

Lessons in viability



Growing pains

No organisation wants to be faced with closure, and no community wants to lose its local aged care facility, but that's exactly where many aged care providers could find themselves if they fail to adapt, leading experts tell **Natasha Egan**.

They are still in the community, the staff are there and the place is humming, says Michael Goldsworthy, recalling a regional not-for-profit aged care provider he helped save from closure.

Goldsworthy, who is principal consultant at Australian Strategic Services, says the community did not know how things went so wrong but issues included failed accreditation, financial problems and a range of organisational challenges including management.

"The bank would have foreclosed. Someone would have probably bought it, but at a fire sale, the directors may have been liable and it would have ended in tears and disaster after 56 years of non-profit institution," Goldsworthy says.

The veteran of 242 amalgamations and mergers says they spent six months cleaning the place up and getting it amalgamated into a likeminded organisation. The residential properties and retirement villages are now thriving, he adds.

No organisation wants to be faced with closure, and the community can't afford to lose the service, but Goldsworthy says it is where many regional non-profit Australian aged care providers could find themselves if they fail to adapt to the new order of aged care.

It is a widely-held sentiment. Patrick Herd, principal consultant with Community Business Australia, says as the sector is being manoeuvred toward a freer market dominated by the consumer, operators need to adjust their ways to remain viable.

"If they continue to operate as they have in the past they will find themselves uncompetitive in a new marketplace in the future," Herd says.

Similarly, Bruce Bailey, director of accounting firm RSM Bird Cameron, says the increased transparency and competition will affect an operator's ability to attract good staff, get residents and be relevant. "The greatest risk is complacency," Bailey says. Many providers will need to shift their sole focus from regulation to increasingly include the customer, he says.

Viability generally refers to the short term and sustainability the long term. While the big picture is all about sustainability, the small picture is about both viability and sustainability, says Bailey.

An example of viability is a provider having enough surplus to operate day-to-day and replace the bits that wear out, while sustainability is having sufficient funding to spend on significant refurbishment, according to Bailey.

"The industry is sustainable when a whole lot of operators can generate enough surplus each year to give them the amount of money that is needed to invest in building new facilities."

Bailey's firm has been commissioned by the Federal Government to undertake a detailed study into factors influencing the financial performance of aged care providers. The initial report investigating residential providers is due at the end of 2014 with the final study due in time for the five-year review of aged care reforms.

The biggest risk to industry sustainability is legislation and it therefore becomes a balancing act between positive and negative legislation and its stability, Bailey says.

For example, on the positive side, Bailey says changes under Living Longer Living Better have put more money and flexibility into the system. While on the negative side, axing the payroll tax subsidy and Dementia and Severe Behaviours supplement has taken money out.

ASSESSING YOUR VIABILITY

At an operator level, the LLLB legislation is forcing providers to adapt. To do that, they first need to know how they are performing.

Bailey says it is most important to measure the trend of the business. "The benchmark is important to understand where you are, but once you know where you are, you just have to focus on your own personal best."

He says the industry is generally viable and sustainable, as evidenced by the fact that not many operators are going broke. Bailey notes that some providers are struggling but questions whether that indicates the industry is unviable or individual operators are not working hard enough. (See overleaf for Bailey's tips to remain sustainable).

Goldsworthy recommends organisations assess their viability and sustainability through strategic review



Bruce Bailey



Michael Goldsworthy



Patrick Herd

"mission criticals," the things that are absolutely paramount to future success and sustainability, and lead to scenario type planning rather than straight strategic planning.

Herd agrees with the need for robust discussions. He says he often tells organisations if they don't have them now, then down the track somebody will be making the decisions for them.

"Whether it's your financier, government departments or another organisation, you may lose control of that decision making if you're not having those robust discussions," Herd says.

GROWING YOUR BUSINESS

Herd and Goldsworthy agree the discussions should involve assessing potential growth strategies, of which there are two broad paths.

There is organic growth, which involves growing existing services or products or developing new products, and growth through strategic relationships.

The latter could involve targeted partnerships that add mutual benefit to both parties, undertaking an amalgamation into your organisation or amalgamating into another, or doing a merger where two companies come together to make a new entity.

The process is usually driven by CEOs, who use their contacts and networks to find suitable organisations to work with or consultants like Herd and Goldsworthy to make introductions.

In a competitive marketplace providers are looking for market size and they see partnerships as a way to gain that faster than they could do on their own, says Herd.

"Often organisations use partnerships for funding rounds because it shows they are connecting with the community; they are working with other likeminded >

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workshops or discussions assessing where they are "honestly" at versus where the sector is going.

"To me it is not board meetings per se. I think it needs separate time and separate space and it should involve the board, the CEO and the executive team. Not just the board, or not just the senior team," Goldsworthy says.

He says the review should focus on the

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