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Strategic Investment in Aged Care Service Delivery

John Ballard



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Strategic investment

- Compelling demographics
- Strong government policy direction
- Increasing consumer demand
- An intensely fractured market

There is also:

- Epidemiological changes
- Significant workforce challenges
- Low margins
- Turf



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Investment requires

- A clear strategy
- Business disciplines
- Investment in infrastructure
- Investment in people
- Investment in quality
- Access to capital
- A long term orientation



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Demographic projections

	Now <small>(ABS – 2006 Census.)</small>	2051
Population	20.7 m	23.5m-26.4m ¹
Persons aged 65+	13% (approx 2.7 mil.)	21.3% ² (between 6.4 - 6.8 mil.)
Persons aged 85+	1.6% (approx 0.3 mil.)	5% (approx 1.3 mil.)
Life expectancy at birth	78.1 years for males 83 years for females ³	81.1 years for males 86.3 years for females ⁴
Ratio of workforce Participant to retiree	5.25:1	2.2:1 ⁵

1. 3222.0 - Population Projections, Australia, 1997 to 2051

2. Australian Bureau of Statistics, Projections of the Populations of Australia, States and Territories, 1995-2051 , ABS Cat No 3222.0.

3. Australian Bureau of Statistics 1301.0 - Year Book Australia, 2007

4. Australian Bureau of Statistics, Projections of the Populations of Australia, States and Territories,

5. Intergenerational Report 2007



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Government policy direction

- Funding policy directed to keep people out of residential care longer (CACP/EACH 5% of funding growing over 10%pa)
- Emphasis on community delivered program (Consumer expectations and financially attractive to Government)
- Increasing regulatory and compliance response to service delivery
- Building compliance regulation
- Regulation through supply of licences and standards review, limitation of choice
- Recognition of labour supply limitations
- Increasing funding initiatives to pilot/introduce technology
- Yet to satisfactorily address capital cost of residential care



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Increasing consumer demand

- Consumers are baby boomers on behalf of their parents
- Increasing public awareness of aging – ‘grey market’, impact on workforce and tax base
- First Baby boomer turns 70 in 2015 – future client
- Increasing preference stated for amenity – single rooms, non-shared ensuite, extra services – not recognised in policy/funding models



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Number of Beds required

	2017	2027	2037	2047
Low	120,000	169,000	214,000	242,000
High	120,000	169,000	214,000	242,000
Total	239,000	338,000	428,000	484,000



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Community packages

Year	2007	2015	2030	2045
Pop. 70+	1,984,957	2,506,396	4,435,072	6,473,697
Packages	42,316	62,660	110,877	161,842



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Fractured and aggregating market

- At June 2007 there were 2,872 mainstream residential facilities (59 less than year before), providing 167,578 places, operated by approximately 1200 approved providers.
- The number of facilities has declined since 1998 from 3015 with a sharper decline in the number of approved providers. At 30 June 2003 their were 1,593 approved providers.
- The average number of places per facility has increased from 46 in 1998 to 58 in 2007 and 65% of facilities are 60 beds or less.
- Over same period operational places increased from 139,917 to 167,528
- The average age of facilities as at 2004 was 20.3 years.

