

# Making Contact.

## ElderCare Shareholder Newsletter

ELDERCARE NEW ZEALAND LIMITED

### COMPANY HAPPENINGS



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CEO of ElderCare New Zealand Limited.

This is the second issue of our company newsletter and provides an update of corporate events and news from each of our operating sectors. We hope you find it of interest and welcome any feedback or queries you may have.

#### Company Performance

Across the Group, the company experienced a softer second half year, due to lower levels of referred patients in the Diagnostics and Dental sectors. However, numbers have lifted significantly in recent weeks.

Core operating performance will therefore be down in the second half, however a gain resulting from the sale of the Regents Park development site will lift the consolidated performance of the Group above the November 2002 forecast. We now expect revenues to exceed \$56.0 million, EBITDA to rise above \$8.8 million and NPAT is expected to exceed \$1.4 million on a consolidated basis.

All sectors are now tracking well to their plans. We are expecting the Diagnostic sector to come in under budget along with the Dental sector, while the Aged Care sector will be on plan and the Rehabilitation sector will be well ahead of expected performance levels.

#### Equity

The number of potential future shares on issue was reduced through a repayment of the Medlab convertible notes and a lapsing of the options held by Cullen Investments and David Lowry.

After careful consideration, and discussion with the original vendors of Medical Laboratory Wellington, the first tranche of Medlab convertible notes was repaid in cash on 31 January 2003. Additionally, 31,034,274 options to acquire further shares in ElderCare, held by Cullen Investments and David Lowry, lapsed on 31 March 2003.

#### Public Health Funding

The Public Health sector has changed significantly in the past four years. One of the most significant changes has been the introduction of the Primary Health Care Strategy, which aims to improve health and reduce health inequalities by moving to a system where services are co-ordinated around the needs of a defined group of people. Primary Health Organisations (PHOs) will be organisations of providers working with their communities to achieve this.

District Health Boards (DHBs) will enter into service agreements with PHOs, who will be responsible for the distribution of public health funding at primary care level. Various methods of payment for service providers may be adopted by individual PHOs, including capitation payments, fees for service, target payments, allowances and blended payment methods.

As a multi-discipline healthcare and medical services company, ElderCare generates revenue from both public healthcare funding and private payment. Public funding and the introduction of PHOs will be of particular significance to ElderCare's diagnostics and dental care sectors and the management and board of ElderCare are currently working to prepare a strategy that will meet community health needs and fulfil the requirements of PHOs.

#### Changes in Government Policy

There have been a number of legislative changes in the past six months which are of significance to ElderCare and its operating sectors, in particular the change in the Government's Asset Testing Policy for aged care and the planned introduction of the Health Professionals Competency Assurance Bill. More information on these changes and their significance is detailed in our Healthcare Market Update, later in this newsletter.



## AGED CARE

Growth through the expansion of existing facilities has been a primary focus for ElderCare's Aged Care sector in the past financial year, with work progressing on the extension of facilities at Whitianga and Takanini. As well, the Aged Care sector has invested in a significant research study to ensure it continues to offer exemplary care to residents in its homes and hospitals. The sector has performed well across the financial year, and results are expected to meet plans.

### Whitianga Continuing Care

Construction on a new wing and renovated communal living areas began at Whitianga's Continuing Care hospital and resthome in February 2003, with completion expected in early July. An additional 17 beds are being added to the existing home to meet demand from the local community, and to permit the hospital to accept future GP referrals, supporting the Government's primary care strategy. Approval has been received from the Ministry of Health and licences granted for the additional beds. An Open Day is being held at the Whitianga home in late May, enabling local residents and interested parties the opportunity to view the progress being made and discuss any issues in relation to the extensions.

### Takanini Lodge

A major shortage of quality dementia care has been identified in South Auckland, leading to plans to add a 20-bed specialist unit to the existing 72 beds available at ElderCare's Takanini Lodge. The project is currently under tender with construction expected to begin in early July, with completion in November 2003.

The planned construction of the new unit coincides well with the Ministry of Health's Request for Proposals for additional Specialist Dementia Care capacity and significant progress has been made to date, with ElderCare currently in the final selection process.

