Throwing out the ‘cookie cutter’

The traditional Government-dependent model of residential aged care doesn't work, says TLC Healthcare CEO Lou Pascuzzi – and all operators will need to re-think the viability of their business if they want to survive into the future.

BY LAUREN BROOMHAM

The private Victorian-based operator has embarked on an intergenerational care model that is aimed at delivering not only quality care for its residents, but providing critical services to the wider community and ensuring the long-term financial viability of its operations led by the CEO.

With a background in accounting and marketing, Lou was introduced to the healthcare space during his time as Marketing Director of Lloyd's of Australia, co-founding corporate healthcare provider Peak Health Management in the late 1990s before its acquisition by Bupa in 2010.

Lou was then approached by private hospital and healthcare Healthscope to manage its portfolio of 72 medical centres followed by diagnostic provider Sonic Healthcare where he was headhunted to take on his current role in 2013.

"I was engaged not only to ensure the longevity and sustainability of this business but to avoid the 'same old, same old'," he recalls.

His solution?

Integrating primary care into each of TLC's 11 aged care homes and allowing the community to access healthcare services alongside its 1,600 residents.

"We were the first to provide a truly integrated care platform and for me, that was the start of our integration and move away from the 'cookie cutter' residential aged care model," said Lou.

"That model didn't work then and it doesn't work now from both financially or from a service level requirement relative to expectations of the end user."

Integrated Medical Centres slash aged care hospitalisations by 50%

The medical centres provide 24/7 access to health care for the provider's aged care residents – halving its number of hospitalisations and ambulance callouts as well as providing an additional revenue stream.

"COVID presence in our homes has been negligible over the last three years," added Lou.

But it is TLC's 12th development at Mordialloc, 24km southeast of the

An artist's impression of the Mordialloc aged care home

Melbourne CBD, that will help the organisation to achieve its ultimate vision for 'de-institutionalising' residential care in Australia.

The site – due for completion in November this year – will feature a 150-bed aged care home, a community medical centre with four doctors on site, a 120-place early learning centre, café, sports bar and a 1,000-member gym complete with a 25-metre Olympic-sized swimming pool opposite an 18-hole golf course.

"This is where we truly realise 95% of our vision," said Lou.

"That site is valid to more people in the community because it provides a mix of critical services. Importantly, it brings a sense of normality for the aged care residents. They can sit in the café, go to the gym or the theatre and use the pool, which is also being enjoyed by the children."

The pool will offer free swimming classes for children in care, while staff will be able to use the gym free of charge and not pay any out-of-pocket fees for the childcare centre.

"We will only take the Government-funded portion of their funding," explained Lou. "So, it provides a retention strategy for staff by giving them more flexibility."

Multigenerational care – with acute care – the new norm

This multigenerational care model will be TLC's new norm for its future greenfield developments including its next site at Ivanhoe East, 10km northeast of the Melbourne CBD, due for completion in 2024 – with one exception. The final piece of the puzzle will come with the introduction of acute care with a day surgery planned for development next to its existing 180-bed site at Hallam, 34km southeast of the CBD.

"That is the 5% that is missing which will complete our sphere of integration that we set out to achieve nine years ago," said Lou.

"The problem with healthcare is that it is mechanistic. It must be independent of politics to become humanistic. What I am trying to do is keep us insulated from political influence by engaging concentric services ensuring our commercial sustainability, rather than lobbying and relying on Governments for more money.

"We are being responsible unto ourselves for the commercial sustainability of the business via this integration platform, which means that everybody prospers, everybody wins."

Average TLC resident stay is 4.5 years

While the model incorporates primary healthcare and soon acute care, Lou sees their model as taking a more holistic approach with positive results for both the aged care residents and the bottom line.

The group's occupancy – which averaged 99% prior to the pandemic – currently sits at 97%, still well above the industry average of 87%.

"Ultimately, we have created an ability to provide a higher level of care, which results in better resident outcomes, whilst attracting a higher Government subsidy," said Lou.

Average tenure in their aged care homes is 4.5 years compared to the national average of 1.2 years.

"We have people in wheelchairs that have come to us at 80 years old who have not been in a gym or a pool in their lives, but work with our employed physiotherapists and within six months are walking again."

Critically, staff turnover is just 5% across its 2,500-strong workforce.

Scale still required to ensure sustainability

The model does require a certain degree of scale to be financially viable, conceded Lou.

"I wouldn't build an aged care home with less than 150 beds these days. I think you need those economies of scale for it to be sustainable under the current funding regime."

