices, as well as what will happen in the case of non-compliance.
- Proactive accounts receivable management: Being proactive with accounts receivable management and reaching out to clients early on if there are any signs that they may not be able to pay their bill

on time. This will give you more options for collections, such as repayment plans or debt recovery services.

- Implementation of a requirement for direct debits or standing orders from bank accounts for the portion of fees payable personally by residents and families.
- Set strict credit limits: Credit limits are an important part of accounts receivable management. By setting credit limits for your clients, you can help reduce the risk of overdue payments.
- Use debt recovery services where necessary: There are instances when you need to enlist the help of a debt recovery service. This is usually the last resort and may be necessary after other options have failed to collect outstanding amounts.

We recognize due to the nature of this sector, some of the above recommendations might be a challenge. However, this is critical to improve the cashflow and ultimately will impact the sustainability of the sector.

IV. Cost and Expenses

Our recommendation is for the formation of a task force facilitated by the Health Council and including home administrators to analyze how costs in the sector can be controlled and determine relevant cost containment strategies. These strategies should focus on making overall spending more efficient by lowering costs without compromising the quality of care provided to both residents and employees.

CONCLUSION

Consistent proper accounting and reporting appears to be a challenge for some long-term care homes. We believe that further and continued education of the need for and benefits of proper accounting and financial reporting should be a priority for the administrators in the sector. With this, more focus can be placed on using the improved information regarding quality and accuracy to make decisions. As current available information shows that the average cost of care surpasses average revenues, cost containment should be made a priority for each home and the overall sector.

We hope that you find this information useful, and we look forward to reviewing these findings with you.

Regards,

Lennox

Lennox Cumberbatch | Director of Accounting Services

A close-up photograph of a hand holding a pen, positioned over a computer keyboard. The image is overlaid with a semi-transparent blue filter. The hand is on the right side, with the index finger pointing towards the keyboard. The keyboard keys are visible in the foreground, and the background is blurred.

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