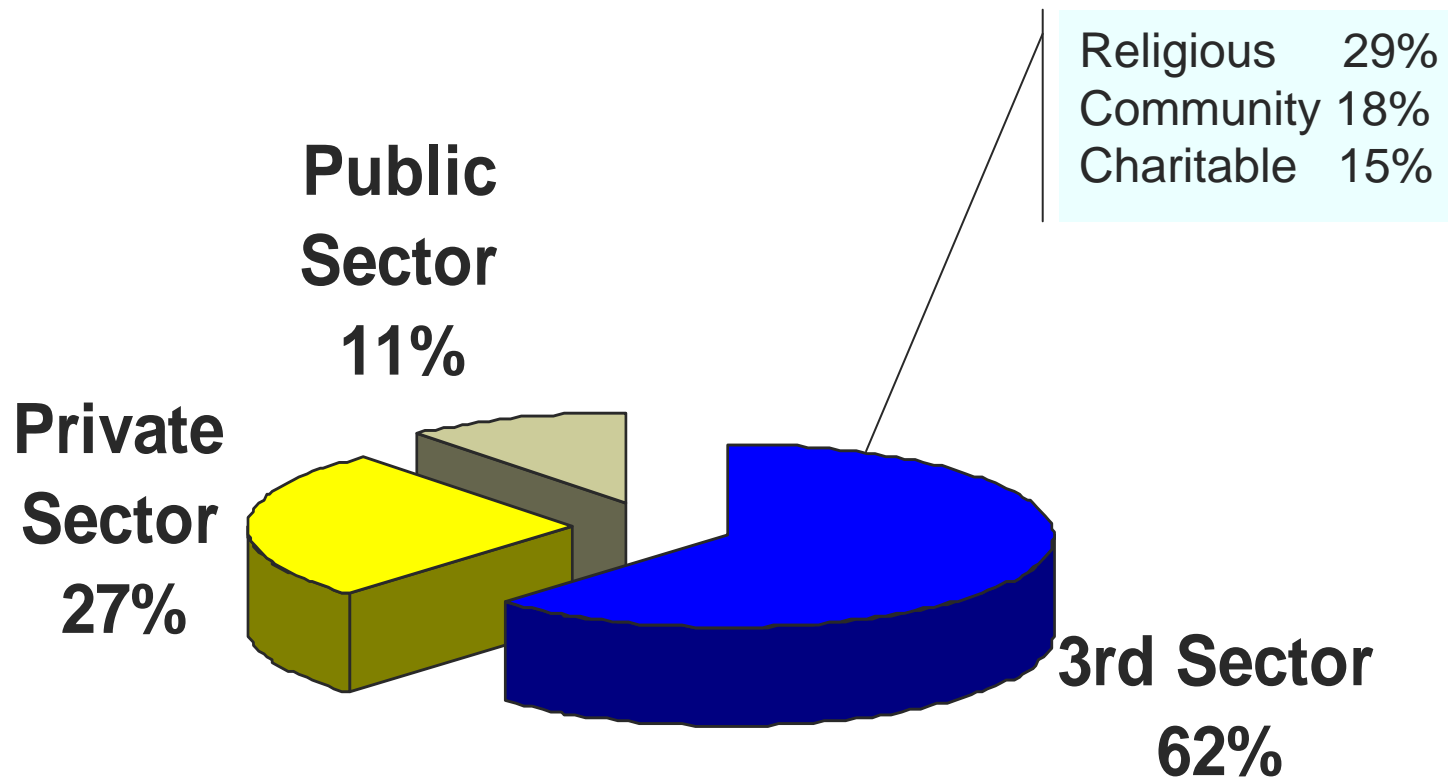


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Residential aged care by sector

