AUSTRALIAN UNDERGRADUATE BUSINESS CASE COMPETITION

Case Two

Spectravest

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Investing in Aged Care

Opportunities and challenges in Australia's aged care sector

Client Profile*

Spectravest is a national for-profit company focussed on development, management and investment. With its origins in construction, over 70 years of operation Spectravest has diversified into a range of property investments, project delivery services (both construction and technology), as well as service delivery embedded in the communities they help to create and manage. Spectravest have grown through targeted acquisitions, key strategic partnerships, as well as their extensive experience managing sophisticated subcontracting arrangements. Spectravest directly employ over 10,000 people across Australia, generated AUD12 billion in revenue in the last financial year, and control AUD14 billion in property assets.

** Note that the client described is fictional*

Aged care in Australia – An introduction

Aged care is a growing sector that is currently heavily supported by government subsidisation. As it grows, the balance in public and private funding of the sector is likely to change. Additionally, to increase market competition and to optimise service delivery, government policy is moving towards a Consumer Directed Care (CDC) model, which may have long term implications in terms of service delivery, labour requirements, and the importance of technology. The following provides a brief introduction to the sector and these key considerations.

Boom in the older population

As with most developed countries, Australia has experienced a declining birth rate coupled with increased life expectancies. The Australian Bureau of Statistics (ABS) provides a high level view of this growth story. Since 1971, the proportion of the country over the age of 65 has nearly doubled, increasing from 8%, to 15% of Australia's 24.7 million population today. By 2056, it is projected that this will reach 25% of a projected 35.5 million population. Additionally, life expectancy is compounding this demand, with the proportion of the population aged 85 and over expanding by over 141% over the last two decades (over 4 times the rate of population growth). This trend is expected to continue.

The result is that Australia's aging population has been fuelling increased demand for aged care services. With extended life expectancies this demand is amplified as these consumers are likely to need these services for a longer period of time.

Consumer preferences

In the majority of cases, there is strong consumer preference to remain independent and in their own home for as long as possible. According to the most recent Australian Census, there are over 100,000 houses that are classed as underused (i.e. have more bedrooms than people living at the address) in NSW and Victoria alone. This includes 2,000 six-bedroom houses that only have one occupant. The overwhelming majority of this housing supply was owned by the over 65 age group.

Not only is this driven by financial incentives, but also a preference to remain comfortable in the family home, and to have space for the family to visit and stay. Additionally, a person's habits, hobbies and friendship circles have often been structured around where they live. As a result, moving from this environment is not just a financial decision, it is also perceived as a decision to uproot an entire lifestyle and social network. It is not uncommon for this prospect to invoke fear and avoidance.

This might seem like it would proactively drive demand for in-home care. However, reaching out for any form of support is perceived by the person as admitting that they need to cede some of their independence, and that it is triggering the beginning of the process of them moving out of the home and community that they have established for themselves over their lifetime. As a consequence, it is common for family members to be the ones that drive the engagement with service providers for in-home care rather than the consumer directly.

The concept of independence also extends to expectations on family support. The Australian Institute of Family Studies examined this through surveys investigating generational attitudes

toward financial and accommodation support for one another. Whilst most generations believe they should support their aging parents financially, both the parents and the children were far less inclined to see their parents moving in with the children as a viable solution. This is in contrast with other counties and cultures, where multi-generational households are the norm.

This concept of independence is also woven into guilt over relying on family. Consumers often talk of 'not wanting to be a burden' on their families, which may also be reflective of the attitudes against them moving in with their children, as well as the broader avoidance of the topic of care and support needs.

Main forms of service offering

The government is currently in the process of shifting the industry from a Government-to-non-government organisation (G2NGO) funding model, toward a Government-to-Consumer (G2C) funding model. This shift is called Consumer Directed Care (CDC) and is designed to use market forces to drive better outcomes. However, policy and available service offerings are in a transitional state, with a number of aged care services offered:

Commonwealth Home Support Programme (CHSP)

This government programme subsidises the cost of 'entry level home support' and is designed to provide set services to support people in their own home, and to keep them active in the community. This includes a range of basic services, such as:

Food services	Allied health support services	Community and home support
- Providing meals at a community centre - Helping with shopping for food - Assistance with learning to cook - Delivering meals to your home	- Physiotherapy (exercises, mobility, strength and balance) - Podiatry - Speech pathology - Occupational therapy (help to recover or maintain your physical ability) - Advice from a dietician (healthy eating) - Other allied health and therapy services	- Domestic assistance – household jobs like cleaning, laundry - Personal care – help with bathing, showering, or getting dressed - Home maintenance – Minor general repairs and care of house or garden - Home modification – minor installation of safety aids such as alarms, ramps, and support rails - Nursing care – a qualified nurse to dress a wound or provide continence advice in home - Social support – social activities in a community-based group setting - Transport – help getting people out and about for shopping or appointments.

Each service-provider agrees with government the specific set of services they will deliver, and the extent to which the government will subsidise the cost of the service. To become an approved provider, an organisation must undergo a vetting process by the government. For a citizen to be granted access to these services, they must be of retirement age (currently 65½ but proposed to be raised to 70 by 2035) and have qualified through Department of Health My Aged Care Regional Assessment Service (RAS).