### Promoting Independent Living Study (PILS)

Providing all residents with exemplary care and treatment is one of ElderCare's core values and a key reason for undertaking a joint research project with the University of Auckland into improving quality of life for those in long term residential care.

Older people living in residential homes have as many goals and wishes as those living in their own homes. The PILS study aims to support staff in helping the older person to identify their key goals and achieve them, and to prove that by having a clear objective and co-ordinating all day to day activities to reach this goal, a resident's overall well being will improve, both physically and mentally.

The study is a crucial step in ensuring ElderCare residents receive the highest possible standard of care, and is in the spirit of the Government's Health for Older People strategy and also the Positive Ageing Strategy, which has an overall objective of providing positive ageing for older people in New Zealand. The results of the research will be incorporated into all ElderCare's systems and used in rest homes and hospitals throughout the country.

## DENTAL CARE

The acquisition of Geddes Dental Group was finalised on 31 October 2002, and the focus in the past six months has been on the successful merger of the business model within the ElderCare group. After a good start, patient numbers softened, with the result that the Dental sector will be behind plan for the period ended 31 May 2003. However, patient numbers are increasing and the business is now operating to its plan.

Geddes Dental Group has continued its growth strategy, with the commissioning of a new mobile unit in February this year, the appointment of new dental staff across the group, and significant progress on the planned opening of a new branch at the University of Auckland.

### New appointments

The total number of dentists working within the group has increased, with additional dental chairs being placed in the Red Beach, Howick and Mt Roskill branches. The new dentists will help to meet current demand from local communities, as well as

offering each practice the opportunity to increase the number of patients who can be cared for. In addition, a new hygienist has also been welcomed into the group, and will be offering patients high quality cleaning and oral care services, as well as cosmetic tooth whitening.

### University of Auckland

Geddes Dental Group is delighted to be a part of the Health and Counselling service in the new student amenities complex to be opened at the University of Auckland in late May. It is the first time a dental practice has been sited on a University campus in New Zealand and is a natural follow on from Geddes' successful mobile dental service, which has been providing dental treatments for Auckland University students for the past three years. The practice will be offering a full range of dental care services to students and other patients, at discounted prices not available at other Geddes locations.

## REHABILITATION

The past three months have been a busy time for Ranworth Healthcare and the business has performed well, with strong results well ahead of plan leading into the end of the financial year. As a result of Ranworth's expertise, high quality of care and regional network, two new contracts were signed with the ACC, further strengthening the company's position as a leader in the field of brain injury rehabilitation.

### Increasing investment in rehabilitation professionals

On the basis of the new contracts, Ranworth is increasing its pool of talent and hiring a number of new specialist staff, as well as investing in advanced training for several existing personnel. The business is now the largest practice of rehabilitation health professionals in Australasia with plans to consolidate that position even further in the new financial year.

### Training for Independence Contract

In December 2002, Ranworth Healthcare signed off a copy of ACC's newly developed Training for Independence contract. This contract enables Ranworth Healthcare's clinical team and coaching staff to provide rehabilitation to people who have experienced a brain injury and who live independently in the community. Areas which training for independence input



focuses on include communication, domestic activities, mobility, motivation, hygiene/ health care, safety management, sexuality, cognitive tasks of daily living and the use of transport.

Ranworth is currently the only national brain injury rehabilitation service to hold this contract and staff are very enthusiastic and optimistic about the type of service they will be able to provide. The focus is on maximising a person's independence through the application of "functional rehabilitation" – an approach that Ranworth's team of health professionals specialise in.

### Active Rehabilitation and Residential Support Contract

An Active Rehabilitation contract and a Residential Support contract were also recently signed with the ACC. These contracts were previously known as the Post Acute Residential Rehabilitation for Seriously Injured (PARRSI). This contract has now been split between Active and Residential Support, with the Active Rehabilitation contract focusing on short term (around 12 months) rehabilitation where the client's status is likely to change rapidly and the Residential Support contract, which has a focus on support clients who need long term inputs and whose status is unlikely to change.

## DIAGNOSTICS

Patient numbers were down in the second half, a trend experienced by most other laboratories around the country. However, numbers have recovered and are now tracking at levels comparable with previous years.

Medical Laboratory Wellington has invested significantly in both new technology and staff, to increase the quality and range of services on offer. In addition, significant progress has been made in meeting the new ISO accreditation for medical testing laboratories, making Medical Laboratory Wellington one of the first in the world to be assessed for this new standard.