n=2,872 at 30 June 2007

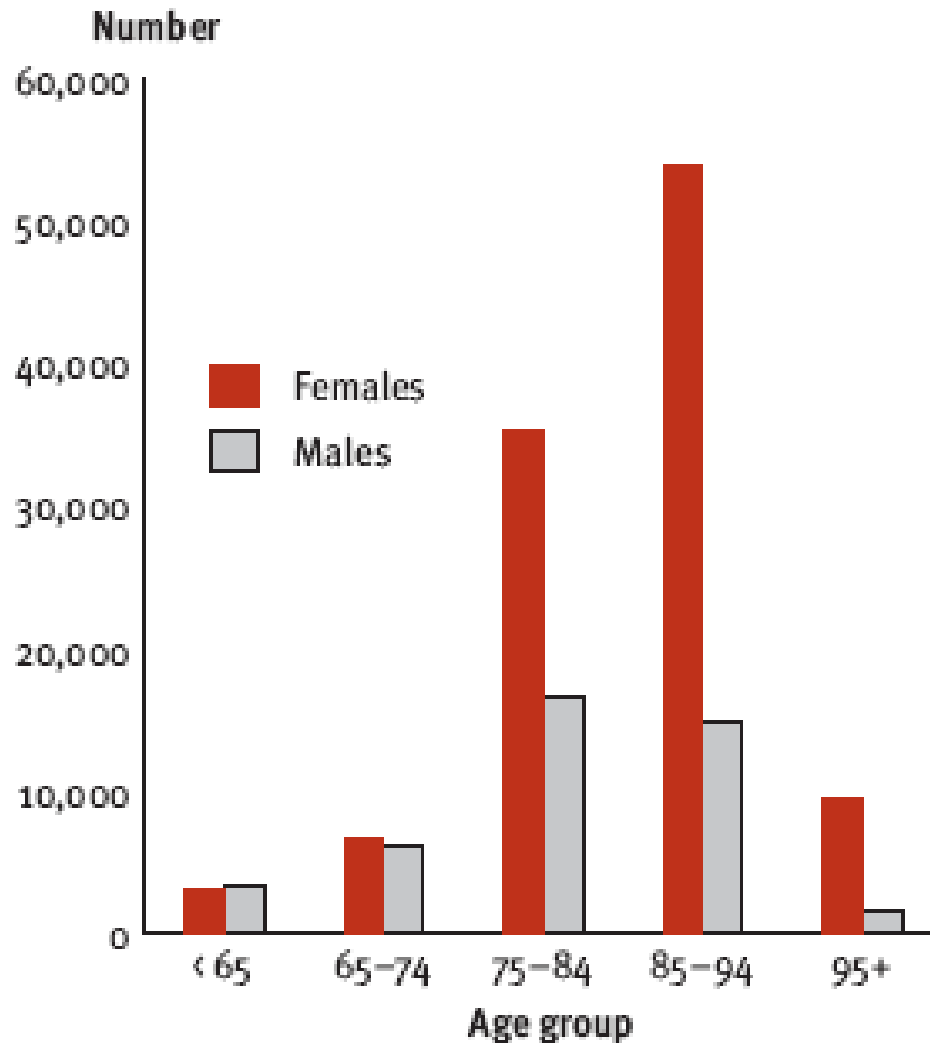


Residents in aged care by age and sex (30 June 2006)



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Source: AIHW analysis of DoHA Aged and Community Care Management Information System (ACCMIS) database.



Resident dependency levels '98-'07

Sex/year	RCS 1–RCS 4 High-care	RCS 5–RCS 7 Funded low-care	RCS 8 Nil basic subsidy	RCS 5–RCS 8 Low-care
Persons				
1998	57.8	37.7	4.5	42.2
1999	60.8	36.2	3.1	39.2
2000	61.8	36.0	2.3	38.3
2001	63.1	35.4	1.7	37.1
2002	63.6	35.1	1.4	36.5
2003	64.4	34.6	1.0	35.6
2004	65.6	33.6	0.8	34.4
2005	67.5	31.9	0.6	32.5
2006	68.7	30.8	0.4	31.3
2007	70.1	29.5	0.3	29.9

Sources: AIHW 2007 and Table 4.30.



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% Residents by age at 30 June '07

Sex/age (years)	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Australia
under 65	4.5	4.0	5.0	3.6	3.0	3.5	3.9	13.2	4.2
65-69	3.1	3.2	3.2	3.6	2.6	3.0	3.9	10.5	3.2
70-74	5.5	5.5	5.5	5.6	4.8	5.3	5.2	10.5	5.4
75-79	12.2	11.5	11.7	11.3	11.7	11.5	11.1	15.4	11.8
80-84	21.7	21.7	21.4	20.8	21.6	21.5	21.0	20.8	21.5
85-89	26.5	26.4	26.9	25.6	27.7	27.3	26.7	17.6	26.6
90-94	19.1	19.8	18.9	21.0	20.3	20.4	20.4	9.3	19.6
95+	7.4	7.9	7.5	8.4	8.2	7.4	7.7	2.7	7.7
Total persons	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

(a) Refers to the location of the services.

54% 85+



Changing/challenging epidemiology

- Older, frailer, sicker
- Multiple co-morbidities
 - Increase in chronic illness and associated disability
 - Diabetes
 - Mental health
 - Cancer
 - Cardiac disease
- Increase in neurological degenerative disorders



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Significant workforce challenges

- Supply – attraction and retention
- Age profile (Div 1 Avg 49yrs; PCA Avg 43yrs)
- Skill sets – low and need to increase (National Aged Care Workforce Strategy 2005)
- Affordability
 - Growing pressures for wage parity for nursing with acute public hospitals (approx 12% gap) – impact on attraction/retention
 - Pressure in Victoria for staffing ratios to match public acute Age



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Low margins



“If religion were truly the opium of the people, we’d have a much better cashflow.”