Home Care Packages (HCPs)

These are government funding packages that, like CHSPs, are designed to provide subsidisation of support services. To access government funding for a HCP, a consumer needs a Department of Health My Aged Care Aged Care Assessment Team (ACAT) assessment to be undertaken. The ACAT assessment allocates consumers to one of four packages:

Level	Maximum government support* (per annum, assuming consumer is on a full Age Pension)
Level 1 – Basic care needs	$8,054
Level 2 – low-level care needs	$14,633
Level 3 – Intermediate care needs	$32,171
Level 4 – High care needs	$48,906

*Regardless of means testing, consumers need to contribute a minimum of $9.97 per day, up to a maximum of $3,624 per annum. A consumer (or their family) may wish to pay additional funds over and above this contribution to expand the available budget.

Instead of being provided with a menu of set services, HCPs are more flexible and can be used to fund whatever support services the consumer needs. This is negotiated by the consumer and the service provider in a 'Home Care Agreement'. HCPs also offer service providers with funding certainty, as the full budget must be expended as a minimum, compared with a CHSP which operates as a pay-as-you-go arrangement. For this reason, HCPs are usually more desirable for service providers, as the average HCP consumer is worth more than a CHSP consumer.

Up until this year service providers were allocated funding to provide a set number of HCPs. However, as of February this year this has shifted, with individuals being allocated the funding, and being able to choose which provider will administer the package. This means that if a consumer is unhappy with the service being provided by their current provider, they have the opportunity to take their funds and transfer them to another provider. This is the first major step that the Government has taken towards making the sector more consumer-driven and market-based.

Residential Aged Care (RAC)

Whilst CHSP and HCPs are designed to support independent living, the government also subsidies RAC places for aged care homes (i.e. nursing homes). RACs are designed for high care, where a consumer needs 24 hour support.

The government subsidises places in approved facilities using the Department of Health Aged Care Funding Instrument (ACFI), which provides a maximum of $214.06 of funding per consumer, per day. Consumers need to also contribute a minimum of 85% of their Aged Pension to cover the cost of care and accommodation. Consequently, RAC places are the most expensive for government to fund and are the most capital intensive of aged care service offerings. This makes them expensive to establish and maintain.

Retirement Villages

An adjacent sector to RACs are retirement villages, which are designed to have co-located support and services for consumers with lower care needs. Therefore, it is not uncommon for consumers who have decided to live in a retirement village to leverage HCPs or CHSPs. Unlike the other service offerings, retirement villages do not attract subsidisation from the government. Consequently, they are not subject to the same degree of regulation as RAC providers.

Government funding

As per the offerings above, the Australian Government provides significant assistance to support the consumer, as well as their aged care. In today's money, an individual on a full age pension receives $849.40 every two weeks. In addition to this, consumers gain access to the aforementioned subsidised services. As of the 2014-2015 financial year, total government expenditure on aged care was over $15.8 billion, and is expected to exceed $20 billion by 2020 according to IBISWorld.

Historically, the degree and nature of financial support provided has depended purely on the type of aged care and the needs the individual. To curtail the expansion in government funding required, the financial position of the individual is increasingly being taken into account (i.e. means testing). This means that the wealthier the individual, the less the government will subsidise aged care.

Private funding

With an increasing shift to means testing, individuals are being expected to fund their own retirement and care. Whilst previous generations of retirees have been provided with the age pension, upcoming generations are expected to have set money aside to fund their retirement and only utilise the age pension when these private funds are insufficient.

This private saving for retirement has been driven by compulsory superannuation, which was introduced in 1992 (superannuation is a system by which a minimum of 9.5% of an employee's pre-tax wage is set aside in a fund as a means of supporting their retirement). Given the date of its introduction, not all retirees have amassed enough superannuation to self-fund their retirement. Currently, 80% of retirees rely on some form of age pension or benefits. The proportion of the population that will still require this is not anticipated to change significantly in the upcoming decades.

Furthermore, record low interest rates in recent years have meant that the annual returns on superannuation are lower than the system was designed for. The consequence of this is that retirees are consuming the principal amount of their superannuation at a faster rate than they otherwise would. This contracts the available sources of private funding, and can often mean that the expense of in home care (even with subsidisation) becomes too much once a certain level of support is required.

However, a notable exception to means testing exists, and is a significant source of private funds. The exception is that the value of a consumer's primary residence is currently exempt

from means testing. This is a significant asset for most seniors, with house prices having increased 7.25% per annum on average from 1985 to 2015 according to the Reserve Bank of Australia (RBA). This operates as an incentive for retirees to avoid downsizing or moving into a retirement home for as long as possible (because as soon as they convert their property asset into available cash, this makes this wealth subject to means testing). Nonetheless, this is ultimately an available asset to many retirees as the cost of aged care becomes more reliant on private funding.