### Investment in new technology

As part of ElderCare's ongoing investment in new technology and equipment, a new generation clinical chemistry analyser was installed in Medical Laboratory Wellington in October 2002. This allows the laboratory to improve the service it offers to clinicians as well as reduce the amount of specimen handling by operators.

The modular system allows the linking of two analysers, which can then process up to 1600 tests per hour, with over 80 different assays able to be performed on a single blood tube. The availability of a test result is consistently quicker, especially around peak periods, enabling the laboratory to offer a superior service to the medical sector.

### World class standard

Recently (early April 2003) Medical Laboratory Wellington was the first medical laboratory in New Zealand and possibly the world to be assessed under ISO15189, the new accreditation standard for medical testing laboratories. The accreditation process assesses and publicly recognises the technical competence of medical testing laboratories.

The ISO standard 15189 is an internationally recognised accreditation standard which replaces the previous national standard, the New Zealand Code of Laboratory Management Practice, and Medical Laboratory Wellington hopes to achieve accreditation in May 2003.

The assessment report was very complimentary of Medical Laboratory Wellington's operations, stating that ISO15189 accreditation would "clearly place the laboratory in the vanguard of quality management advancement for medical testing laboratories, nationally and internationally". The assessment report also complimented the laboratory on its staff saying that they "represented some of the most experienced and capable in New Zealand, and was clearly the organisation's greatest asset".



# HEALTHCARE MARKET UPDATE



## Asset Testing

In April 2003, the Government announced that, as from July 2005, it would progressively remove asset testing for people in long term residential care, by gradually increasing the exemption thresholds for assets.

This is in line with election promises made in 1999, as it was believed that asset testing was unfair as older people were forced to use up their assets for retirement funding, while younger generations would not be.

These changes could lead to a greater demand for aged care facilities, as there will be less incentive for people to remain at home in order to preserve their assets, however, stronger gate keeping by Government agencies may help to stem demand. A drop in the number of private paying patients may also lead to an increase in fees for those who exceed the Government's exemption thresholds.

ElderCare is currently assessing the impact of the announced policy changes, and our initial belief is that there will be a steady increase in demand for ElderCare's aged care services and that occupancy will increase over the period as the access barriers to those with assets will be dramatically lowered.

Revenue for ElderCare's Aged Care sector is currently a mix of 60 percent Government funding and 40 percent private payment. This mix is also likely to change with a greater emphasis on public funding, however, the level of revenue derived from private payment is not expected to be impacted, as much of this is derived from additional services offered to residents that will not be covered by the increased access to Government subsidy.

## Health Practitioners Competency Assurance Act

The Health Practitioners Competency Assurance Act (HPCA) has been proposed to provide a single, overarching Act to regulate various health and disability sector professionals, ensuring they are qualified to work within their chosen field as well as providing a consistent regulatory framework for discipline and decision making.

The Ministry of Health previously administered 11 occupational regulation statutes covering 18 health and disability sector professions. Most of these statutes were old and, in many cases, inflexible and overly restrictive. The HPCA Bill is currently before the Health Select Committee, which is expected to report back on it by mid-May 2003.

The management and board of ElderCare support the introduction of the HPCA as they believe it will provide consistency for all various professional Associations and add a further level of credibility and assurance for clients and patients who use ElderCare's services.

A wide range of healthcare professionals are employed across the ElderCare group and it is standard policy to ensure that all relevant staff hold a practising certificate, belong to their professional body and maintain updated knowledge in their particular field of expertise.

Medical and healthcare professionals employed by ElderCare include:

- Pathologists
- General medical specialists
- Specialist medical scientists
- Technologists
- Dental specialists
- Dentists
- Dental hygienists
- Psychiatrists
- Occupational and speech therapists
- Psychologists
- General and specialist nurses
- Life skills tutors
- Geriatric care giver specialists
- Specialist qualified managers of medical and healthcare practices

The HPCA will outline competencies to be met for each healthcare and medical sector, and professionals within these fields must be able to show evidence of achieving these. ElderCare is currently developing human resource policies and career programmes based on proposed competencies, in order to ensure all staff meet the standards which will be required under the new Act.