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Turf

- Many small players
- Strong geographic focus
- Low market awareness
- Short term/subsistence orientation
- Aged/aging Boards
- Poor infrastructure
- Aged capital stock
- Limited/no capital
- Often dependent on Director of Nursing

Future

- commercial operators attracted to stable cash flow
- sophisticated NFP's/Church/Charitable
- specialists infrastructure providers



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To invest in this space...

You must have a clear strategy.

- Why
- To achieve what
- For whom
- How
- Over what period

How big is big enough ?



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**You Are Big
Enough When
You Can
Achieve Your
Mission and
Control Your
Own Destiny**

- **Market leverage to negotiate effectively with vendors and purchasers**
- **Economies of scale to provide value to customers**
- **Depth of knowledge to be innovative and effective**
- **Capital to be state of the art**
- **Scope to attract and retain talent and expertise**



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How small is big enough ?

**You Are Small
Enough When
You Have a
Sustainable
Differentiation**

- A unique product or delivery system which is difficult to replicate
- A geographic franchise
- A narrow target market segment
- Special expertise or knowledge
- One of a kind asset (reputation/brand name, patent, resource)



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Business disciplines

And intense micro management of...

- Mix within categories
- Mix specific to the individual facility
- ACFI assessment
- Wait lists
- Staff rosters and utilisation
- Staff morale
- Reduction in 'lost' days – close liaison with ACAS
- Consumable pricing and utilisation
- Administrative and clinical systems
- Programmed maintenance
- Corporate support/overhead

*“get all of them right and you are in the top 10%..
get one of them wrong and you will lose money...”*

Gae Hewitt, Chief Operating Officer Aged Care, Mercy Health



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Investment in people

Attraction and retention of the right people will require:

- Greater flexibility in work practices, terms and conditions
- Ongoing training and development
- Career development
- Market remuneration
- Nature of the work

Investment in infrastructure



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- The ability to plan, build, expand, maintain currency with the increasingly complex regulatory and standards base requires resources.
- Implementation of technology to support the carer, clinical, recording and administrative functions.
- Space.
- Developing or buying in 'back office' capability is becoming a necessity for longevity.

Investment in quality



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- Ensuring quality of care
 - Process review/continuous improvement
 - Standards/regulatory compliance
 - Medications management systems
 - Risk/safety audits and improvement
 - Staff training/professional development
 - Complaints monitoring, management, improvement
 - Evaluating who are the stakeholders and their expectations, eg resident/family surveys
 - Research/teaching/training
 - Developing new or improved modalities of care



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Access to capital

- Renewal of an existing asset or growth is limited by access to capital. Recent PWC study indicates that current policy and funding framework inhibits ability to raise capital
- Bonds are not the answer.
- The facility must be viable as a business unit level to raise finance.
- Residential services are about accommodation as well as care.

A long term orientation



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- Unless your mission is finite, a long term orientation is essential to underpin any strategy or investment.



2023

2026

2029

2031

2034

2035

2038



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Mercy Health's journey

- 2004: Mixed provider of contract public hospital provider, community palliative care, mental health, private hospitals and 340 aged care beds in four places
- Board strategy – can't be all things...
- Focus on public hospital contracts Victoria, including mental Health and palliative care,
- Sell Private hospitals
- Grow aged care: target 2000 licences by 2011, currently 1200



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Future

- Demographic trends will continue – older population, more diverse
- Epidemiological trends – increase in neuro-degenerative disorders
- Labour force trends – reduced tax paying population, national demand for labour
- Increasing consumer expectations regarding quality and services and reduced taxation revenues for social infrastructure will lead to increased co-payments/fee for service options
- Capital cost escalation (see PWC 2007) for construction will pressure price rise or cap supply of services
- Quality of building and amenities driven by consumer and local competition rather than regulation
- Heightened market aggregation will intensify competition



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Changing service profile

- Hostels becoming nursing homes – Aging in place, ACFI
- Nursing homes becoming hospices
- Average age entry 82+, at higher dependency
- Low care demand declining due to Packages
- Providers combine, ILU, CACP/EACH, Low/High, Extra Service Care



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Competition

- Increasing as aggregation creates large providers with infrastructure, access to capital and appetite for growth.
- Competition will be centred around:
 - Brand
 - Care
 - Location
 - Building Quality
 - Bonds and Price
 - Corporate capability



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Investment implications

- get big – scale operator
or
- find and grow within a niche
or
- network with, or become, an infrastructure provider.



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