The early learning centres also need at least 120 places, while the gyms require a minimum of 1,000 members and the medical centres at least three full-time equivalent doctors. Retirement living and home care also doesn't factor into the group's success.

"Retirement villages just aren't our business," said Lou. "Home care is also too decentralised for us. I prefer these multidisciplinary integrated healthcare developments that the entire community can use centrally in the one location."

Integrated model required to deliver care and commercial viability

Looking ahead, Lou argues that aged care operators will have no choice but to move to a more integrated model of care to ensure that they stay financially viable.

"If I had maintained the status quo nine years ago, we would be in the same boat as everybody else," he said bluntly.

"It's difficult for residential aged care operators to transition to a combined residential aged care and retirement living operational model due to the capital injection required. The margins are also quite slim on retirement living property turnover, so that would not help a current residential aged care operator who, in most cases, are exposed to significant bond liabilities and bank debt.

"But they do have to find a way to attract working capital to change their models of care. These models of care should encompass concentric diversification, so engaging in services that are related to aged care that will benefit their aged care service, but provide them with additional revenue streams as well."

Shifting to this model will also benefit older Australians – and the Government's purse as well.

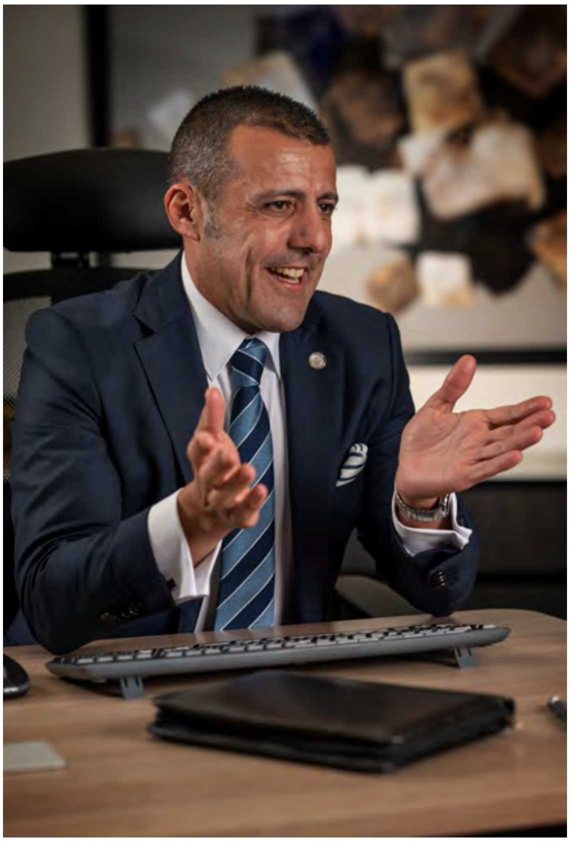
"Transitioning to an integrated care setting, is not only beneficial for the commercial sustainability of providers and their validity to the environments in which they operate, but also to the improved level of care of their patrons, whether they be residents or patients," said Lou.

"This will also benefit Governments through the better use of funding to provide more holistic care and alleviate the pressure on Government infrastructure including hospitals and emergency services."

Government support needed for other operators to follow

Lou acknowledges that TLC did have the capital to embark on this journey when it did – however in the current environment, other operators would be financially challenged to follow their example.

"In this industry over the last nine years, many of our competitors have engaged in significant bank debt in order to survive which is proving difficult to repay due to the significant gap between earnings growth (Government funding) and rising real costs. Whereas, we used retained earnings at the time for which we have now received a return."



"The majority of residential aged care providers don't have the free capital to invest in a development like Mordialloc, and I think the more those companies progress in their current 'cookie cutter' aged care operational model, the greater the barrier to entry."

But he points out that there are steps that Government can take to help operators pursue this path.

TLC's first medical centre at its Noble Park home was built out of its retained earnings, but shortly afterwards, the Department of Health changed the permitted use of RADs (bonds) to include the construction of medical services on aged care sites.

"If the Department could provide support for the move from aged care to a more integrated platform, the benefits for all stakeholders involved will be significant, but it won't happen overnight and it won't be cheap.

"In order to ensure successful operational model transition, there must be an absolute commitment by the industry providers and Governments, which should come in the form of both deliverables and the relative required financial support."

As for Lou, his focus now is on completing the vision for TLC and its communities.

"As we're nearing the completion of our vision, the next five years are exciting. Our people attend work every day excited at contributing to the next positive step. I won't stop until our integrated service sphere is complete.

"At the end of the day, I just want to leave a legacy."

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