Service providers

The aged care industry is highly fragmented and the larger providers come from a range of backgrounds. According to IBISWorld, as of 2017-2018 the top 4 operators accounted for less than 20% of industry revenue, with no provider holder greater than 5% market share. This diversity is reflected in the nature of providers, with 56% being non-profits (charity, religious and community based operators), 39% for-profit (private healthcare, real-estate developers), and the remainder of services delivered directly by government. Over the past five years, for-profits have increased their market share by five percent, which may be reflective of a trend fuelled by market driven policy, and for-profits having better access to capital.

With funding arrangements pushing towards flexibility and diversity in service offerings, it is encouraging existing providers to merge with or acquire organisations with complementary core competencies across the care continuum. In contrast, some providers have adopted the inverse approach by specialising and developing strategic partnerships, or simply developing sub-contracting arrangements to specialised providers.

Reputational risk

Direct consumers (senior citizens requiring aged care) and indirect consumers (their families) demand a high level of trust and integrity from their service providers. As a result, service quality and safety management is paramount. With the fragmented supplier landscape and a greater enablement of consumers to move their package with them, organisations will be increasingly sensitive to the consequences of reputational damage.

In 2017 alone, there have been several negative news reports that have increased scrutiny on the aged care services sector in Australia. These have included:

- A high profile investigative report into a major retirement village provider's fees and contracts; as well as
- Influenza outbreaks at several aged care homes that had been found to be caused by poor management and staff training.

These cases reinforce the ongoing demand for industry regulation, which runs counter to the broader policy trend towards greater de-regulation and a more market driven sector.

Labour market

According to the 2016 National Aged Care Workforce Census and Survey, the sector employs over 366,000 workers, which is a 4% increase on 2012 figures. The Australian Productivity commission estimates that by 2050, this number will expand significantly,

requiring 980,000 workers. This is a reflection of how labour intensive current service offerings are.

It is also important to note that with the diversity of service offerings, the range of skills and qualifications required of staff can vary significantly. To deliver on this range of care requirements, service providers need to either directly employ (or have in their supply chain):

- **Registered nurses** – University qualified nurses that are trained to critically think and assess patient care needs.
- **Enrolled nurses** – Vocationally trained, who have undertaken skill based courses and works under a registered nurse.
- **Assistant in nursing** – Vocationally trained, this is an emerging category of health care worker who can support registered and enrolled nurses in performing tasks such as meal provision, daily living support, supporting patient mobility and toileting, communicating with clients.
- **Home care or home help workers** – Vocationally trained, these workers are responsible for day-to-day wellbeing of clients.
- **Allied health** – Which includes a diverse range of qualified specialists such as physiotherapists, speech pathologists, occupational therapists, psychologists, nutritionists etc.

There is currently a shortage of these staff across the industry, which will continue to be amplified by growing demand for these services. These issues are likely to be most acute in RACs, where higher care often means more qualified staff and more integrated care arrangements. In contrast, with the greater consumer directed focus being driven in the in-home care space, staff are needing to be upskilled on case and customer management, over and above their core education and training in providing nursing and care.

Impacts of technology

To date, technology adoption in the sector has been slow. This has been driven by a number of factors, including:

- **Consumer adoption of technology** – the rate of adoption of new technologies is generally lower in older demographics. Therefore, applications directed at the consumer can sometimes have low adoption and traction.
- **Rate of mergers and acquisitions** – As mergers and acquisitions occur, a big hangover are the disparate IT systems that are used. Without IT system consolidation, merged organisations are often restricted with respect to leveraging synergies in service optimisation and customer focussed delivery because they don't have the technology platforms to enable this.
- **Historic place / service based funding models** – As government subsidies have historically been focussed on volumes of services delivered, or places allocated, many of the supporting IT systems and financial processes have been developed around this orientation, rather than a customer focussed orientation. This means that mining data of a customer's journey can be difficult for most organisations to perform.

Despite the slow adoption to date, technology is seen as a key pillar in supporting a consumer directed care model, as it has the ability to unlock various areas within the sector, including:

- The ability to analyse data to deliver personalised services (i.e. customer relationship management systems);
- Help identify and drive cost efficiencies (i.e. enterprise resource planning systems);
- Foster community and connectedness, improving customer satisfaction (i.e. communications platforms);
- Integrate regular health tracking to improve wellness and more rapid identification of evolving care needs (i.e. health tracking apps and wearables);
- Capture customer feedback, industry transparency and improvement (i.e. customer feedback platforms, both public facing such as customer review sites and internal facing feedback portals); as well as
- Support the ordering and provision of services (i.e. case management and ordering systems).

A provider that develops a clear edge through its supporting technology has the potential to generate a clear competitive advantage.

In addition, robotics may also play a role. Some RACs in Australia are piloting robots in a limited capacity in Australia to perform modest roles, such as transporting linen, meals etc. across a facility, so that staff can be redeployed on more face-to-face interaction with clients.

In the long term, more speculative technology exists such as social and caring robots. There are a range of prototypes of these robots that are in various stages of research. These robots are being designed to perform a range of tasks, from having basic conversations to provide some degree of companionship, through to helping with therapy and maintaining routines. It is likely that over the longer term horizon that robots will play some role in either replacing or supplementing human services.